

DEBT MARKETS

Global

The US treasury yield hardened in expectation of economic recovery supported by better industrial production data and higher inflation. While the confidence of economic recovery has been building up, retail sales increased to 2.7% against the expected 1.9% and industrial production increased by 0.8% against the expected 0.6%. The inflation based on PPI too was noted higher at negative 4.3%, compared to a negative 5.3% anticipated by market. The 10yrs benchmark bond touched the week's highest yield of 3.47% but closed at 3.38% on auction news which was in line with market expectation and value buying by market participants. The 2yrs, 5yrs and 30yrs yields closed at 0.94%, 2.36% and 4.17% respectively.

Domestic

The domestic market witnessed sharp fall on yield due to value buying by participants on news of RBI removing HTM cap for banks. Also OMO purchase and better than expected auction cut-off led to broad based rally in bond market. The RBI conducted OMO purchase of Rs.13.55bn, while conducted G-Sec auction worth Rs.110bn and T-bills auction worth Rs.80bn which were fully subscribed. The inflation for the week ended September 5 was positive 0.12%, higher than the previous week and also higher than the market expectation.

CALL & CBLO

The Money market rates remained easy during the week on surplus liquidity in the system. The overnight MIBOR rate was steady at 3.29% during the week. The Inter-bank Call and CBLO range were 3.00%-3.30% and 1.00%-4.00% respectively.

Government Securities and Treasury Bills

Even though the inflation inched to the positive territory to 0.12% during the week, the bond market witnessed sharp rally supported by : a) expectation of RBI removing HTM cap

for banks, b) statement from RBI that reversal of policy may not be immediate removing fears of monetary tightening, c) continuation of monetary stimulus and thus continuation of stable interest rate scenario, and d) aggressive participation and better than expected cut-off during bond auction. The 10yrs benchmark bond touched the lowest level of 7.02% significantly lower from the last week's closing of 7.36%, but closed at 7.07% at the week's end. The G-Sec auction worth Rs110bn was fully subscribed. The cut-off of 7.02% GOI 2016, was 7.05% while the for 6.90% GOI 2019 and 8.24% GOI 2027 were 7.05% and 8.05% respectively, in line with market expectation. The cut-off for 91 Days T-bill was 3.40% and 182 Days T-bill was 4.03%.

Corporate Bonds

The corporate bond yields closed lower during the week tracking G-Sec market. The 5yrs benchmark bond traded at 8.45% while 10Y benchmark bond traded at 8.83%.

Rupee

The rupee appreciated against the dollar due to strong stock market, significant portfolio inflows and continued weakness in US dollar overseas. The Rupee ended at 48.14 against the dollar, appreciating 0.7% on week on week basis.

Fund Manager's Comment

While there has been a rally in the Government Securities the T-bill rates have started to harden mainly due to the expected inflation moving on the higher side. The markets are presently at the cross roads wherein the yields could move in either of the directions and it would be looking for some positive news on the down side and vice versa. We however expect the yields to move in a sideways directions with an upward bias. The liquidity is expected to remain comfortable but the rates may not move significantly lower from here.

Market Indicators as on 18th September, 2009

	18/09/09	11/09/09	% change
INR/USD	48.14	48.49	-0.72
Inflation	0.12	-0.12	-200.00
Oil (\$/bbl)	70.35	69.91	0.63
Gold (\$/oz)	1003.45	1006.40	-0.29
10 years G-Sec	7.07	7.37	-4.07
10 years AAA	8.83	8.90	-0.79
Call Money	3.28	3.28	0.00

EQUITY MARKETS

Indian stocks continued the upward trend and once again scaled a new peak for the year. Key indices gained another 3% this week to end at the year's best level. With this Sensex posted a overall gain of 69% in 2009 and it was up 105% from the bottom of the year on March 9, 2009, the faster ever gain posted in history. Nifty breached 5000 level during mid week, but failed to hang above that for a close. For the week Sensex and Nifty went up by 477 points (2.93%) and 147 points (3.03%) to close at 16,741 and 4,976 respectively.

The week started on a firm note but with low volumes, and volume picked up substantially from mid-week. FIIs continued to remain as net buyers in cash segment while most of the selling was from public holding. FII net purchase peaked at over Rs. 28 bn on Thursday, mainly due to a large volume of (Rs. 32 bn.) bulk placement of promoter shares by the oil major RIL. For the week FIIs invested US\$ 953 mn in cash. For the current month their total investment is US\$ 1,192 mn. Similarly, DII invested US\$ 95 mn in cash. For current month their total investment is US\$ 298 mn.

There was some interested selling, particularly in the mid cap segment as the market remained firm. Among key indices CNX Mid cap gained the most with a rise of 5.4%. During mid-week domestic stocks got a firm psychological booster when advance tax payment figures released were

substantially higher than expected. Sharp increase in tax payment largely came from Banking and Auto companies. Some consumer durables, IT and cement companies had also stepped up tax payment. Meanwhile, YoY inflation moved to positive territory after 13 weeks. However, sequential inflation is in positive mode for quiet some time and the YTD inflation for FY10 at 5.85% is above the RBI's comfort level.

Auto (9.5%), Metal (7.8%) and Realty (5.3%) were the sectors that had posted the best gains this week. Substantially improved sales helped the Auto sector while metals tracked global commodity outlook on the back of a weak Dollar. Realty continued to play the joker to remain on the side of the broader trend of the market, whether it is up or down. Oil and Gas was the only sector index that ended negative this week, mainly due to a fall in RIL. With the strong gains in key indices, there was also an improvement in market depth in terms of advance-decline ratio.

Mid-week, the market temporarily disconnected from global trend, on advance tax figures, but towards the end of the week got logged on to global cues. Globally, dollars relative value in terms of euro remained as the key factor determining asset and commodity prices. A weak dollar continued to be good for all.

Taurus Benchmark Indices Movement

Indices	18/09/09	11/09/09	Points change	% change
BSE Sensex	16741.30	16264.30	477.00	2.93
S&P CNX Nifty	4976.05	4829.55	116.50	2.41
BSE 100	8750.80	8472.83	277.97	3.28
BSE 200	2052.81	1984.48	68.33	3.44
CNX Midcap	6564.40	6230.05	334.35	5.37
S&P CNX 500 Shariah	1195.78	1161.55	34.23	2.95

Weekly FII & MF net flows (Rs. in crs.)

11/09/09 to 17/09/09	Equity	Debt
FIIs	3227.60	1114.40
MFs	-419.60	2090.40

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