TAURUS Mutual Fund

TAURUS RECAP

WEEKLY REPORT - 14th - 18th DECEMBER 2009

DEBT MARKETS

Global

The US treasury markets were relatively stable over the week. The 10 yrs paper yield closed at 3.54%, compared to 3.55% last week. During the week it touched a high of 3.60% mid-week, highest since August 2009, only to strengthen by 13 basis points on Thursday. The weekly range for the paper was 3.45-3.60%. The initial jobless claims, data released during the week rose to 480,000. The crude oil rose during the week by more than 4% to close the week at USD 73.36 per barrel.

Domestic

The Indian bond market saw yield hardening sharply on the backdrop of liquidity drying up(due to tax outflow),higher inflation against the market expectation(4.78% against an expectation 4.32%), concern from Finance ministry and RBI on mounting inflation thus fuelling fear of reversal of loose monetary policy in January. The lacklustre equity market, rupee depreciation, and volatile crude prices added to the sell-off in bond market. The 10yrs benchmark bond touched the high of 7.75% last week.

CALL & CBLO

The liquidity remained tight last week on tax outflow. The range for MIBOR was 3.29-3.31% during the week. The Inter-bank Call and CBLO range were 2.95%-5.00% and 1.12% - 4.25% respectively.

Government Securities and Treasury Bills

The week saw a sharp fall in bond prices mainly because of galloping inflation and tightening of liquidity. The market sold off factoring reversal of loose monetary policy on speculation of RBI discomfort on rising inflation .The 10 yrs Bond touched the high of 7.75% while the auction of T-bills saw sharp rise in cut-offs. The 91days T-Bills saw the cut-off rising 28 bps at 3.68% while the cut-offs of 364 days T-Bills was 4.68% against 4.49% last week. The cut-offs in G-Sec auction was also higher than the market expectation. The cut-off for auction of 7.02% GOI 2016 was 7.50%. An amount of Rs 2.2bn was devolved on the primary dealers. The cut-off for auction of GOI FRB 2020 was set at Rs 91.00, implying a yield of 4.86%. The cut-off for auction of 8.28% GOI 2032 was 8.40%.

Corporate Bonds

The corporate bond yields was higher tracking the G-Sec market. The 5yrs benchmark bond traded around 8.35% while 10yrs benchmark bond traded around 8.68%.levels.

Rupee

The rupee depreciated against the dollar during the week on weak equity market, volatile oil prices and year-end buying from importers. The Rupee closed at 46.725 against the dollar.

Fund Manager's Comment

The Fixed Income market is ripe with speculation about the CRR hike. Still we believe these are the levels by trades for some value buying. With a small stop loss of 15 basis points one should go long the benchmark 10 yrs paper at these levels and book profit at sub 7.40 levels. Liquidity is expected to remain on the lower side, with mutual funds also looking to offload papers in 6-9 months tenure, we expect the short term rates would stay high coming week as well.

Market Indicators as on 18th December, 2009

	18/12/2009	11/12/2009	% change
INR/USD	46.725	46.545	0.39
Inflation	NA	NA	NA
Oil ($/bbl)	73.26	69.87	4.85
Gold ($/oz)	1113.20	1115.40	-0.20
10 years G-Sec	7.719	7.575	1.90
10 years AAA	8.68	8.6475	0.38
Call Money	3.28	3.28	0.00

Source: Bloomberg

EQUITY MARKETS

The market remained range-bound for most part before dipping sharply on feeble global indicators and selling pressure in realty and oil & gas stocks. The Sensex declined by 399.20 points or 2.33% to settle at 16719.83 in the week while S&P Nifty declined by 129.60 points or 2.53 %. Nifty failed to sustain 5000 and ended marginally below the psychological level. Higher Inflation of nearly 5% keeps the market subdued on expectation of RBI's monetary tightening. Banking stocks witnessed major losses this week along with some real estate stocks. However select steel stocks like Tata Steel and SAIL witnessed smart rally on expectation of rise in steel price. Capital goods and FMCG stocks witnessed profit booking. Dollar strengthening vs Euro also had negative impact in the base metal and Baltic index. Pharma and IT stocks witnessed smart rally. Profit booking was seen in the counters like Axis bank, HDFC Bank, IDFC, Unitech which were down by 6.9%, 6.8%, 6.7% and 7.4% respectively. Ranbaxy lab was among the top gainers at 6.6% followed by ACC (5.5%) and HCL Tech (5.12%.)

Food prices rose 19.95% in the year to 5 December 2009, picking up from a 19.05 % rise a week earlier, weekly data showed on Thursday, 17 December 2009. This could some trigger any move of RBI on interest rate front. The advance tax revenue from major companies had increased by 36% to Rs. 10700 crore in the third quarter of the current fiscal against Rs. 7900 crore in same period last fiscal. Among top firms, Reliance Industries has paid Rs 850 crore for the October-December 2009 quarter, much higher than Rs 450 crore in the corresponding period last year. HDFC Bank paid Rs 400 crore compared to Rs 300 crore a year ago. Tata Steel has seen 180% increase in advance tax payment to Rs 650 crore from Rs 250 crore. Among auto companies, Mahindra & Mahindra paid Rs 195 crore, against Rs 4.5 crore in the same quarter last year and Tata Motors paid Rs 100 crore in the third quarter against nil advance tax payment in the same quarter last year. The surge in advance tax in the third installment is partly due to a low base effect.

Moody's investor service has raised the outlook on the Indian Government's “Ba2” local currency outlook to positive from stable, citing the nations resilience to the global crisis. Moreover, the ceiling on banks foreign currency deposits has also been revised to “Ba1” from “Ba2” to reflect the robust external position of India.

The growth in non food credit picked up slightly from the preceding week, albeit continues to remain subdued at 11.0% for the week ended December 04, 2009. The growth in deposit mobilization also seen increase from the preceding fortnight as it stood at 18.2%. the CD ratio remains lower at 69.5%, while Incremental CD ratio stood at 42.8% for the week ended December 04, 2009. Bond yield remains at higher levels on fears of monetary tightening by RBI. The 10 yrs bond yields stood at a higher 7.55% as on December 18, 2009, though has come off slightly from its recent high of 7.67% on December 07, 2009.

Oil prices have already started correcting from its recent highs of $81.Weak dollar played a major role in last session of rise of crude price. The continued weakness of the US dollar seems to be fuelled by rising carry trade. This also reflected concerns regarding the pace of the economic recovery in US.

Market is entering into an extended holiday period which will be reflected in to the low volumes period. Q3FY10 quarterly results which will start coming in from second week of January will decide the sentiment in the market.