

## DEBT MARKETS

### Global Update

The much awaited Fed meet reiterated continuation of near zero level Fed rate. No change in policy rate was announced, keeping the overnight rate at near zero levels. This led to rally on value buying in bond market. Yield for the 10 yrs note fell to 3.62%, only to close at 3.68% on Friday, marginally lower than the last week. The inflation data which came last week was subdued (0% YoY) and the initial jobless claims remained 457K, lower than previous date (462K). Dollar closed stronger last week against major currencies.

### Domestic

The domestic market saw a rally last week. The 10yrs benchmark paper touched 8.01% before seeing buying specially after Moody's upgrading India outlook based on steps taken by government on fiscal consolidation. Market participants currently believe that inflation is mainly due to supply side constraints and the negative impact of base effect. Traders built positions on speculation that borrowing may not be as much front loaded as feared earlier. The 10yrs bond closed on positive note at 7.82%. Inflation for the month of February came higher at 9.89% (8.56% last month). On Friday, RBI came with a surprise rate hike of 25 basis points for Repo and Reverse Repo.

### CALL & CBLO

March being the advance tax outflow month, liquidity saw systematic shrinking with Rs 4-6K Cr going in Reverse Repo from the levels of around Rs. 60-80K. Also overnight rates moved sharply with Mibor traded in the range of 3.34%-3.83%, while call and CBLO ranged between 2.75%-4.10% and 3.20%-4.30% respectively

### Government Securities and Treasury Bills

The sentiment in the G-Sec market turned positive with Moody upgrading India outlook. Also speculation that

borrowing calendar may not be front loaded led to value buying by participants. The status quo maintained by UD Fed Reserve in policy rates also induced buying in Indian market. The 10yrs benchmark bond closed at 7.83% down from the high of 8.01% seen last week. The market neglected the higher inflation number for the month of Feb at 9.89%. The 91days and 182days T-Bills auctioned during the week saw cut-offs coming at 4.42% (previously 4.34%) and 4.68% (previously 4.70%).

### Corporate Bonds

Corporate bond yield softened marginally tracking Government bond. The 5yrs bond traded at 8.53% while 10yrs benchmark Bond traded at 8.85%, 5-7 bps lower than the last week.

### Rupee

Indian Rupee traded in the narrow range of 45.58-45.35. Opening the week at 45.58, it closed the week at 45.49 depreciating WoW basis by 0.1%.

### Fund Manager's Comment

The week saw liquidity being sucked out of the system, mainly on account on advance tax outflow. Though the repo and reverse repo hike took market by surprise, it was mostly because of the timing, rather than the quantum of the hike. It is likely to impact the yields negatively, but not more than 10-12 bps across the curve. The 10yrs paper is likely to trade around 7.80%-8.00% this week. There would be muted trading interest in the short tenor, as mutual funds prepare for the year end redemptions.

### Market Indicators as on 19th March, 2010

	19/03/2010	12/03/2010	% change
INR/USD	45.4950	45.4500	0.10
Inflation	9.89	NA	NA
Oil (\$/bbl)	80.68	81.24	-0.69
Gold (\$/oz)	1107.00	1101.90	0.46
10 years G-Sec	7.89	8	-1.50
10 years AAA	8.8500	8.9000	-0.56
Call Money	3.30	3.35	-1.49

Source: Bloomberg

# EQUITY MARKETS

Indian equity markets rose for the sixth straight week on back of strong advance tax numbers and sustained buying from the foreign investors. The rally during the week is led by large cap as the main indices have outperformed the broader markets. The sensex gained 2.40% during the week and ended at 17578 while nifty posted a gain of 2.45% and shut shop at 5262. BSE mid cap and small cap underperformed the market as they managed post a marginal gain of 0.94% and 0.74% respectively during the week.

Major sectoral gainers were metals (3.65%), Oil & Gas (3.51%) telecom (3.44%) and IT (3.28%) during the week. Idea gained 14% followed by Rcom 6.63% and Bharti 4.3% during the week. HDFC (-1.59%), M&M (-1.34%) and DLF (-1.23%) were among the major losers.

Advance tax payment for the fourth quarter indicates that LIC, RIL and TCS are among the top few that have projected hefty growth in their profitability. LIC with Rs 864 crore payment for the fourth quarter was again much above RIL's Rs 770 crore. In the same period last year, the public sector life insurer had paid Rs 810 crore as compared to RIL's tax outgo of Rs 365 crore. Of the few banks whose details are available, the tax mop-up from the sector has been very poor. Bank of India paid Rs 100 crore against Rs 590 crore last year. Union Bank of India paid Rs 185 crore against Rs 253 crore last year. Advance tax collections from the top 100 companies for the last quarter of 2009-10 have grown just 3.63% compared to 24% in the corresponding period last year.

RBI surprised markets on Friday as it hiked its policy rates. The central bank increased its key interest rates, including the reverse repo rate as well as the repo rate by 25 basis points. The move signals an end to cheap money that had begun with the stimulus packages in December 2008 as the economy had battled a global credit squeeze.

Citing improving fiscal situation and strong economic growth, on Thursday, S&P revised upward the ratings outlook for India to 'stable' from 'negative'. At the same time, the ratings major affirmed India's long term ratings at "BBB-" and short term ratings at "A-3". However, S&P has also put in a word of caution on high fiscal deficit and government debt, and also the recent high inflation rate. The upward revision in outlook is based on expectations that the Indian economy will grow at 8% in fiscal year 2010-11 (FY11), one of the highest among the major economies in the world.

India's wholesale price index rose 9.89% in February from a year earlier, driven by firm food prices, government data showed on Monday. December's WPI inflation have been revised to 8.1% from a year earlier, from 7.31% earlier. The annual inflation rate was 3.5% in February 2009. The annual Wholesale Price Index-based food price inflation eased for the second straight week in early March even as fuel inflation rose. Data released by the Government on Thursday showed the annual food price index rose 16.30% in the week to March 6, lower than the 17.81% rise in the previous week. It was the second straight week where food price inflation eased. The year-on-year fuel price inflation rose 12.68% in the week to March 6, up from an annual rise of 11.38% in the previous week.

After the positive indications given by the advance tax figures of most of the companies are out, all eyes will now on the fourth quarter and financial year ending number of India Inc. On the back of the rate hike by the RBI to check the rising inflation, the stock market is expected to take event based direction over the next week. Next week will be the expiry of the current month's contract on the future and options market. We expect market to remain in a narrow trading range with positive bias.

## Taurus Benchmark Indices Movement

Indices	19/03/10	12/03/10	Points change	% change
BSE Sensex	17578.23	17166.62	411.61	2.40
S&P CNX Nifty	5262.80	5137.00	125.80	2.45
BSE 100	9302.77	9115.55	187.22	2.05
BSE 200	2198.96	2157.35	41.61	1.93
CNX Midcap	7601.85	7503.10	98.75	1.32
S&P CNX 500 Shariah	1280.12	1247.27	32.85	2.63

## Weekly FI & MF net flows (Rs. in crs.)

12/03/10 to 18/03/10	Equity	Debt
FIs	3360.10	2479.60
Mfs	-561.40	3930.70

Source : SEBI site

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