

DEBT MARKETS

Global Update

The picture of slowing economy from US to UK and from China to Japan is becoming more prominent with the series of moderate data released last week. This has led to multi-month-low yield across globe with US benchmark 10yrs bond touching 2.57% during the last week, but closed marginally higher at 2.61%. The yields softened also on news of slowdown UK and German export triggering risk aversion.

Domestic

While the world bond market is witnessing consistent rally, Indian counterpart reels under the liquidity woes and government supply pushing the yield (short term to mid segment) higher. While the short term is sold off because of worries on liquidity front (negative LAF and likely tax outflow next month), mid segment like 10yrs is sold on apprehension of new benchmark and constant supply of G-Sec from RBI. This shows the focus of market at present is on liquidity as it overlooks the fall of yield worldwide, and softer IIP data (7.1%) and moderate inflation figure (9.97%). The 10yrs benchmark bond 7.80% 2020 closed at 7.97%, 8 bps higher week on week.

CALL & CBLO

Liquidity remained negative throughout the week. The LAF figure noted negative Rs. 11000 Cr to negative Rs.25000 Cr. Overnight rates like MIBOR, and CBLO too showed fragile liquidity condition and traded between 5.61%-5.76% and 5.58%-5.88% respectively.

Government Securities and Treasury Bills

The G-sec market remained in selling band overlooking the positives of market (IIP, inflation and softer crude prices, and

falling yield across the globe). The main concern is arrival of new benchmark, absence of any consensus in market with respect to rate level hence fuelling fear factor for buy and hold especially by foreign entity. As a result the 10yrs bond moved higher week on week to close at 7.97%. RBI auctioned Rs 12000 Crs of G-sec this week, the cut-offs announced were, 8.00%, 7.99% and 8.40% respectively for 7.46% GOI 2017, 8.33% GOI 2022, and 8.30% GOI 2040. RBI also auctioned T-Bills worth Rs.8500. The cutoffs were 6.46%, and 6.27% respectively for 182 days and 91 days T-bills.

Corporate Bonds

Corporate bond yields remained range-bound. The 5yrs bond traded at 8.50% while 10yrs benchmark Bond traded around 8.80% nearly at same level as last week.

Rupee

The Indian Rupee appreciated against USD week on week. On firm equity market and softer crude prices. The Rupee-Dollar traded in a range of 46.57 to 46.80 to close at 46.6750 appreciating 0.19% week on week basis.

Fund Manager's Comment

With all the positive factors being discounted by market, market has entered the no trade zone where push and pull factors will keep the 10yrs benchmark in narrow range. Next week the 10yrs bond is likely to trade in a range of 7.98% to 8.10% until the major cues comes in on the policy front. The pressure on short term rate may continue as we sail towards the September outflow. Overnight rates may show heightened volatility in the days to come.

Market Indicators as on 20th August, 2010

	20/08/2010	13/8/2010	% change
INR/USD	46.6750	46.7650	-0.19
Oil (\$/bbl)	73.46	75.39	-2.56
Gold (\$/oz)	1227.80	1215.50	1.01
10 years G-Sec	7.94	7.86	0.08
10 years AAA	8.80	8.80	0.00
Call Money	5.72	5.10	0.62

Source: Bloomberg

EQUITY MARKETS

India equity market remained positive during the week inspite of shaky global markets. The BSE Sensex has posted a weekly gain of 1.29% as it ended the week 134points higher. NSE Nifty too posted a strong gain of 1.44%. BSE Mid cap and Small cap continued to outperform as they posted gain of 2.34% and 1.70% respectively. Airlines stocks had good run during the week as the air traffic data has been on the up move since last seven months. Foreign funds have bought equities worth a net Rs 6365.98cr so far this month, till 19 August 2010, absorbing selling of Rs 3047.42cr from domestic funds, as per data from the stock exchanges.

On the sectoral front, FMCG index posted gain of 2.92% followed by Bankex (2.7%) and healthcare (1.70%). Power and consumer durable index posted were the only laggard as they lost 0.8% and 0.2% respectively.

Among the index stocks, Hindalco was the biggest winner among index stocks as it posted gain of 7.1% followed by HDFC, HDFC Bank ITC and JSPL. On the loosing side, Rcom lost 3.1%, Tata power, SBI and Bharti.

The headline WPI for July '10 has dropped down to single digits at 9.97%, after remaining in double digits for five straight months. However, on a monthly basis, the index was up by 1.04%. Thus the yearly decline is owing to the high base of last year. The Primary Articles group price index decreased to 14.94% on a yearly basis compared to 16.28% in Jun '10. On a monthly basis it went up by 1.85%. Food inflation, as measured by the Wholesale Price Index (WPI), has moderated to 10.35 per cent in the week ended August 7,

primarily due to high statistical base effect as food prices continued to rise on a week-on-week basis. Food prices rose by 0.2% on a week-on-week basis as prices of fruits increased by 13% during the week. Food inflation had shot to 11.4%, after being in single digits for two consecutive weeks, in the previous week ended July 31. It stood at 14.18% during the first week of August last year.

Cumulative rains in India from 1 June to 18 August was below normal by 5%. Total rainfall was 591.3 mm compared with the normal rainfall of 619.6 mm for the period. For the season, rainfall was Excess/Normal in 29 out of 36 sub-divisions. Total cropped area affected by deficient rainfall is 36.3% compared to 79.7% at the same time last year.

On the global news, Claims for U.S. jobless benefits jumped to the highest level since November, the number of unemployment claims unexpectedly shot up by 12,000 to 500,000 in the week ended Aug. 14, Labor Department figures showed. And Philadelphia-area manufacturing shrank for the first time in a year, indicating the economy may be slowing faster than forecast. The German economy showed a stellar QoQ growth rate of 2.2% in the second quarter. This largely accounted for the euro area's healthy overall growth of 1%. The performance of the peripheral countries of the 16-country union was far less impressive. The embattled Greek economy contracted for a seventh consecutive quarter, by 1.5%, while Portugal and Spain reported anemic growth of 0.2%.

Taurus Benchmark Indices Movement

Indices	20/08/10	13/08/10	Points Change	% Change
BSE Sensex	18401.82	18167.03	234.79	1.29%
S&P CNX Nifty	5530.65	5452.10	78.55	1.44%
BSE 100	9850.83	9713.90	136.93	1.41%
BSE 200	2357.91	2323.67	34.24	1.47%
CNX Midcap	8930.85	8710.55	220.30	2.53%
S&P CNX 500 Shariah	1320.60	1308.88	11.72	0.90%

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

13/08/2010 to 19/08/2010	Equity	Debt
FII's	2241.00	730.70
MF's	-563.50	-1526.30

Source : SEBI site

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