

DEBT MARKETS

Global Update

US yields firmed up on uncertainties toward Fed buyback programmes.

The US bond was sold off on un-clarity over Fed's buy back scheme. The uncertainties toward timing, quantum and tenure of bonds on buyback scheme has led to mild profit booking thus pushing the yield 5 bps higher. Surprise rate hike by China and positive data from Germany also flowed in last week. The 10yrs bond closed at 2.5556% higher from last week close of 2.50%.

Domestic

Tight liquidity and fear of rate hike and 7.80% GOI 2020 going out of flavour kept the yields higher.

Tight liquidity condition and rate hike fear during the quarterly review of monetary policy led to bearishness in the bond market. Also the present 10yrs benchmark bond 7.80% GOI 2020 is gradually going out of shelf as benchmark had its overall negative impact on bond market sentiment to the extent that RBI announcement of 28000 Cr buyback couldn't lift the market sentiment. Traders are shifting position from 7.80% 2020 to 8.13% 2022.

CALL & CBLO

Remained higher on tighter systemic liquidity

Liquidity condition remained very tight with LAF figures showing an average daily borrowing by SCBs of INR. 67 K Cr from RBI. Overnight rates like MIBOR, and CBLO too showed the tight liquidity conditions and traded between 6.59%-6.70% and 5.00% - 6.08% respectively.

Government Securities and Treasury Bills

Classical Liquidity Trap.

The domestic G-Sec market remained bearish with 10yrs benchmark G-Sec trading above 8% for most of the week. The tight liquidity conditions, uncertainty about the benchmark

paper and RBI monetary policy meet pushed the yield higher across the yield curve. G-Sec Auction cut off also turned bearish on Friday. RBI set the cut off yield for emerging benchmark at 8.13%-2020 bond at 8.08%. The RBI's auction of the short term instruments exhibited the tight liquidity condition in the system, compelling participants to bid at higher levels. T-bill with cut-offs for 91 days T-bill and 364 days T-Bills were 6.77 % and 7.08% respectively higher significantly from last cut-offs. During the week RBI announced buyback of short term G-sec worth 28K Crs and food inflation printed lower at 15.53% against 16.37% recorded last week.

Corporate Bonds

Corporate Bond Yield tracked G-Sec

Corporate bond yields too rose following the Government papers. The 5yrs bond traded at 8.6125% while 10yrs benchmark Bond traded around 8.8025%.

Rupee

rally halted after a long stint

The Indian Rupee depreciated against USD on confusion over Fed's buyback Scheme. The Rupee-Dollar traded between 44.36 to 44.5950 to close at 44.5950 depreciating 1.12 % week on week basis.

Fund Manager's Comment

Debt market and money market is reacting on 2 basic reasons. A) Liquidity B) Inflation. While liquidity is condition is not going to see comfortable easing in next few days, short term money market rates may see continued pressure. On the other hand debt market will closely watch factors like inflation, Crude prices and other international events for further cues. Overall the 10yrs benchmark may see some yield hardening and new highs in yields terms may be seen. 7.80% is likely to trade 7.10% to 7.22%.

Market Indicators as on 22nd October, 2010

	22/10/2010	15/10/2010	% change
INR/USD	44.5950	44.1000	1.12
Inflation	NA	8.62	NA
Oil (\$/bbl)	81.69	81.25	0.54
Gold (\$/oz)	1328.45	1368.40	-2.92
10 years G-Sec	8.13	8.06	0.07
10 years AAA	8.80	8.73	0.07
NSE Mibor	6.59	6.46	0.13

Source: Bloomberg

EQUITY MARKETS

The Indian equity market remained flat during the choppy trading week. The BSE Sensex has ended the week with 0.20% gain while the Nifty shut the shop with 0.06% gain. Mid cap and small cap indices outperformed the week as the CNX midcap index posted a gain of 1.1% while the BSE small cap index has gained 0.9%.

On the sectoral front, BSE healthcare index gained 2.8% followed by Oil&Gas (+2.7%), Capital Good (+1.1%). On the losing side, BSE metal index lost 2.7% followed by BSE realty (-2.2%) and consumer Durable (-0.9%).

Among the BSE 2000 stocks, Indiabulls financial gained 15% followed by Canara Bank (+13.4%), PTC India (+11.2%) and Biocon (+11.1%). On the losing side, Sesa Goa lost 8.6% followed by Chambal Fertilizer (-6.4%) and Unitech (-6.0%).

The growth in the non food credit has moved upwards to 20.1% for the week ended Oct. 8, 2010 and deposit mobilization inched up to 15.1%. The CD ratio has moved marginally downwards to 72.4% for the week ended Oct. 8, 2010. Money supply growth has increased to 15.9% and the money multiplier has grown to 5.12.

India's annual food inflation moved up a bit to 16.37% for the week ended Oct 2 compared to 16.24% the previous week, increasing the pressure on the Reserve Bank of India to continue with its view on tightening key interest rates.

In a move to infuse liquidity in the markets, RBI announced buy back of Government bonds of ₹ 285 bn with the first phase of ₹ 120 bn purchase on Oct 25. The government plans to purchase the 8.75 %, 2010 paper and the 12.32%, 2011 debt, according to the central bank statement. It will also offer to buy 6.57% papers due next year.

Coal India Ltd., the world's biggest producer of the coal, ended the last day of its initial share sale with at least 2.16 trillion rupees

(\$48.7 billion) of bids. Investors offered to buy almost 9.6 bn shares, or 15.2 times the 631.6 mn shares on offer.

India's net direct tax collections stood at ₹ 1,817.58 bn in Apr-Sept'10 period (H1FY11), as against ₹ 1,526.25 bn in Apr-Sept'09 period (H1FY10), registering a growth of 19.09% on YoY basis. The Corporate Income Tax collection grew 21.74% YoY to ₹ 1,224.33 bn in H1FY11, as against ₹ 1,005.72 bn in H1FY10. The collection of Personal Income Tax – including STT, and residual FBT / BCTT – grew 13.79% YoY to ₹ 590.53 bn in H1FY11, as against ₹ 518.97 bn in H1FY10. The collection of Wealth Tax grew 18.47% YoY to ₹ 2.63 bn in H1FY11, as against ₹ 2.22 bn in H1FY10, while the collection of Securities Transaction Tax declined 10.38% YoY to ₹ 28.74 bn in H1FY11, as against ₹ 32.07 bn in H1FY10. The direct tax collection grew 26.12% YoY to ₹ 816.47 bn in Sept'10, as against ₹ 647.37 bn in Sept'09

On the global front, China jolted markets when it unexpectedly increased interest rates for the first time since December 2007. The People's Bank of China upped its one-year deposit rate from 2.25% to 2.50% and its lending rate from 5.31% to 5.56%. Recent data, such as September's 9.1% rise in property prices, have heightened concerns about inflation. China's economic growth rate, meanwhile, slowed in the third quarter, to 9.6% from a year earlier.

World Bank Cuts East Asia Growth Outlook, Cautions on 'Bubble', The World Bank lowered its outlook for growth next year in China and across East Asia, urging officials in the region to curb inflation and ward off asset bubbles to avoid a repeat of the Asian financial crisis. Developing East Asia, excludes Japan, Hong Kong, Taiwan, South Korea, Singapore and India, will expand 7.8 % next year, slower than an April estimate of 8%

Taurus Benchmark Indices Movement

Indices	22/10/10	15/10/10	Points change	% change
BSE Sensex	20165.86	20125.05	40.81	0.20%
S&P CNX Nifty	6066.05	6062.65	3.40	0.06%
BSE 100	10744.28	10726.32	17.96	0.17%
BSE 200	2568.74	2558.95	9.79	0.38%
CNX Midcap	9450.35	9346.60	103.75	1.11%
S&P CNX 500 Shariah	1423.11	1413.19	9.92	0.70%

Weekly FI & MF net flows (₹. in crs.)

15/10/10 to 21/10/10	Equity	Debt
FIs	5516.00	-1898.20
MFs	-1766.10	-5980.70

Source : SEBI site

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