TAURUS Mutual Fund

TAURUS RECAP

WEEKLY REPORT - 21st - 25th JUNE 2010

DEBT MARKETS

Global Update

The US treasury rose on risk aversion as the crisis surrounding EU is perceived to have deeper root than previously anticipated. Market is unconvinced on fiscal steps taken by EU as the steps toward fiscal prudence may further drag the EU economy. The market yield also dipped further on weak home sale data in US and on anticipation for higher unemployment stats. Fed continued with its softer rate policy in the recent FOMC meeting. The 10yrs benchmark bond closed steeply lower at 3.08% against the earlier close of 3.22%. The upcoming data which may have the impact of yields are ISM data, Consumer confidence data, first time jobless claim data and the G20 meet.

Domestic

Though the US bond yield continued is southward journey, there seems to be divergence between US and Indian bond market. The domestic market remained range-bound for the most part of the week, however the decision for deregulation of oil prices led hardening of bond yields as the step is seen inflationary in nature. Also market perceived the step as the precursor of rate hike by RBI. The 10yrs benchmark closed at 7.65% against the 7.61% last week.

CALL & CBLO

Liquidity tightness continued last week on the backdrop of expected outflow for wireless-internet spectrum auction as the average amount posted in LAF was -32K Cr. Overnight rates like Call rate, MIBOR, and CBLO traded between 4.0%-5.40%, 5.34%-5.38%, and 4.50%-5.40% respectively.

Government Securities and Treasury Bills

The G-Sec yield remained range bound for the most part of the week which ranged b/w 7.57%-7.65%.The yield hardened at the close of the week on announcement of fuel price hike which may fuel inflationary pressure further and also on expectation of pre policy hike by RBI. The 10yrs bond closed the week higher at 7.65%. During the week RBI conducted Rs15K auction. The Cut-offs came as 7.40%, 7.62%, 8.20% and 8.28% for 7.17% GOI 2015, 7.80% GOI 2020, 8.26% GOI 2027, and 8.32% GOI 2032. Last week RBI also conducted the 91days and 182days T-Bills the cut-off came as 5.36% and 5.37% respectively.

Corporate Bonds

Corporate bond yields remained range bound. The 5yrs bond traded lower week on week at 8.27% (8.25%) while 10yrs benchmark Bond traded around 8.73% (8.71%) marginally higher on weekly basis

Rupee

The Indian Rupee depreciated against USD week on week after huge volatility in forex market. The Rupee-Dollar traded in a range of 45-74 – 46.48 to close at 46.29, depreciating 0.25% week on week basis.

Fund Manager's Comment

The interest rates traders are nearly tired of the bearish phase on liquidity. Last week saw the LAF numbers showing a negative of record 81K Cr, indicating an outflow of nearly 200K Cr from the peak last month. The impact too has been direct, the short term rates have gone up by nearly 150-200 bps over last month. The long end of the yield curve though is very stable, and range bound, during this time period. The likely move in coming days too would be a narrow range of 7.55%-7.70% for the 10 yrs benchmark G-Sec, with interest rate traders taking cues from Global treasury markets. The liquidity condition may improve with Govt expenditure at the end of quarter. That may result in likely easing of very short term interest rates.

Market Indicators as on 25th June, 2010

	25/06/2010	18/06/2010	% change
INR/USD	46.2900	46.1745	0.25
Inflation	NA	10.16	NA
Oil ($/bbl)	78.86	77.18	2.18
Gold ($/oz)	1255.60	1257.20	-0.10
10 years G-Sec	7.65	7.59	0.06
10 years AAA	8.74	8.70	0.04
Call Money	5.38	5.28	0.10

Source: Bloomberg

EQUITY MARKETS

The market remained volatile during the week and traded in a very narrow range. Delaying of monsoon in the central India posed a cause of concern for the agriculture stocks. The BSE Sensex posted a minimal 0.02% while the Nifty posted a gain of 0.12%. Mid cap and Small cap sector outperformed the broader indices as they posted gain of 1.43% and 1.57% respectively.

On the sectoral front, Oil& Gas and Healthcare sector outperformed the market as they gain approx 3% each. The major spurt and relief was seen in OMC stocks and upstream oil companies following EGoM's decision to fully decontrol petrol price and hike diesel price. Prices of kerosene and domestic LPG were also increased. Following this, ONGC, Oil India and GAIL gained 5.9%, 7.4% and 2.2%,respectively

Among the index stocks, ONGC gained by 5.9% followed by BPCL (4.60%), Idea (2.96%) and HUL (4.70%). On the loosing side HCL Tech lost 6.20%, followed by Sterlite Indus (-4.98%) Jindal Steel (-4.18%).

The EGoM on Friday announced an across-the-board fuel price hike-petrol by Rs. 3.50 per litre, diesel by Rs. 2 per litre, kerosene by Rs. 3 per litre and liquefied petroleum gas-LPG (cooking gas) by Rs. 35 per cylinder. This has seen as positive news for OMCs and upstream companies.

Food inflation neared 17% at 16.9% in the week ended June 12 from 16.12% a week ago. The main contributors of food inflation's rise are pulses and milk. Year-on-year, pulses turned dearer by 34.14%, while milk cost 21.12% more. However, prices of potato and onion were down by 37% and 22%, respectively. Food inflation has pushed core inflation into double digits in May, prompting speculation that the Reserve Bank would tighten monetary policy to temper consumer spending.

Mukesh Ambani's Reliance Industries Ltd (RIL) and Anil's Reliance Natural Resources Ltd (RNRL) on Friday announced the signing of a revised gas supply master agreement (GSMA).

The money market saw its worst crunch in a long time on Thursday as banks borrowed a record Rs 82,915 crore from the Reserve Bank of India's (RBI) special repo window. The yield on the 10yrs benchmark paper, 7.80% bond maturing in 2020 ended at 7.5682% as against 7.5979% on Wednesday. The regulator has also availed the tool of buying back of securities to infuse some liquidity into the system. So far, Rs 20,000 crore worth securities have been bought back from banks.

China surprised markets by ending the peg of the Yuan to the dollar, a policy that was reintroduced in July 2008 during the financial crisis. The Yuan's movement is still restricted to a rise or fall of no more than 0.5% against the dollar in a single day it appreciated modestly soon after the announcement. A debate began on whether China was serious about a flexible currency policy, or if it was just maneuvering to avoid criticism ahead of a G20 summit.

The increase in oil prices will result in increase inflation which may pressure on the interest rate. The outlook for the market in near term remains choppy as we expect Oil &Gas sector outperforming while Banking and consumer durable sector to face some pressure. We continue to maintain our cautious stance on the Indian Equity markets in the short to medium term.

Taurus Benchmark Indices Movement

Indices	25/06/10	18/06/10	Points Change	% Change
BSE Sensex	17574.53	17570.82	3.71	0.02%
S&P CNX Nifty	5269.05	5262.60	6.45	0.12%
BSE 100	9369.97	9318.18	51.79	0.56%
BSE 200	2229.41	2215.67	13.74	0.62%
CNX Midcap	8061.70	7991.75	69.95	0.88%
S&P CNX 500 Shariah	1295.32	1286.71	8.61	0.67%

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

18/06/10 to 24/06/10	Equity	Debt
FII's	4446.00	1127.90
MF's	-1106.30	2450.40

Source : SEBI site