TAURUS RECAP

WEEKLY REPORT - 21st - 25th FEBRUARY 2011

DEBT MARKETS

GLOBAL UPDATE

US treasuries saw the biggest rally since May last year, as investor demand increased for safe-haven US notes in light of the uncertainties in Libya. The US 10 yrs notes closed at 3.41%, 17 basis lower compared to the previous week. The lower than expected GDP growth rate for Q4 gave another reason for investor to treasury papers. The Q4 GDP was 2.8% QoQ, as against an expectation of 3.3%. The Nymex crude went up by a whopping 20% from last week's close to touch a high of USD 103.41, on account of Libya turmoil, but came down on Saudi Arabia announcement of making good of supply shortage from Libya. It closed the week at USD 97.88 per barrel.

GOVERNMENT SECURITIES AND TREASURY BILLS

G-Sec market did not take any direction, as expected, before the budget. First half of the week saw yields coming down lead by a blend of events such as lack of re-issuances of sovereign securities, gilt redemption inflows and increasing banks deposit, but market pared the gains towards the end as market participants preferred to stay light before the fiscal budget, propelling an upward pressure on bond yields. The risk averseness amongst traders was further fuelled after the release of the Economic survey for FY12 which highly emphasized the concern for inflation, cementing the high probability of rate hikes in the subsequent policies. With better liquidity in the system the cut-off yield for T-bills was unchanged at its previous levels selling INR 50 bn 91 days T-bill and INR 30 bn 364 days bill at 7.14% and 7.68% respectively.

LIQUIDITY CALL

Liquidity conditions were slightly better than last week as G-Sec maturity put around INR 17k in the system. The average amount under LAF was negative INR 75k Cr. against INR 99k Cr last week. Overnight rates like MIBOR, and CBLO traded between 6.77% - 6.84% and 4.50% - 6.80% respectively.

CORPORATE BONDS

Corporate bond yield curve inverted with 5 yrs bonds trading at higher yield compared to 10 yrs papers. The 5 yrs AAA rated corporate bond yields closed at 9.27% while 10 yrs benchmark bond yields remained range bound to close at 9.17%.

RUPEE

The Indian Rupee depreciated marginally against USD amidst continued weakness of equity markets. It traded in a narrow range of 45.00 to 45.50 to close at 45.32 depreciating 0.25% WoW.

FUND MANAGER COMMENTS

The ease in liquidity and the maturity of G-Sec could get trading volumes to G-Sec markets, but it could neither give direction there, as traders preferred to go light before the budget, nor it brought down the money market rates, which saw issuance of more than INR 25k Cr worth of CDs. The 3m prime CD rates touched 10.10%-10.15% highest levels since January 2009.

This week the movement of Fixed Income market will solely depend on the budget, to be presented by Finance Minister on 28th February. Another factor may be the issuances by banks, which may decide to go slow at these elevated levels. The 10 yrs benchmark may trade in a range of 8.00%-8.20%.

Market Indicators as on 25th February, 2011

	25/02/2011	18/02/2011	% change
INR/USD	45.33	45.21	0.25
Oil ($/bbl)	97.88	86.2	13.55
Gold ($/oz)	1,410.60	1,389.53	1.52
10 years G-Sec	8.09	8.11	-0.01
10 years AAA	9.18	9.20	-0.02
NSE Mibor	6.80	6.86	-0.06

Source: Bloomberg

EQUITY MARKETS

The Indian equity market ended in the negative zone because of the increased unrest in the MENA region. The BSE Sensex and nifty both lost 2.8% during the week. The SNX mid cap and BSE small cap underperformed the market as they lost 4.5% and 4.2% respectively.

On the sectoral front, Only Oil & Gas sector posted a positive gain of 0.8%, rest all the indices ended in red. Capital goods lost 6.1% followed by Auto (-5.4%), Bankex (-4.7%), Realty (-4.7%) and Healthcare 3.9%.

Among the BSE 200 stocks, NALCO gained 8% followed by Reliance Infra (5.6%) and Cairn India (4.4%). On the losing side, Mphasis lost 31.8% followed by Aurobindo pharma (-26.2%), Jet Airways (-15.3%) and Essar Shipping (-14.4%).

Key takeaways from the Economic Survey 2010 - 11: Economy growth for FY11 expected to be 8.6%, and 9% for FY12 ; Agriculture likely to grow at 5.4% for FY11; Industrial output grows by 8.6%; manufacturing sector registers 9.1%; Gross Fiscal Deficit stands at 4.8% of GDP down from 6.3% last year.

BP will buy a 30% stake in Reliance oil and gas blocks, including its asset in the D6 block for $7.2 bn as part of a long-term deal that involves a total investment of $20 bn, making it the biggest ever FDI in India. Reliance and BP will also form an equal joint venture in natural gas segment which may have the effect of reduction in demand for subsidized LPG.

Data released by the commerce and industry ministry on Thursday showed the food price index rose 11.49% in the year till February 12, up from the previous week's 11.05%. Food inflation had shown a moderating trend in the past three weeks after spiralling to 18.32% in late December.

The Railways Minister Ms. Mamata Banerjee has presented the Railway Budget for FY12 in the Parliament. Proposing the highest ever Plan Outlay of ₹576.3 bn for Railways in FY12, out of which ₹ 95.83 bn will be provided for new lines, the Railways Minister Mamata Banerjee said that there will be no hike in the passenger fares or in the freight rates in FY12. Stating that the India Railways is taking austerity measures to cut its losses, Banerjee said that the Railways saved ₹3 bn by re-aligning the rail tracks in FY11. Maintaining that the Railways lost ₹20 bn owing to the ban on export of iron ore, the Minister said that the market borrowings for FY12 are seen at ₹205.94 bn.

The country's food subsidy bill is expected to jump by 27% to ₹742.31 bn in FY11, as against ₹582.42 bn in FY10, the Union Food Minister KV Thomas said, due to a rise in support price and higher procurement and distribution of food-grains via ratio shops. The procurement cost of food-grains has gone up but the selling price of rice and wheat via ration shops has been kept unchanged since 2002. The minister said the subsidy bill also grew due to higher off take of subsidized food-grains under the PDS and other welfare schemes.

On the global news front, Japan's industrial production increased less than estimated in January, in a slowdown likely to be temporary caused by declining output of mobile phones and flat screen televisions. Factory output climbed 2.4% from December, when it rose 3.3%, the Trade Ministry said in Tokyo today.

Muammar Qaddafi, the ruler of Libya, deployed tanks and fighter jets in an attempt to put down a popular uprising, ignited by street protests, that started in the east of the country and spread to Tripoli, the capital. Rebels held large swathes of territory after taking heavy losses estimated to be at least 1,000 killed and many more injured. The UN Security Council demanded an end to the violence.

Taurus Benchmark Indices Movement

Indices	25/02/11	18/02/11	Points change	% change
BSE Sensex	17700.99	18211.52	-510.53	-2.80
S&P CNX Nifty	5303.55	5458.95	-155.40	-2.85
BSE 100	9212.52	9475.64	-263.12	-2.78
BSE 200	2175.15	2241.37	-66.22	-2.95
CNX Midcap	7354.80	7699.35	-344.55	-4.48
S&P CNX 500 Shariah	1240.77	1266.43	-25.66	-2.03

Weekly FII & MF Net Flows (₹. in crs.)

21/02/2011 - 24/02/2011	Equity	Debt
FIIs	285.10	-774.60
MFs	489.50	5436.60

Source : SEBI site