

DEBT MARKETS

Global Update

The fixed income markets in US continued to fall for the second week in succession, on fears that Fed is moving closer to increasing the borrowing rates. US Fed increased the discount rate by 25 bps to 75 bps last week. The US 10 year benchmark paper yield went up by 8 bps to close the week at 3.77%, after touching an intra week high of 3.82%. The 2 year paper yield too went up by 9 bps to 0.92% last week. Now the traders would look for a cue from Fed Chairman Ben Bernanke's semi annual report to the Congress this week. US will issue USD 126 Bn worth of debt securities this week, including USD 8 Bn of 30Yr TIPS.

Domestic

The domestic markets fell for 4th successive week. on concerns that Government borrowing will increase to record levels in the next financial year. Stronger than expected IIP numbers (16.8%) and the inflation reading (8.56%) worsened the market sentiments last week. The 10 year benchmark paper fell to 7.97% during the week, highest level since October 2008. These levels saw good buying to bring the yield down to 7.86% by end of the week. The short end rates went up very sharply over the week, with one year rates moving up by 40-50 bps. Finance minister Mr. Pranav Mukherjee will present the annual budget for FY 10-11 on 26th February.

Call & CBLO

The liquidity came down to below Rs. 60K Cr last week. CBLO for the week was 2.50%-3.35%, while Call rates remained in a range of 2.10%-3.40%, while MIBOR remained at 3.33-3.38% for the week.

Government Securities and Treasury Bills

The Govt securities had a volatile week. The 10 year 6.35%

benchmark paper traded in a range of 7.83%-7.97%. After touching a 15 months high on Monday, the yields fell by 13-15 basis point mid week, only to rise again on US Fed increasing the discount rate. The 91D and 364D T-Bills which measures the short term rates saw the cut-offs of 4.13% for 91 day (4 bps higher than last week) and 4.55% for 182 day T-bills (5-7 bps higher than last fortnight). Bid-to-cover for the auction as a whole stood at 2.22.

Corporate Bonds

The corporate bond yields too moved up, following the G-Sec markets. The 5Y benchmark bond traded around 8.66% while 10Y benchmark bond traded around 8.92%, the yields moving up by 15-20 basis points across the tenor.

Rupee

Indian Rupee traded in a range of 60 paisa during the week, Opening the week at 46.50, it appreciated to 45.96 levels only to weaken again on Friday. The Rupee closed the week at 46.30 appreciating 0.42%.

Fund Manager's Comment

The market was bearish across the yield curve last week. Markets saw buying in the 10 year segment by short term traders at higher than 7.9% levels, as they expect stability in yields till March end, in absence of any further auction of G-Secs. At the shorter end, 6 mth - 12 mth, the yields rose by a whopping 45-50 bps, in absence of negligible buying interest by mutual funds. The yields are likely to remain stable around current levels this week as traders would wait eagerly for the government borrowing program from the budget on 26th February. The trading range for the 10 year paper may be 7.75% - 8.00%.

Market Indicators as on 19th February 2010

	12-Feb-10	19-Feb-10	% change
INR/USD	46.5000	46.3056	-0.42%
Inflation	NA	8.56%	NA
Oil (\$/bbl)	74.13	79.81	7.66%
Gold (\$/oz)	1,093.38	1,119.20	2.36%
10 year G-Sec	7.872	7.876	0.05%
10 year AAA	8.7625	8.9200	1.80%
Call Money	3.30	3.30	0.00%

Source: Bloomberg

EQUITY MARKETS

The Indian market managed to maintain previous week's positive trend. The Sensex gained 0.24% and Nifty rose 0.37% this week. On the sectoral front oth mid cap and small cap sector under performed the markets as they reported loss of 1.2% each. Realty sector was the major drag during the week as it lost approx 5.75% during the week. Sectors like health care metals CG and bankex gained anywhere in the range of 1.87% to 1.1%. among the stocks, Bharti lost 11.7% during the week on concern of its acquisition of Zain. Unitech lost 6.15%, Reliance infra lost 5.67%. Hindalco, Ranbaxy and HDFC bank were among the major gainers as they gain anywhere between 8.5%-6%.

The Union cabinet on Thursday unanimously cleared a proposal to alter the nature of fertilizer subsidy and thereby partially unshackle fertilizer prices. The policy included nutrient based subsidy and 10% increase in urea fertilizer. This will reduce the fertilizer subsidy burden on the Government and also improve working cycle for companies. The move also be seen as a possible fertilizer decontrol going ahead.

Banking sector expects government to pass budget proposal for capitalization of PSU Banks (out of the

proceeds of a ~USD\$2bn loan from World Bank) which would positively impact the PSU banks that have significantly low Tier-I CRAR. Further they expect hike in FDI limits in insurance companies which would positively impact companies with insurance subsidiaries enabling them to unlock value wherein key stock affected would be Max India, Reliance Capital, AB Novo, ICICI Bank , HDFC Bank.

The US Federal Reserve Board announced on Thursday that it is raising the interest rate at which banks borrow from the Fed's discount window to 0.75%, a 25-basis-point increase. This gives an indication of monetary tightening by US Fed which fueled a caution among the overall world markets.

Market sentiment during the next week will be dominated by the Union Budget and rail budget. The respective budget will give a sense of the government finance and government spending on the segment like education and infrastructure. Any positive development on the divestment and fiscal deficit will be keenly waited by the markets. We expect market to remain range bound during the week.

Taurus Benchmark Indices Movement

Indices	19/02/10	11/02/10	Points change	% change
BSE Sensex	16191.63	16152.59	39.04	0.24
S&P CNX Nifty	4844.90	4826.85	18.05	0.37
BSE 100	8635.42	8619.12	16.30	0.19
BSE 200	2048.00	2047.71	0.29	0.01
CNX Midcap	7212.25	7277.95	-65.70	-0.90
S&P CNX 500 Shariah	1191.96	1200.65	-8.69	-0.72

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

11/02/10 to 18/02/10	Equity	Debt
FII	2025.80	436.40
MFs	-226.90	2772.40

Source : SEBI site

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