

DEBT MARKETS

Global Update

The treasury markets were volatile last week, with US markets swinging on economic data releases and US Fed Statements. The US existing home sales data fell by 27.2% for July and GDP growth for second quarter came at 1.6% annualized (expectation 2.4%) pushing the treasuries up. On Friday, though, yields rose by 15-17 bps, as Mr. Bernanke showed dis-inclination to buy more of US treasuries until necessary. Traders took this as an opportunity to book profits in the papers that had risen to highest levels in nearly two years.

Domestic

The Indian debt markets were a tad lack lustre compared to overseas counterpart, in absence on any domestic trigger. The 10 yrs benchmark paper sold off initially, on rumours of a new benchmark coming into existence and likely monetary policy hike in the September policy. On Friday, though, the yields came off sharply as RBI Governor, Mr. Subbarao said there is evidence of inflationary pressure is easing. This and temporary relief provided by liquidity in the banking system, pushed the benchmark yield to 7.97% on Friday, from the highs of 8.08%.

CALL & CBLO

Liquidity condition eased compared to last week with LAF remaining positive for most of the week, with ever missing government expenditure finally coming into the picture. The LAF showed a positive average of Rs. 15K Cr. Overnight rates like MIBOR, and CBLO too showed fragile liquidity condition and traded between 4.61%-5.70% and 1.5%-5.50% respectively.

Government Securities and Treasury Bills

The G-sec markets saw the benchmark paper of 7.80 coupon 2020 paper getting replaced by 8.13 coupon 2022 by the

traders, in expectations of another benchmark getting issued. The spread of the 12 yrs paper over 10 yrs turned negative by 5-7 bps from a positive 20-25 bps. The G-Sec auction saw a devolvement by Rs. 1,387 cr in 7.80% GOI 2020. The cut-off rate for auction of 7.17% GOI 2015 was set at Rs 97.72 implying a yield of 7.75%. The cut-off rate for auction of 7.80% GOI 2020 was set at Rs 98.45 implying a yield of 8.03%. The cut-off rate for auction of 8.26% GOI 2027 was set at Rs. 98.91, implying a yield of 8.38%. The T-bill auction witnessed its INR 70bn of 91 Day Tbill selling 8bps lower than the previous auction at 6.19% on account of comfortable liquidity condition in the system. While the cut-off for the INR 10bn 364 Day T-bill was set 12bps higher than its previous levels at 6.54% on the expectation of hike in interest rates.

Corporate Bonds

Corporate bond yields remained range-bound. The 5 yrs bond traded at 8.50% while 10 yrs benchmark Bond traded around 8.81% nearly at same level as last week.

Rupee

The Indian Rupee depreciated against USD week on week following the global strength of USD against other majors. The Rupee-Dollar traded in a range of 46.50 to 46.95 to close at 46.89 depreciating 0.46% week on week basis.

Fund Manager's Comment

The benchmark 10 yrs GOI may trade in a narrow zone in the forthcoming period. An impending 1st Quarter GDP data and also a review of the monetary policy will keep the rate market in a tight zone. The pressure on short term rate may continue as we sail toward the September outflow. Overnight rates may show heightened volatility in the days to come.

Market Indicators as on 27th August, 2010

	27/08/2010	20/08/2010	% change
INR/USD	46.8875	46.6750	0.46
Oil (\$/bbl)	75.15	73.46	2.30
Gold (\$/oz)	1238.10	1227.80	0.84
10 years G-Sec	8.04	7.94	0.11
10 years AAA	8.81	8.80	0.01
Call Money	4.60	5.72	-1.16

Source: Bloomberg

EQUITY MARKETS

During the week market broke its positive trend and ended in red. The BSE Sensex lost and Nifty lost 2.2% each during the week which is full of volatility. BSE Mid cap and small cap also ended in red as they lost approx 2.4% each. The selling has been witnessed all around indices and traders are seen booking profit after the August future expiry. The decline in the index can mainly be attributed to the under performance of financial, technology, realty, auto, capital goods and power stocks. Volatility in the Indian bourses was primarily witnessed due to negative global cues during the week.

On the Sectoral front, Realty index lost 8.53% followed by Metal (-3.34%), Bankex (-2.49%) and IT (-1.97%). Consumer good sector outperformed the broader market as it managed to post a gain of 1.42%. The top losers in the Realty sector were Sobha Developers (-12.6%), HDIL (-11.3%), Unitech (-9.5%), DLF (-8.1%) and Anant Raj Industries (-8.1%).

Among the index stocks, JP associate lost 9.2% followed by Reliance Infra, Hindalco, DLF and hero Honda with losses falling between 8.2% and 6.9%. On the gaining side, Bharti Airtel, NTPC, State bank and BHEL with gains between 2.0% and 0.4%.

Food inflation eased marginally for the second straight week as good rains boosted sowing of key crops, but the Reserve Bank of India is expected to maintain its hawkish stance on prices. The food price index rose to an annual 10.05% in the week ended August 14 as against 10.35% in the previous week, data released on Thursday showed. The fuel price index remained steady at 12.57%.

The six infrastructure industries grew 3.9% in July, marginally higher than in June, but the contraction in steel and cement production has raised doubts about the overall industrial output growth, which slowed to a 13-month low in June. The headline core sector growth in July is better than the 11-month low of 3.6% for

June, but strong double-digit growth in crude and petroleum refining has masked an otherwise poor set of numbers, data released on Friday showed. Cement and steel production has contracted by 0.2% and 0.9%, respectively from a year ago while production of electricity was up 3.8%, almost same as June.

The latest data from global fund tracker EPFR Global showed investors have become cautious about emerging market

equities, an asset class that has been a standout for the past year. Meanwhile, the much-awaited Direct Taxes Code, or DTC, Bill, which seeks to replace the nearly 50-years-old income tax law, is likely to be introduced in Parliament on Monday, 30 August 2010, and may then be referred to a select committee of members of both houses of Parliament.

In India, good weekly rainfall leads to cumulative rains shortfall from 1 June – 25 August decrease to 2% from 5%. For the week ended 25 Aug 2010, monsoon was above normal by 29%. Actual rainfall was 71.9 mm against 55.6 mm. Total cropped area affected by deficient rainfall is 29.5% compared to 74.3% at the same time last year.

On the global news, Sales of existing homes in America plunged to their lowest level in more than a decade, down 27.2% in July compared with June. Sales of new homes also plummeted, to a record low since figures were first kept in 1963. Both declines were worse than had been expected, and follow the expiry of a tax credit for home buyers. The figures added to fears that America might suffer a double-dip recession. Concerns caused the dollar to fall to 83.6 against the Japanese yen, nearing its 1995 record low. But speculation that Japan will intervene to weaken the yen caused it to retreat slightly. Japan is worried that a strong currency could hurt exports and worsen deflation by pushing down the price of imports.

Taurus Benchmark Indices Movement

Indices	27/08/10	20/08/10	Points change	% change
BSE Sensex	17998.41	18401.82	-403.41	-2.19
S&P CNX Nifty	5408.70	5530.65	-121.95	-2.20
BSE 100	9647.60	9850.83	-203.23	-2.06
BSE 200	2309.07	2357.91	-48.84	-2.07
CNX Midcap	8757.80	8930.85	-173.05	-1.94
S&P CNX 500 Shariah	1295.45	1320.60	-25.15	-1.90

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

20/08/10 to 26/08/10	Equity	Debt
FII	3982.10	-74.70
MFs	-1409.10	7980.10

Source : SEBI site

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