

DEBT MARKETS

Global Update

The two weeks rally in US treasuries halted on decent numbers posted from US economy. While the GDP grew by 3% (3.2% expected), the unemployment data showed modest fall. This coupled with higher inflation, crude price rise, and apprehension of Fed reserve raising lending rates, led to sell-off in US treasuries. The 10yrs US treasuries closed at 3.29% higher week-on-week basis by 5 bps after touching the intra week's high of 3.36%. Crude touched USD 73.97/barrel.

Domestic

The rally in domestic bond market since last 2 weeks came to an end tracking US yields. Also rates hardened due to profit booking as the market was overbought. Tightening liquidity and rising crude prices and speculation that Govt. may hike fuel prices also supported sell-offs. The reports of monsoon wind being halted near Andaman & Nicobar Island due to cyclone Laila, also added worries in the market. The 10yrs benchmark bond closed at 7.53% after touching 7.63%, higher from previous week's close of 7.38%.

CALL & CBLO

Liquidity showed steep tightness last week on the backdrop of outflow for 3G auction as the average amount posted in LAF was 6K Cr. Overnight rates like Call rate, MIBOR, and CBLO traded between 3.90%-4.13%, 3.90%-4.72%, and 3.50%-5.00% respectively.

Government Securities and Treasury Bills

The G-Sec yield hardened last week on profit booking by players especially on the backdrop of rising US yields. The 10yrs benchmark bond closed at 7.53% after the intra week high of 7.63%. Auction conducted by RBI last week was fully subscribed. The cut-off yields recorded were at 7.41% for

7.38% GOI 2015, 7.60% for 7.80% GOI 2020 and 8.25% for 8.32% GOI 2032. The cut-offs for 91days and 182days T-Bills were 5.07 % (4.22%) and 4.97 % (4.55%) on tighter liquidity condition. The weekly inflation was lower in primary articles and slightly inched higher in fuel segment. RBI in view of tighter liquidity condition due to 3G outflow modified the notified amount of T-Bills auction for June 2010, which notifies 22K Cr less of T-Bills auction.

Corporate Bonds

Corporate bond yields moved higher tracking Govt bonds. However the credit spread decreased as more sell-off was seen in Govt. bonds than corporate bonds. The 5yrs bond traded at 8.13% (8.08%) while 10yrs benchmark bond traded around 8.68% (8.59%) higher than last week's close.

Rupee

The Indian Rupee gained ground against USD week on week on strong rebound in capital market. Also dollar sale by telecom companies to meet their paying obligation in 3G auction also supported rupee. The Rupee-Dollar traded in a wide range of 46.35 - 47.69 to close at 46.35, appreciating by 1.20% over the week.

Fund Manager's Comment

The yields in Indian market followed the US markets and went up. The profit booking saw the yields go up by 20-25 basis points for the benchmark paper. The shorter end too was tight, in anticipation of liquidity crunch due to the outflow. The liquidity is likely to remain tight this week as well, as the money due to 3G auction is likely to stay out of the system for 8-10 days. The likely range of one year CDs should be around 6.50%-6.60% and the 10yrs benchmark shall be trading around 7.45%-7.60% level.

Market Indicators as on 28th May, 2010

	28/05/2010	21/05/2010	% change
INR/USD	46.3550	46.9200	-1.20
Oil (\$/bbl)	73.97	68.01	8.76
Gold (\$/oz)	1214.38	1177.10	3.17
10 years G-Sec	7.38	7.38	0.00
10 years AAA	8.68	8.59	0.09
Call Money	4.13	3.80	0.33

Source: Bloomberg

EQUITY MARKETS

The global markets continue to face the heat of the Euro crisis during the week. Indian markets started the week with negative mood but recovered during the second half of the week. The BSE Sensex has managed to post a gain of 2.54% while Nifty posted weekly gain of 2.75%. The BSE mid cap and small cap under performed the market as they managed to post gain of 1.01% and 0.94% respectively.

On the sectoral front, indices like Realty, Oil & Gas, Power, IT and FMCG for the same period were up by 4.15%, 3.42%, 3.26%, 3.06% and 2.97% respectively, clearly outperforming the markets. BSE Consumer durable index fell by 2.15% during the week.

Among the stocks, ADAG pack was the biggest gainer. Reliance power was up by 12.76% followed by Rcom which posted weekly gain of 10.62%, Reliance Infra was up by 6.89%. JP associate (+8.16%) & Siemens (+7.26%) also posted strong weekly gain. On the losing side, ACC lost 4.29% followed by 3.28%, Tata steel 2.43% and Bharti Airtel was down by 2.07%.

Core sector industries expanded by 5.1% in April, a drop from the healthy 7.2% growth in March, indicating at a possible moderation in industrial growth. The strong growth in production of steel and cement, which grew a strong 8.7% in April 2010, indicates a pick up in user industries such as white goods, automobiles and construction.

Food inflation eased marginally to 16.23% for the week ended May 15 despite the government's best efforts to talk it down, leaving policymakers praying for a good monsoon to help ease prices. Inflation in fuel items moderated slightly to 12.08% from 12.33% in the previous week.

Global stock markets took another battering and remained volatile, partly because of fears about euro-zone debt and increased tensions between North and South Korea. The S&P 500 index was nearly 10% lower than its level at the beginning of May; the Dow Jones Industrial Average closed below the 10,000 mark for the first time since February.

The European Commission officially unveiled a scheme to insure against bank crises in member states, funded by a levy on financial institutions. Britain and France remain opposed to a European-wide levy. Britain's Treasury will put forward its plan for a tax on British banks in a budget in June, which is when European finance ministers will debate the commission's scheme.

Overall US corporate profits expanded at an annualised rate of around 24% in Q1 according to preliminary estimates published by the Commerce Department, following increases of 36% and 50% in the prior two quarters

Fitch cut Spain's credit rating by one notch, saying the country's economic recovery will be more muted than the government forecast due to its austerity measures. The ratings agency cut Spain's long-term foreign-and local-currency issuer default ratings to AA-plus from AAA. The outlook on the new ratings is stable.

We expect the markets to remain in a very narrow zone during the next few weeks as we fear more bad news from the Euro zone. The Q4 results are mostly in line with expectations and we expect earnings re-rating to happen in banking and media stocks. About markets we continue to remain cautiously optimistic during the short term. The next trigger for the equity markets would be the monsoon which is expected to normal.

Taurus Benchmark Indices Movement

Indices	28/05/10	21/05/10	Points Change	% Change
BSE Sensex	16863.06	16445.61	417.45	2.54%
S&P CNX Nifty	5066.55	4931.15	135.40	2.75%
BSE 100	8979.30	8775.22	204.08	2.33%
BSE 200	2135.38	2089.54	45.84	2.19%
CNX Midcap	7690.70	7581.90	108.80	1.43%
S&P CNX 500 Shariah	1234.75	1204.69	30.06	2.50%

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

20/05/10 to 25/05/10	Equity	Debt
FII's	-4543.10	3274.70
MF's	399.90	-1023.10

Source : SEBI site

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