

DEBT MARKETS

Global

The US treasury yield which had hardened on auction announcement touched 3.45% on the start of the week, eased on aggressive auction cut-offs to touch at 3.39%. The 10 yrs bond yield closed at 3.50% when the better than expected US GDP growth (3.5%) for the third quarter was recorded. Also lacklustre response of 7 yrs treasury auction further pushed up the bond yield. The 2 yrs, 5 yrs and 30 yrs yields closed at 0.98%, 2.44% and 4.34% respectively.

Domestic

The cautious approach last week ahead of RBI review of monetary policy, turned toward aggressive buying when RBI announced hike in SLR requirement from 24% to 25%, keeping all other policy rates unchanged. The 10 yrs bond closed at 7.30% after touching 7.24% on aggressive buying, lower than last week's close of 7.37%. There was no G-Sec auction and OMO auction last week. The 10 State Government Loan auction for 10 states was fully subscribed. The Rupees 70 bn 91 days and Rs 20 bn 182 days T-Bills was fully subscribed with the cut-offs of 3.23% and 3.97% respectively. The inflation for the week ended October 17, 2009 was 1.51% higher than last week's 1.21%.

CALL & CBLO

Even though the liquidity remained comfortable during the week the overnight rates. The range for MIBOR was 3.29-3.30 % during the week. The Inter-bank Call and CBLO range were 3.00% - 3.30% and 1.85%-3.05 % respectively.

Government Securities and Treasury Bills

The bond market rallied on RBI increasing SLR requirement from 24% to 25%, keeping all other policy rates unchanged. However the rally was short lived on hawkish RBI stance on

inflation and general feeling of rates hike in the months to come. Moreover the hike in SLR had no material impact as the banks already maintained approximately 27% in SLR securities. The 10 yrs bond which touched 7.24% on announcement of SLR hike closed at 7.30% but lower than the last week's close.

Corporate Bonds

The corporate bond yields closed lower during the week. The 5 yrs benchmark bond traded between 8.50% while 10 yrs benchmark bond traded at 8.82% levels.

Rupee

The rupee depreciated against the dollar on weak equity market, volatility in crude prices and bounceback in greenback. The Rupee ended at 46.97 against the dollar, depreciating 45 Paise week-on week basis. Last week Rupee-Dollar saw marked fluctuation with rupee trading between 46.66 and 47.625.

Fund Manager's Comment

The yields started to ease in the week after the announcement of no change in the stance of RBI as far as policy rates were concerned. The inflation forecast for the end of the current financial year has been upped. However, the index of inflation is going through a change from the month of November 09 with more commodities being added. We feel that due to this the inflation may not touch 6.50% as estimated by the RBI since the same is estimated on the basis of old index. While the yields may remain around these levels we feel that any higher yields are an opportunity to invest in income funds. As far as the short term rates are concerned they may remain rangebound.

Market Indicators as on 30th October, 2009

	30/10/2009	23/10/2009	% change
INR/USD	46.97	46.52	0.97
Inflation	1.51	1.21	24.79
Oil (\$/bbl)	77.42	78.54	-1.43
Gold (\$/oz)	1043.00	1053.00	-0.95
10 years G-Sec	7.30	7.45	-2.01
10 years AAA	8.82	8.84	-0.23
Call Money	3.28	3.28	0.00

EQUITY MARKETS

Last week, the markets went through a correction phase during each of the five trading sessions and closed in the negative territory. Over the week, the BSE Sensex shed 915 points or 5.44% to close at 15,896 and Nifty lost 285 points (-5.7%) to close at 4711. The market started on a positive note on account of better quarterly earning expectations. However it witnessed a selling pressure at higher levels during the week and traded in a range of 4997 - 4711. For the week FIIs sold US\$ 810 mn in cash. Their current month total investment is US\$ -111 mn. For the week DII invested US\$ 390 mn in cash. Their current month total investment is US\$ -140 mn.

The correction was higher in the case of the BSE Mid Cap index which lost 7.63% and the Small - Cap index which fell by 8%. During the week telecom stocks were hammered brutally on continued worries about price war in the sector and lost 15%. Realty sector lost 15% on account of increase in provision by RBI for banks from 0.4% to 1% for lending to commercial Real Estate. Metal sector decreased by 10% on account of below expected Q2FY10 results by major metal companies. Auto stocks gained on robust earnings in the second quarter.

During the week in its half yearly monetary policy review RBI kept key rates unchanged with the CRR, Repo and Reverse Repo rates at 5%, 4.75% and 3.25%, respectively. However, the SLR ratio has been hiked back to 25%. Moreover RBI increased the provisioning requirement for loans to the commercial real estate sector to 1% from 0.4%. RBI also asked banks to increase NPA provision coverage ratio (including floating provisions) to atleast 70% by Sept 2010-end. All this sounded a bit hawkish in terms of the RBI's strategy of moving towards a tight monetary policy stance with priority to price stability over growth.

Inflation, though rising gradually could turn out to be a dampener in the coming months. Inflation for the week ended October 17, 2009 came up at 1.51% from 1.21% in the previous week. The concerns over the expected increase in interest rates, tightening liquidity and higher inflation triggered selling especially after the monetary policy. Investors need to keep an eye on FII investments as there is a possibility of more selling on account of profit booking and doubts over the recovery in the US economy. Global cues are also important as the Q2 season have come to an end and there are no major domestic triggers.

Taurus Benchmark Indices Movement

Indices	30/10/09	23/10/09	Points change	% change
BSE Sensex	15896.28	16810.81	-914.53	-5.44
S&P CNX Nifty	4711.70	4997.05	-285.35	-5.71
BSE 100	8333.18	8859.05	-525.87	-5.94
BSE 200	1962.88	2089.52	-126.64	-6.06
CNX Midcap	6579.80	6988.35	-408.55	-5.84
S&P CNX 500 Shariah	1132.92	1188.16	-55.24	-4.65

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

23/10/09 to 29/10/09	Equity	Debt
FII	1187.50	445.10
MFs	-524.20	5417.50

Source : SEBI site

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