TAURUS RECAP

WEEKLY REPORT - 27th SEPTEMBER - 01st OCTOBER 2010

DEBT MARKETS

Global Update

Global debt markets continues the bullish journey

The US treasuries rose for the third week in a row, as investors speculated a slow economic recovery may push Fed reserve to buy more government papers. The 10 yrs benchmark yield came down by 9 bps to 2.51% and 2 yrs treasury note yield fell by 3 bps to 0.41%.The US manufacturing data released showed a slower than expected growth, giving rise to expectation of Federal reserve taking further accommodative action and avert deflation.

Domestic

Widening in the trade deficit, despite growth in exports

The domestic debt market remained directionless, on account on no important data trigger, domestic or overseas. The 10 yrs benchmark traded in a small range of 7.83%-7.91%. Despite exports for the month of August rising by 9.3% to report a yearly growth of 22%, high imports worth USD 29.68bn widened the trade deficit to INR 130.35bn as against INR 129.30bn. Though liquidity remained tight, there was good amount of buying by MFs towards the shorter tenor papers (3-4 month), absorbing nearly INR. 10-15k Cr worth of primary CD issuances.

CALL & CBLO

Remained higher on tighter systemic liquidity

Liquidity condition remained under pressure with LAF figures showing an average daily borrowing by SCBs of INR. 68.5k Cr from RBI. Overnight rates like MIBOR, and CBLO too showed the tight liquidity conditions and traded between 6.13% - 7.28% and 4.00% - 7.30% respectively.

Government Securities and Treasury Bills

A bullish borrowing calendar

The domestic GSec market took remained range bound, not tracking their overseas counterpart, and the yields went up by 4-5 bps in the 10 yrs segment. On Friday, RBI in its maiden auction for H2FY11 successfully sold INR 110bn worth gilts. The cut-off yield for INR 40bn 7.17% 2015 and 8.08% 2022 were set at 7.74% and 8.04% respectively, while INR 30bn 8.26% 2027 was sold at 8.31% reflecting an average bid-to-cover was 2.20X. Increasing call rates amidst tight liquidity had its toll on the T-bill auctions as cutoffs were set at higher levels. The INR 20bn 91 day bill and INR 15bn 182 day bills were sold at 6.27% compared to 6.19% and 6.57% compared to 6.44% in its previous auctions, with a bid-to-cover of 3.65X and 3.14X respectively.

Corporate Bonds

Did not see much action

Corporate bond yields remained range-bound. The 5 yrs bond traded at 8.51% while 10 yrs benchmark Bond traded around 8.68% marginally lower than the last week on account of less supply from corporate bond market.

Rupee

Rally goes on riding strong equity inflows

The Indian Rupee appreciated yet again following the strength of Indian equity market and robust FII flows pushing the equity markets to January 2008 peaks. The Rupee-Dollar traded in a range of 44.46 to 45.28 to close at 44.48 appreciating 1.71% week on week basis.

Fund Manager's Comment

The last week was more of a non-event for the G-Sec traders. This was not the case for the money market traders. The net LAF borrowing of nearly INR 70k, did not deter them from buying the short tenor CDs. The 3-6 month rates came down, where as the rates remained stable for 6-12 mths. tenor papers.

In the coming week, the lacklusture environment for the G-Sec markets is likely to continue, though we may see some value hunters pitching in around 8% levels for the benchmark papers. The traders are waiting for the announcement of the new benchmark 10 yrs paper. Our take on that is the traders may need to wait for at least till December for the new papers. The 10 yrs benchmark paper is likely to trade in a range of 7.87%-8.02%

Market Indicators as on 1st October, 2010

	1/10/2010	24/09/2010	% change
INR/USD	44.4800	45.2550	-1.71
Oil ($/bbl)	81.58	76.49	6.65
Gold ($/oz)	1319.10	1295.95	1.79
10 years G-Sec	7.90	7.87	0.03
10 years AAA	8.68	8.71	-0.03
NSE Mibor	6.25	6.13	0.12

Source: Bloomberg

EQUITY MARKETS

The Indian market continued to remain in positive territory for the fifth consecutive week on the back of sustained buying from foreign investors. The BSE Sensex has ended the week with 1.99% gain while Nifty shut the sop with 2.08% gain. The BSE mid cap index continued to underperform the market as they managed to post 1.02% gain during the week.

On the sectoral Indices front, all the major indices have posted positive gain during the week. Metal index gained 5.2% followed by BSE Realty which gained 4.9%. As per media reports, the domestic steel companies hiked the steel prices by 2-3% effective October 1, 2010. Tata Steel outperformed by 4.0% as the company executed the agreement for refinancing its debt in Europe. SAIL, JSW Steel and Jindal Steel outperformed the Sensex by 6.6%, 5.4% and 3.6%, respectively. Among the non-ferrous pack, Hindalco and Hindustan Zinc outperformed the indices by 4.9% and 0.3% respectively.

Among the index stocks, Hindalco gained 7% followed by Tata Steel, DLF, Jindal Steel and Power and BHEL who gained in the range of 5.5% - 6.1%. On the loosing side, ONGC lost 2.2% followed by HUL, ACC, Hero Honda, and Rcom which lost in the range of 1.5%-0.8%.

Despite of expressing concerns over high inflation and rising value of rupee, the Asian Development Bank (ADB) has raised India's growth forecast for FY11 to 8.5% from the earlier estimate of 8.2% growth in Arp'10. For FY12, the ADB has retained its earlier projection of 8.7%. However, the ADB expects the average inflation to be 7.5% in FY11, as against its earlier projection of 5.5%.

The index of six core industries – having a combined weight of 26.7% in the Index of Industrial Production (IIP) – stood at 262.9 in Aug'10 and registered a growth of 3.7% in Aug'10, as against 4% growth in Jul'10. The production of crude oil grew by 15% in Aug'10, as against 15.8% in Jul'10, while the production of finished steel rose 7.7% in Aug'10, as against 0.9% decline in Jul'10. The production of petroleum refinery declined 2.3% in Aug'10, as against 13.7% growth in Jul'10, while the coal production rose by 1% in Aug'10, as against 4.5% in Jul'10. The electricity generation grew by 1% in Aug'10, as against 4.1% in Jul'10, while the cement production grew 1.6% in Aug'10, as against 0.2% fall in Jul'10. The six core industries registered a growth of 4.1% in Apr-Aug'10 period, as against 4.8% growth in Apr-Aug'09 period.

India's exports valued at US$16.64 bn (₹ 775.09 bn) in Aug'10, as against US$13.58 bn (₹ 656.7 bn) in Aug'09, registering a 22.5% YoY rise in Dollar terms and 18% YoY rise in Rupee terms. India's imports valued at US$29.67 bn (₹ 1,382.11 bn) in Aug'10, as against imports worth US$22.44 bn (₹ 1,085.06 bn) in Aug'09, registering a growth of 32.2% YoY in Dollar terms and 27.4% YoY in Rupee terms. Oil imports rose 12.4% YoY to at US$7.79 bn in Aug'10, as against oil imports worth US$6.93 bn in Aug'09. Non-oil imports increased 41.1% YoY to US$21.88 bn in Aug'10, as against US$15.51 bn in Aug'09. The country's trade deficit is estimated at US$56.62 bn in Apr-Aug'10 period, as against deficit of US$40279 mn in Apr-Aug'09.

The rate of wholesale food inflation rose to 16.44% for the week ended September 18, compared to 15.46% the previous week, mainly due to heavy rain and floods in some parts of the country resulting in a temporary disruption in supply of essential food items. On an annual basis, prices of cereals rose by 6.11% due to higher prices of pulses, rice and wheat. Prices of pulses, wheat and rice rose by 5.94%, 9.14% and 4.05%, respectively. Fruit and vegetable prices rose by 15.13 % and 5.87%, respectively. Among other food items, milk prices soared by 24.32% and onion prices went up by 1.39% in the week, compared to the same period last year.

On the Global front, Japan's deflation moderated & the unemployment rate fell, indicating the nation's recovery remains intact as policy makers consider stimulus measures to protect the economy from a strengthening yen. The jobless rate fell to 5.1% from 5.2%, while the number of people no longer in the labor force increased. Consumer prices excluding fresh food slid 1.0% in August from a year earlier after falling 1.1% in July. A contrast with data of Japan's industrial production unexpectedly fell in August. Factory output decreased 0.3% from July, the third monthly decline.

Taurus Benchmark Indices Movement

Indices	01/10/10	24/09/10	Points change	% change
BSE Sensex	20445.04	20045.18	399.86	1.99%
S&P CNX Nifty	6143.40	6018.30	125.10	2.08%
BSE 100	10837.96	10635.94	202.02	1.90%
BSE 200	2579.38	2532.46	46.92	1.85%
CNX Midcap	9323.55	9229.60	93.95	1.02%
S&P CNX 500 Shariah	1424.13	1399.94	24.19	1.73%

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

24/09/10 to 30/09/10	Equity	Debt
FIIs	4123.30	1753.10
MFs	-3108.30	3737.30

Source : SEBI site