

DEBT MARKETS

Global Update

The US treasuries fell last week, with benchmark 10 yrs note closing above 3% for the first time since July. As concerns eased about the European debt crisis spreading to other nations eased and nonfarm payrolls showed better than expected numbers in US, the yields rose across the board. The yield 10 yrs note rose by 14 basis to 3.01% and 30 yrs paper by 11 basis to 4.31%.

Domestic

The domestic markets followed the global counterpart, as yields rose amidst tight liquidity conditions. The auction of the FII limits for G-Sec, corporate bonds and infrastructure bonds was done by RBI. The positive response failed to allay fears among traders, who resisted from taking fresh position as liquidity is likely to remain tight in the coming days, and the rising crude oil prices may push inflation to beyond RBIs comfort levels. The worse than expected cut off of the Friday auction for 8.13 2022 paper pushed the yield up by 10 basis point in a single day, the paper closed at 8.17%, 14 basis higher compared to previous week. GDP figures for Q2FY11 showed a robust growth of 8.9%, much better than market estimates of 8.2%.

CALL & CBLO

Liquidity condition remained tighten, but LAF figures improved slightly compared to previous week. LAF figures showed an average daily borrowing by SCBs of ₹ 72k Cr from RBI (125k previous week). Overnight rates like MIBOR, and CBLO remained firm and traded between 6.40%-6.79% and 4.50% - 6.50% respectively.

Government Securities and Treasury Bills

The G-Sec market remained bearish on improved European debt conditions, continuous tight liquidity, better than expected GDP figures and rising crude oil prices. RBI sold ₹110 bn of gilts at an auction on Friday. The cut-offs for the Rs 40bn of 7.99% 2017 and ₹ 40 bn 8.13% 2022 were set 2bps and 5bps

higher than its previous auction at 8.01% and 8.15%, while cut off for ₹30bn 8.30% 2040 maintained status-quo at 8.49%. With liquidity condition unlikely to improve in the near term (factoring the indirect tax and advance tax payment in the mid-December) the cut-off for ₹ 50bn of T-bills were set high. The ₹40bn of 91 days T-bill and ₹10bn of 364 days T-bill were set higher by 13 bps and 7 bps at 6.94% and 7.27% respectively.

Corporate Bonds

Corporate bond papers traded on a bearish note last week mainly following the G-Sec markets. The 5yrs bond yields went up by 7-8 basis points to close at 8.74% while 10yrs benchmark bond yields went up by 9-10 basis to close at 8.91%.

Rupee

The Indian Rupee appreciated last week, as equity market rebounded and globally USD weakened. The Rupee-Dollar traded in a range of 45.06 to 46.12 to close at 45.10 appreciating 1.6% week on week basis.

Fund Manager's Comment

The tight liquidity conditions coupled with the supply pressure of bank CD issuances pushed the market participants away. The yield curve shifted up across the tenor with the shorted tenor bearing the maximum brunt. According to some estimates there have been issuances of more than ₹ 50k Cr of CD issuances in November alone. With mutual fund worried about the tight conditions, this pushed up the yield by more than 70 basis during the month for 3m-12m tenor papers.

In the coming days liquidity would be the most important factor that would be impacting the interest rates. The 3 months prime CD rates are hovering around the psychological 9% levels, something that has not happened since October 2008. The short term levels may stabilize around current levels, as mutual funds may find the papers attractive for their liquid schemes. The 10 yrs benchmark may remain rangebound with positive bias. The likely range for the benchmark would be 8.10% - 8.25%.

Market Indicators as on 3rd December, 2010

	3/12/2010	26/11/2010	% change
INR/USD	45.10	45.85	-1.63
Oil (\$/bbl)	89.19	83.76	6.48
Gold (\$/oz)	1414.07	1363.75	3.69
10 years G-Sec	8.15	7.97	0.18
10 years AAA	8.91	8.81	0.10
NSE Mibor	6.69	6.89	-0.20

Source: Bloomberg

EQUITY MARKETS

After a strong bearish momentum because of the ensuing series of scams, the Indian equity market managed to post positive gains during the week. The BSE sensex ended the week at 19967, a gain of 4.3% and Nifty ended the week at 5993, a weekly gain of 4.2%. CNX mid cap and BSE small cap underperformed the markets as they managed to gain 3.7% and 3.6% respectively.

Among the BSE 200, Shree Renuka gained 19.7% followed by Suzlon (15.1%), Adani Enterprise (15.1%) and Shriram Transport (14.5%). On the losing side, Welspun corp lost 23.1% followed by Amtek Auto (-9.1%), and Videocon Industries (-5.7%)

On the sectoral front, Most of the index ended with positive gains during the week. Realty index gained 7.6%, followed by Bankex (5.9%), Metal (5%), BSE Oil & Gas (4.8%).

India's economy grew more than expected in the quarter through September, boosted by farm output and manufacturing. The annual Gross Domestic Product (GDP) expanded 8.9% in Q2FY11, as against 8.8% in Q1FY11. Private spending rose 9.3% YoY in Q2FY11, as against 7.8% in Q1FY11, although investment grew at 11.1% in Q2FY11, as against 19% in Q1FY11. The economic activities which registered significant growth in Q2FY11 over Q2FY10 are Mining & Quarrying (8%), Manufacturing (9.8%), Construction (8.8%), Trade, Hotels, Transport & Communication (12.1%), Financing, Insurance, Real Estate & Business Services (8.3%), and Community, Social & Personal Services (7.3%). The growth rate in Agriculture, Forestry & Fishing is estimated at 4.4% in this period

The index of six core industries stood at 274.8 in Oct'10 and registered a growth of 7%, as against 3.9% registered in Oct'09. The petroleum refinery production grew (-) 4.8% in Oct'10, as against 7.2% growth in Oct'09. The coal production rose 0.8% in Oct'10, as against 6.8% growth in Oct'09. The electricity generation rose 8.4% in Oct'10, in comparison to 4.4% growth in Oct'09. The cement production grew 16.8% in Oct'10, as against 5.3% in Oct'09. The production of finished (carbon) steel grew 6.2% in Oct'10, as against 2.5% in Oct'09.

India's merchandise exports rose 21.3% to \$18 bn in Oct-10 over the year-ago period, boosting hopes that the \$200-bn target for the current fiscal will be met. Imports during the month grew by 6.8% to \$27.68 bn, leaving a trade deficit of \$9.72 bn. There is improved demand in the key markets of US and EU, besides an increase in exports to Africa and Latin America

India's food and fuel inflation slipped below the double-digit mark in the third week of Nov'10, but remained above the official WPI inflation target zone of 5-6%. The annual inflation in the food articles space stood at 8.6% in the week ended November 20, 2010, as against 10.15% in the previous week, marking the 7th consecutive week of decline. The inflation in the primary articles group stood at 12.72% in the week under review, as against 13.38% in the previous week. The inflation in the fuel & power group stood at 9.99% in the reporting week, as against 10.57% in the previous week.

Taurus Benchmark Indices Movement

Indices	03/12/10	26/11/10	Points change	% change
BSE Sensex	19966.93	19136.61	830.32	4.34%
S&P CNX Nifty	5992.80	5751.95	240.85	4.19%
BSE 100	10488.74	10054.36	434.38	4.32%
BSE 200	2500.73	2395.93	104.80	4.37%
CNX Midcap	9011.25	8689.65	321.60	3.70%
S&P CNX 500 Shariah	1386.81	1333.79	53.02	3.98%

Weekly FII & MF Net Flows (₹. in crs.)

26/11/10 to 3/12/10	Equity	Debt
FII	1168.70	-2235.30
MFs	134.00	3723.10

Source : SEBI site

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