

## DEBT MARKETS

### Global

The US treasury yield hardened on optimism of economic recovery and tracking better than expected economic data like better ISM manufacturing data, higher construction spending, and lesser than expected jobless claim. Rising crude oil prices and expected spur in demand supported rising yield. Bank of England kept the Bank rate at 0.5%. The benchmark 10yrs bond closed at 3.75%. The 2yrs, 5yrs and 30yrs yields closed at 1.20%, 2.71% and 4.53% respectively higher by 10-12 bps than last week.

### Domestic

Overall the G-Sec yield hardened during the week. During the week RBI conducted SDL auction worth Rs 74.70bn and T-bills auction of 85bn. Rupees. In OMO, RBI purchased securities worth Rs 29.58bn Rupees against the notified amount of Rs 60bn. WPI Inflation for the week ended July 25, 2009 was negative 1.58% lower than negative 1.54% last week.

### CALL & CBLO

The Money market rates remained easy during the week on surplus liquidity in the system. The overnight MIBOR rate was steady between 3.27-3.30% during the week. The Inter-bank Call and CBLO range were 3.10 %- 3.30% and 0.25%- 3.30% respectively.

### Government Securities and Treasury Bills

The government bond yield hardened on concern of below average monsoon, tracking US market yields, bank strike, higher SDL and T-bills auction cut-off, higher oil prices and

regular bond auction from RBI. The benchmark 10yrs paper 6.90% GOI 2019 closed at a yield of 7.01% at the opening of the week but touched the high of 7.13% during the week. The yields softened on RBI rejecting the market bids during the auction, giving the cue to the market about RBI un-comfort on rising yields even though the nationwide bank strike also compounded the problem as they did not seem to participate in the auction.

### Corporate Bonds

The corporate bond yields closed higher week-on-week basis tracking G-Sec yields. The 5yrs benchmark bond traded at 8.20% up 5 bps while 10yrs benchmark bond traded at 8.78% level up by 10 bps week-on-week basis.

### Rupee

The rupee appreciated nearly 0.17% against the dollar because of dollar weakening against major currencies, and strong equity market, and rising oil prices. The Rupee started the week at 47.93 against the Dollar while ended at 47.85 against the Dollar by the end of the week.

### Fund Manager's Comment

The monsoon is creating a uncertain interest rate scenario even if the liquidity in the system remains comfortable. The yields traded in the range of around 7.00% to 7.13% on the ten year Government Security and may trade in the same range but may also track the auction cutoffs. We expect that the short term rates upto one year may start to harden from now since the busy and festive season is about to commence.

### Market Indicators as on 7th August, 2009

	7/08/09	31/07/09	% change
INR/USD	47.85	47.93	-0.17%
Inflation	-1.58	-1.54	2.60%
Oil (\$/bbl)	74.40	68.86	8.05%
Gold (\$/oz)	954.50	953.00	0.16%
10 years G-Sec	7.04	6.99	0.72%
10 years AAA	8.78	8.68	1.15%
Call Money	3.30	3.30	0.00%

## EQUITY MARKETS

Indian stock market took a sudden u-turn post lunch on Thursday and the upward momentum lost its rhythm, three consecutive weeks of gain. Before it lost ground Sensex scaled back the land mark of 16,000 by mid- week, level last seen on June 2, 2008. Overall Sensex and Nifty lost over 3.3% during the week. Sensex and Nifty declined by 510 points (-3.26%) and 155 points (-3.34%) to close at 15,160 and 4,481 respectively.

A combination of international liquidity factor and domestic fundamentals were at play for the turn of events. A sudden increase in selling pressure from FIIs was the main reason for the fall. In three days, they sold a net Rs. 21 billion worth of stocks in the cash segment. Proprietary segment also turn net sellers since Thursday, when DIIs stepped their net purchase, but a very large part of the net sales was observed by the public. Even the global trend was similar. There seemed to be some deleveraging by few global hedge funds ahead of anticipated stricter norms that seek to regulate hedge funds globally.

Domestically, as the Q1-FY10 earning results announcement progressed, the over all growth rates in earnings gradually tapered off. A latest study of 2204 companies (excluding

banks, financials and oil PSUs) Q1 earnings revealed YoY top line growth of just 0.6% and bottom line growth of 5.5%. Besides, prospects for a worse monsoon this decade gained further strength as the progress of monsoon in the North and East of the nation was much worse.

Sectors that gained the most in July were the worst to suffer. FMCG (-6.9%), Realty (-5.9%) and Auto (-4.5%) were the sectors that had gained over 20% last month. Banking and Power are the other sectors that lost over 4% this week. Oil & Gas was the only sector to end with nominal gain of 0.8% this week. IT sector lost only 1.1% this week, despite gaining over 20% in July. There was also some pressure on volumes especially during the first half of the week, but it improved as the market came off the near term peak. Apart from the sharp gain previous month, FMCG and Auto were also hit by prospects of a bad monsoon which could have negative impact on rural income levels; despite stepped up stimulus spending by the government. With the Q1 earnings season behind us, the market is expected to have a fresh look at earnings and valuations parameters, under changed outlook for global liquidity flows and prospects of monsoon in India.

### Taurus Benchmark Indices Movement

Indices	07/08/09	31/07/09	Points change	% change
BSE Sensex	15160.24	15670.31	-510.07	-3.26
S&P CNX Nifty	4481.40	4636.45	-155.05	-3.34
BSE 100	7907.49	8176.54	-269.05	-3.29
BSE 200	1849.33	1909.63	-60.30	-3.16
CNX Midcap	5803.00	5950.20	-147.20	-2.47
S&P CNX 500 Shariah	1075.17	1104.92	-29.75	-2.69

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

31/07/09 to 06/08/09	Equity	Debt
FII	2174.90	239.00
Mfs	652.50	516.20

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