DEBT MARKETS

Global

The US market remained range bound during last week on mixed news coming from economy. While the manufacturing data showed positive growth, unemployment touched the high of 9.7%. Housing index and factory output index also showed mixed scenario. The US yield started the week with easing bias on value buying and on some uncertainties on economic recovery. However the strong equity market, and lessened risk aversion pushed the yield higher from the lowest level of 3.32% on 10yrs benchmark bond to 3.44%on the close of the week higher by 2 bps from earlier week. The 2yrs and 30yrs bond closed at 0.93% and 4.27% respectively.

Domestic

The G-Sec yield hardened during the week on rising inflation and growing fear that the accommodative RBI policy may be withdrawn. The inflation for the week ended August 22 was above the market expectation i.e. negative 0.21% against negative 0.95% last week. During the week RBI conducted Govt bond auction worth Rs 120bn, Rs 45bn worth of T-bills. RBI also purchased securities worth Rs 22.31bn

CALL & CBLO

The money market rates remained easy during the week on surplus liquidity in the system. The overnight MIBOR rate was steady between 3.28% during the week. The Inter-bank call & CBLO range were 3.00 %-3.30% & 1.50%-3.29 % respectively.

Government Securities and Treasury Bills

The G-Sec yield hardened during the week on rising inflation and growing fear among the participants that the accommodative RBI policy may be withdrawn and monetary tightening may take place. The yield moved higher on week-on week basis with 10yrs benchmark bond touching 7.47% factoring large bond supply, higher inflation, and expected monetary tightening measure from RBI. The cut-off for Govt bond auction also saw higher yield with devolvement in two of the three auctioned securities. The cut-off for 6.49% GOI 2015, 6.90% 2019 and 8.27% 2027 was 7.45%, 7.50% and 8.19% respectively. The cut-off for 91D and 182D T-Bills was 3.40% and 3.99% higher than the previous cut-off. The week ended with 10yrs benchmark bond closing at 7.45% higher 10 bps from last week.

Corporate Bonds

The corporate bond yields remained flat during the week with bidding interest at higher level. The 5yrs benchmark bond traded at 8.50% while 10yrs benchmark bond traded at 8.85%.

Rupee

The rupee depreciated against the dollar because of month-end demand of dollars from importers and week stock market. It ended at 48.89 against the dollar depreciating 24 paise week on week basis.

Fund Manager's Comment

As we have been mentioning the yields have been north bound for most of the past month. While inflation is being revised in an upward direction it makes us feel that an action from the Central Bank may happen at any time during the coming days. The same is being discounted in the G-Sec market also. We feel that the yield may stay stable for some time during the coming days but it moving further higher cannot be ruled out. We thus maintain a range between 7.35%-7.65% on a 10 yrs Govt bond. The liquidity however would continue to be remaining comfortable.

Market Indicators as on 4th September, 2009

	04/09/09	28/08/09	% change
INR/USD	48.89	48.67	0.45
Inflation	-0.21	-0.95	-77.89
Oil ($/bbl)	66.80	72.29	-7.59
Gold ($/oz)	994.30	955.00	4.12
10 years G-Sec	7.45	7.35	1.36
10 years AAA	8.85	8.85	0.00
Call Money	3.28	3.30	-0.61

EQUITY MARKETS

Indian stock market failed to break out from the range bound band. Every attempt was seen attracting fresh wave of deleverage selling from FIIs. Key Indian stock indices failed to gain ground despite strong domestic buying support. Key indices moved in perfect harmony with Dow futures, unmindful of the local events. For the week Sensex and Nifty declined by 233 points (-1.46%) and 52 points (-1.1%) to close at 15,689 and 4,680 respectively.

Globally, all assets continued move in contrast with the dollar-euro direction. 1.4250/4300 Dollar to a euro seems to be critical to sustain current levels. Any break out of the dollar from this level was bringing large scale selling pressure to the equity markets around the world. Falling Treasury yields added further woes to the problem. However, gold broke from this trend on Wednesday and moved up sharply indicating renewed shift to safety in certain segments, amid uncertainty over future global monetary direction.

Late on Friday Indian stocks too witnessed sharp recovery as the Dow Futures and European stocks gained some strength on the back of stable dollar and raising treasury yields. Auto, Metals, CG, O&G and Realty were the sectors that have gained most on the last day mainly due to short covering in most large cap stocks in these sectors. But for small and mid-cap indices, all other key indices ended the week with a loss of 1% to 1.5%. This week FIIs sold US$ 422 mn in cash. For current month total investment is US$ -367 mn. DII invested US$ 171 mn in cash. For current month their total investment is US$ 167 mn. This was the largest such weekly net selling in recent time. Auto sector was the best this week. This sectoral index gained over 4.5%, amid sustained improved sales figures. Three worst hit were Capital Goods (-2.6%), Power (-2.3%) and Healthcare (-1.8%), a clear indication of position winding up. Reality, FMCG, IT and consume Durables-the sectors that were in focus over the past six weeks-were little changed, indicating nervousness amid uncertainty.

The market will continue to follow global cues and we do not see any dramatic change in the basic factors that would module the global market dynamics. Dollar-Euro exchange rate and near term treasury yields would continue to maintain the inverse relationship with stocks around the world.

Taurus Benchmark Indices Movement

Indices	04/09/09	28/08/09	Points change	% change
BSE Sensex	15689.12	15922.34	-233.22	-1.46
S&P CNX Nifty	4680.40	4732.35	-51.95	-1.09
BSE 100	8231.24	8322.22	-90.98	-1.09
BSE 200	1931.20	1949.00	-17.80	-0.91
CNX Midcap	6117.20	6112.80	4.40	0.07
S&P CNX 500 Shariah	1137.11	1149.37	-12.26	-1.06

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

28/08/09 to 03/09/09	Equity	Debt
FIIs	1472.60	-2274.40
MFs	-153.50	1791.90