

DEBT MARKETS

Global Update

US treasury yield saw the sharp spike last week on the back of supply pressure of treasury papers and better than expected economic numbers posted last week. Rates hardened on Fed announcement of \$72Bn auction, accentuated by unexpected fall of unemployment rate from 9.4% to 9.00% last week. Initial jobless claim declined to 415K from 434K, while personal consumption grew to 4.4% from 2.4%. All these numbers strengthened the speculation of all round economy recovery. The 10 yrs benchmark bond spiked to 3.63% from last week close of 3.32%.

Government Securities and Treasury Bills

Domestic bond market played on the two theme. First was the growing inflation pressure and speculation of RBI coming hard on it again. The inflation for the week posted higher ticks at 17.1% against 15.6% last week while non-food inflation posted 26% from 22.5% last week. The 10 yrs benchmark bond closed at 8.20% from 8.12% last week. RBI also auctioned G-Sec for 10k Crs . The 7.17% 2015, 8.13% 2022 and 8.30% 2040 was set at 8.17%, 8.23% and 8.58% respectively. The major event which may decide the market direction may be Budget and borrowing amount.

Liquidity Call

Liquidity condition comforted with govt. spending and G-Sec redemption. The last week average amount under

LAF was negative 72k Cr. against 109K Cr last week. Overnight rates like MIBOR, and CBLO showed the strain and traded between 7.00% - 6.59% and 6.50% - 6.42 % respectively.

Corporate Bonds

Corporate bond papers showed bearish tone following G-Sec market. The 5Year AAA rated corporate bond yields closed at 9.26% higher from last week while 10 yrs benchmark bond yields remained range bound to close at 9.15%, marginally supported from last week close.

Rupee

The Indian Rupee appreciated against USD amidst overall weakening of US dollar overseas. It traded in a range of 45.9050 to 45.60 to close at 45.60 appreciating 0.33% WoW.

Fund Manager's Comment

The concern on inflation and under recoveries of oil companies, along with continued liquidity exist in the market. Market expects some liquidity on account of government spending and hence some short lived relief rally may be witnessed in 10 yrs segment. Overall the market sits cautiously ahead of Union Budget and next year borrowing size. The money market instruments may see continued upward bias on supply factor while 10yrs benchmark bond may trade between 8.07%-8.22% next week.

Market Indicators as on 4th February, 2011

	4/2/2011	28/1/2011	% change
INR/USD	45.60	45.75	-0.33
Oil (\$/bbl)	89.03	89.34	-0.35
Gold (\$/oz)	1,348.85	1,336.75	0.91
10 years G-Sec	8.20	8.12	0.08
10 years AAA	9.26	9.18	0.08
NSE Mibor	6.59	6.73	-0.14

Source: Bloomberg

EQUITY MARKETS

The Indian equity market continues to remain under pressure during the week ended 4th Feb 2011. The BSE sensex lost 2.11% while nifty ended the week 2.1% loss. On the broader indices, CNX midcap index lost 1.6% while the Small cap index lost 2.5%.

On the sectoral front, BSE metal gained 0.7% followed by BSE Oil & Gas (0.6%), but FMCG lost 6.4% followed by Realty (-3.4%), IT (3.2%) Auto (-3.1%) and Bankex (1.2%).

Among the BSE 200 stocks, Siemens Indian gained 16.6% on the back of news of open offer followed by NALCO (8.1%) and DLF (6.7%). Unitech (-15.6%) Jet Airways (-13.1%), Voltas (-13%) were the major losers.

India's manufacturing sector activity continued to expand in Jan'11. The seasonally adjusted HSBC Purchasing Managers' Index (PMI) rose to 56.8 in Jan'11, as against 56.7 in Dec'10. The latest reading indicated a marked expansion of the Indian manufacturing sector and at a pace that was stronger than the long-run series average. Incoming new orders grew substantially in Jan'11. The increase in overall business supported a substantial rise in output. Despite substantial growth of both new business and output, employment in the manufacturing sector was down slightly in Jan'11.

Food inflation, as measured by the Wholesale Price Index (WPI), rose to 17.05% for the week ended January 22, primarily due to rising prices of vegetables, particularly onions. Compared to 15.6% in the previous week ended January 15, and was at 20.56% during the corresponding period in 2010.

The index of six core industries having a combined weight of 26.7% in the Index of Industrial Production (IIP) with base 1993-94 stood at 278.0 in Dec'10 and registered a growth of 6.6% compared to 6.2% registered in Dec'09. In Apr-Dec'10 period, the six core industries registered a growth of 5.3%, as against 4.7% in Apr-Dec'09 period

The Centre's fiscal deficit narrowed by 44.75% YoY to ₹ 1.71 lakh crore in Q3FY11, as against fiscal deficit to the tune of Rs. 3.1 lakh crore in Q3 FY10, on the back of better-than-expected revenue from the sale of spectrum and robust tax collections. Expenditure by the Central Government rose by 11.21% to Rs. 7.86 lakh crore in Q3FY11, as against ₹7.07 lakh crore in Q3FY10. At ₹1.71 lakh crore, the fiscal deficit in Apr-Dec'10 period amounted to 44.9% of the Budget estimate of ₹3.81 lakh crore for entire FY11.

On the global news front, Economic activity in the US manufacturing sector expanded for the eighteenth consecutive month in Jan'11, according to a report released by the Institute for Supply Management (ISM), with the index of activity in the sector jumping to a six-year high. The ISM said its index of activity in the manufacturing sector rose to 60.8 in Jan'11, as against 58.5 (revised) in Dec'11. With the notable increase in Jan'11, the manufacturing index reached its highest level since coming in at 61.4 in May'04.

Private sector activity in manufacturing as well as services sectors of the Eurozone accelerated at its fastest pace in nine months in Jan'11, according to the final Markit composite Purchasing Managers Index (PMI). The index rose to 57.0 in Jan'11, as against 55.5 in Dec'10. Germany and France continued to lead the Eurozone growth, according to the composite PMI.

Moody's Investors Service has downgraded Egypt's debt rating to "Ba2" from "Ba1" and changed the outlook to "Negative" from "Stable". Moody's said the one-notch downgrade was prompted by the recent significant rise in political event risk and concern that the policy response could undermine Egypt's already weak public finances.

Taurus Benchmark Indices Movement

Indices	04/02/11	28/01/11	Points change	% change
BSE Sensex	18008.15	18395.97	-387.82	-2.11
S&P CNX Nifty	5395.75	5512.15	-116.40	-2.11
BSE 100	9392.88	9582.78	-189.90	-1.98
BSE 200	2227.17	2272.21	-45.04	-1.98
CNX Midcap	7751.30	7880.70	-129.40	-1.64
S&P CNX 500 Shariah	1274.53	1291.00	-16.47	-1.28

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

01/02/2011 - 04/02/2011	Equity	Debt
FII's	-710.50	811.40
MFs	359.60	6652.20

Source : SEBI site

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