

## DEBT MARKETS

### Global Update

Global debt markets continues the bullish journey

The US treasuries rose for the fourth week in a row, as US nonfarm payroll data showed companies cut more jobs than expected (95k cut). The 10 yrs benchmark yield came down by 11 bps to 2.40% and 2 yrs treasury note yield fell by 7 bps to 0.34%. The rise in consumer prices slowed to 0.2% for the month of September.

### Domestic

Necessity to read between the line of improve BOP

The domestic debt market waited for any important trigger, viz. announcement of new benchmark, IIP or Inflation data or trigger from overseas market, which were conspicuous by their absence. The balance of payments figure for Q1FY11 recorded a surplus of USD 3.7 bn against a small surplus of USD 0.1 bn during the same time a year ago. The BOP data for Q1FY11 revealed an enormous current account deficit totalling USD 13.7 bn or 3.7% of GDP driven not only by an expansion in the trade deficit but also because of soft inflows in the invisibles account. Though liquidity remained tight, there was good amount of buying by MFs towards the shorter tenor papers (2-3 months), keeping the levels stable for the segment.

### CALL & CBLO

Remained higher on tighter systemic liquidity

Liquidity condition remained slightly negative with LAF figures showing an average daily borrowing by SCBs of INR. 11k Cr from RBI. Overnight rates like MIBOR, and CBLO too showed the tight liquidity conditions and traded between 5.92% - 6.22% and 4.00% - 6.25% respectively.

### Government Securities and Treasury Bills

A bullish borrowing calendar

The domestic G-Sec market took remained range bound, and the yields went up by 8-10 bps in the 10 yrs segment. On Friday, RBI successfully sold gilts worth INR 110bn as the cut-off which was aligned with the market expectation was higher

than previously auction levels. The cut-off yield for 7.99% 2017, 8.13% 2022 paper was set at 7.92% and 8.08%, up 4bps and 6bps respectively while 8.30% 2040 gilt was sold at 8.45% as against 8.37% in previous auction. All the auctioned papers closed 2-3bps above their cut-off levels for the day. The cut-off of T-bills saw an uptick last week posts the hawkish statement by the deputy governor which elevated the possibility of hike in November policy. The INR 40bn 91 day bill was sold at 6.40% (up by 13bps) and INR 20bn at 6.76% (up by 16bps).

### Corporate Bonds

Did not see much action

Corporate bond yields remained range-bound. The 5yrs bond traded at 8.51% while 10yrs 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 continued its strength against USD following the strength of Indian equity market and robust FII flows pushing the equity markets higher. The Rupee-Dollar traded in a range of 44.10 to 44.78 to close at 44.43 appreciating 0.1% week on week basis.

### Fund Manager's Comment

The market continued directionless for the G-Sec traders. The point to be noticed was the spread contraction between the 10 and 12 yrs papers. The rumours of new benchmark instead of 7.80% 2020 paper kept the selling pressure on the paper. The net LAF borrowing of nearly INR 11k Cr did not deter them from buying the short tenor CDs. The 3-6 mths rates came down, where as the rates remained stable for 6-12 mths tenor papers.

In the coming week, we see pressure easing on short tenor papers (1m-3m) because of MF buying these papers to build the portfolio for the quarter. The issuances of CDs are likely to continue unabated, thereby restricting the yields coming off for 6m-12m segment. The benchmark 10 yrs paper may provide the trading opportunity if it crosses 8.05%. The 10 yrs benchmark paper is likely to trade in a range of 7.90%-8.05%.

Market Indicators as on 8th October, 2010

|                | 8/10/2010 | 1/10/2010 | % change |
|----------------|-----------|-----------|----------|
| INR/USD        | 44.4350   | 44.4800   | -0.10    |
| Oil (\$/bbl)   | 82.66     | 81.58     | 1.32     |
| Gold (\$/oz)   | 1346.74   | 1319.10   | 2.10     |
| 10 years G-Sec | 7.98      | 7.90      | 0.08     |
| 10 years AAA   | 8.70      | 8.68      | 0.02     |
| NSE Mibor      | 5.92      | 6.25      | -0.33    |

Source: Bloomberg

## EQUITY MARKETS

The Indian equity market broke their week on week positive trend during the week as they ended the week with marginally negative. The Sensex lost 0.95% followed by Nifty which lost 0.65%. CNX madcap posted a gain of 0.86% during the week.

On the sectoral front, Health care sector posted gain of 2.41% followed by Consumer durable (1.86%), Oil & Gas (1.68%), Power (1.01%) and Metal (0.79%). On the losing side FMCG sector lost 2.91% followed by IT (-1.14%) and Capital goods (-0.61%).

Among the stocks, Rcom gained approx 7% followed by JP Associate, Hindalco, RIL and CIPL which gained in the range of 6.4%-4.1%. On the losing side, Tata steel lost 6.1% followed by HUL, HDFC Bank, Bharti Airtel, and ITC which posted losses of in the range of 4.5%-3.8%.

India's August exports were \$ 16.64 bn up 22.5% YoY, while imports were \$ 29.68 bn leading to trade deficit of \$ 13.04 bn vs \$ 8.86 bn previous year. Oil imports in August were \$ 7.80 bn up by 12.4% YoY while non oil imports were \$ 21.88 bn up by 41.1% YoY. India's April – August exports are \$ 85.27 bn (28.6% YoY), Imports are \$ 141.89 bn (up 33.1% YoY). Trade deficit for the period is \$ 56.62 bn compared with \$ 40.28 bn a year ago.

Food inflation fell 0.20 percentage points to 16.24 per cent during the week ended September 25, from 16.44 per cent in the previous week, government data showed. Food inflation was driven mainly

by higher prices of pulses, rice and wheat. Data showed that on an annual basis, Cereals prices have risen by 5.26%. While prices of pulses rose by 4.44% on a yearly basis, wheat and rice became costlier by 6.49% and 3.86%, respectively.

The International Monetary Fund raised its India growth forecast for 2010, citing robust industrial output and strong macro-economic indicators, but warned that global economic recovery remained fragile. According to IMF, Indian economy will expand 9.7% this year, up from the July forecast of 9.4%. This has taken as positive surprise by the market and should support the FII flow in the Indian equity markets.

On the global news front, The Bank of Japan cut interest rates from 0.1% to a range between zero and 0.1% and announced that it might establish a fund to buy \$60 billion of assets, including government bonds and corporate bonds. The central bank had been under political pressure to intervene to boost growth. The yen fell briefly against the dollar on the news but soon bounced back.

Greece presented an ambitious draft budget for 2011. The government plans further expenditure cuts and an increase in revenue to close the fiscal deficit to 7% of the country's GDP, lower than the 7.6% target set in agreement with the IMF, the European Union and the European Central Bank, which are funding Greece's \$151 bn bail-out. The draft budget estimates the Greek economy will contract by 4% in 2010 and by 2.6% in 2011.

### Taurus Benchmark Indices Movement

| Indices             | 08/10/10 | 01/10/10 | Points change | % change |
|---------------------|----------|----------|---------------|----------|
| BSE Sensex          | 20250.26 | 20445.04 | -194.78       | -0.95%   |
| S&P CNX Nifty       | 6103.45  | 6143.40  | -39.95        | -0.65%   |
| BSE 100             | 10802.03 | 10837.96 | -35.93        | -0.33%   |
| BSE 200             | 2578.42  | 2579.38  | -0.96         | -0.04%   |
| CNX Midcap          | 9403.85  | 9323.55  | 80.30         | 0.86%    |
| S&P CNX 500 Shariah | 1428.37  | 1424.13  | 4.24          | 0.30%    |

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

| 01/10/10 to 07/10/10 | Equity   | Debt     |
|----------------------|----------|----------|
| FII                  | 11894.50 | 1018.90  |
| Mf                   | -1758.90 | 14195.80 |

Source : SEBI site

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