

DEBT MARKETS

Global Update

Better than expected payroll last week initiated the upward push in US treasury yield. Also higher than expected import data from china, Canada raising the policy rate by 25 bps, fresh bout of nervousness in Euro areas after report of 10 German banks may require capital infusion, and higher crude prices (\$76.45/barrel) week on week further gave fillip to selling pressure in US bond market. The key data for next week are retail sales report, Industrial production index, consumer and producer price inflation and consumer confidence index.

Domestic

While the US bond yield inched higher, the domestic market yield remained marginally soft on account of market factoring in policy action by RBI and expectation of softer IIP and moderating inflation. However the IIP data and inflation data posted were above the market expectation. The 10yrs benchmark bond traded last at 7.91% against the earlier week 7.97% on statement from finance ministry over the continuation of its benchmark status. The bond market was also moderately bullish on account of comfortable liquidity and better monsoon report easing expectation of inflationary pressure.

CALL & CBLO

Liquidity condition continued to remain easy in the first half of the last week but tightened on second half. The LAF showed a positive average of Rs. 11K Cr. Overnight rates like MIBOR, and CBLO too showed fragile liquidity condition and traded between 4.65%-5.00% and 4.00%-4.50% respectively.

Government Securities and Treasury Bills

The G-sec market remained positive on expectation of moderate inflation and IIP data. Also markets having discounted the RBI action in mid policy meet showed some buying bias. The 10 yrs benchmark bond closed at 7.91% against 7.97%

last week. However the IIP and inflation data printed were well above the market expectation. The Primary Articles Inflation for the week ended 28th Aug was noted at 15.40% (15.19%). The food articles inflation increased to 11.47%(10.86%). The non-food inflation noted 20.43%(21.29%) The Fuel, Power, Light & Lubricants was noted at 12.71% same as previous week. The IIP data recorded 13.8% against the expectation of 7.8%. RBI conducted the G-Sec auction of 7.17% GOI 2015, 8.13% GOI 2022, and 8.26% GOI 2027. The cut-off came were in line with expectation at 7.68%,8.01%,8.34% respectively. T-Bills auction of 91days and 364 days saw the cut-offs of 6.03% and 6.48% respectively.

Corporate Bonds

Corporate bond yields remained range-bound. The 5 yrs bond traded at 8.45% while 10 yrs benchmark Bond traded around 8.74% nearly at same level as last week.

Rupee

The Indian Rupee appreciated against USD week on week following the strength of Indian equity market and robust FII flows. The Rupee-Dollar traded in a range of 46.54 to 46.70 to close at 46.47 appreciating 0.35% week on week basis.

Fund Manager's Comment

With bulk of bank CD maturing this month and it is expected that bank would prefer rollover of the same, the continuation of primary issuance in 3-6 months segments may be seen. This may, along with advance tax outflow, reporting on Friday 24th of this month may put pressure on liquidity. Also mid term policy meet and uncertainties towards it may push the short term yield higher.

As far as 10 yrs benchmark is concerned, the week may trade in a narrow range of 7.95%-8.06%.

Market Indicators as on 10th September, 2010

	09/09/2010	03/09/2010	% change
INR/USD	46.4785	46.6400	-0.35
Oil (\$/bbl)	76.45	74.6	2.48
Gold (\$/oz)	1246.25	1246.75	-0.04
10 years G-Sec	7.89	7.96	-0.07
10 years AAA	8.74	8.78	-0.05
NSE Mibor	5.00	4.60	0.40

Source: Bloomberg

EQUITY MARKETS

Indian equity markets have reported strong gains for the trading week ended on 9th September 2010. The BSE Sensex has posted gain of 3.17% while the Nifty ended the week with 2.93% gain. BSE Mid cap underperformed the market as it managed to post gain of 2.44% while BSE small cap index managed to outperform the market and posted a weekly gain of 3.40%.

On the Sectoral front, Metal index was the highest gainer with 5.1% on the back of price increase as well as positive cues from China. Bankex posted 4.1% followed by IT (3.7%), Capital Goods (2.5%) and BSE Oil & Gas (1.9%).

Among the index stocks, Tata steel gained 9.9% followed by ACC, SBI, Hindalco and JP Associate as they posted gain in the range of 9.7% - 5.7%. On the losing side, Reliance Infra lost 2% followed by ITC, Hero Honda, Cipla and HDFC.

IIP for July came to 13.8%. This is highest in two months and exceeded the market expectation of 7.8% on the back of strong growth in manufacturing segment – Capital Goods. Manufacturing clocked the strongest growth at 15% in July, after a subdued 5.8 per cent in the previous month. Mining also registered a strong growth of 9.7%, up from 8.5%. Growth in electricity generation stood at 3.7%, marginally up from 3.5% in June 2010, but lower than the 4.2% in July 2009.

Food inflation rose to 11.47% for the week ended August 28 on the back of rising price of perishable items that become particularly

vulnerable in the rainy season. On an annual basis, cereals grew 5.07% more expensive in the week ended August 28. Within this group, price of pulses soared by 13.44%, while rates for rice and wheat increased by 4.74% and 7.04% respectively. Among other food items, milk soared by 17.6% during the week compared to the same period last year, while fruits became 10.34% dearer. The increase in inflation has rose a fear of rate hike by RBI which is expected to come with its mid term policy review on 16th September 2010.

Monsoon continues to fare well for the country. Good weekly rainfall leads to cumulative rains from 1 June – 8 September to above normal 1% from 1% below normal last week. For the week ended 8 Sep 2010, monsoon was above normal by 26%.

President Barack Obama said the country can't afford to extend tax cuts for the wealthiest Americans. Obama said in a speech in Ohio that he realized that the recovery has been "painfully slow." As a remedy he urged Congress to enact measures to businesses more tax breaks, keep tax cuts for middle-income Americans and let rates rise for the richest taxpayers. And proposed a six-year plan to rebuild U.S. infrastructure with an initial \$50 bn investment. The jobless rate ticked up in August, from 9.5% to 9.6%. The upward shift doesn't necessarily signal deterioration. Household employment rose by 290,000 for the month, but that was not enough to compensate for the 550,000 worker increase in the size of the labour force.

Taurus Benchmark Indices Movement

Indices	09/09/10	03/09/10	Points change	% change
BSE Sensex	18799.66	18221.43	578.23	3.17%
S&P CNX Nifty	5640.05	5479.40	160.65	2.93%
BSE 100	10052.62	9784.41	268.21	2.74%
BSE 200	2409.09	2345.91	63.18	2.69%
CNX Midcap	9085.25	8923.35	161.90	1.81%
S&P CNX 500 Shariah	1344.47	1309.03	35.44	2.71%

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

03/09/10 to 08/09/10	Equity	Debt
FIs	1875.00	1940.00
MFs	345.80	3134.70

Source : SEBI site

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