

DEBT MARKETS

Global

The US market remained volatile on concern for US treasury auction and mixed outlook of economy. While the Fed saw the economy stabilising, poor consumer demand and loan demand was also noted. The week started with yields hardening on concern for over supply. However the good response in auction led to rally pushing yields down. The 10yrs US treasury touched the week's highest level of 3.48%, but good response during auction (3yrs, 10yrs and 30yrs securities) led to 10yrs bond rallying to the close of 3.36%. The 2yrs, 5yrs and 30yrs yields closed at 0.88%, 2.28% and 4.20% respectively.

Domestic

The domestic market also trended the US market and remained volatile. Inflation concern, expectation of monetary tightening, comments from RBI governor, led to sell-off in bond market, while better than expected cut-off during auction, and news of removing cap from HTM portfolio of banks, and slightly poor IIP data than expected led to broad-based rally in bond market. The inflation for the week ended August 29, 2009 was negative 0.12% higher than 0.21% noted last week. During the week RBI conducted G-Sec auction worth Rs.110bn, while purchased bond worth Rs.43bn.

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%-3.30% during the week. The Inter-bank call and CBLO range were 3.25%-3.30% and 1.75%-3.25% respectively.

Government Securities and Treasury Bills

The G-Sec market saw volatility last week with 10yrs benchmark touched the week's highest level of 7.45% but

closed at 7.36% at the end of the week. The concern for rising inflation, supply of govt securities and withdrawal of accommodative policy, led to sell-off in bond market. While, better than expected cut-offs and news of removal of cap from HTM portfolio led to value buying by the participants. The cut-off for 7.40% GOI 2012, 6.35% GOI 2020, 8.28% GOI 2032 were 6.83%, 7.84% and, 8.28% respectively, better than market expectation. The cut-off for 91 days T-bill was 3.40% and 364 days T-bill was 4.34%.

Corporate Bonds

The corporate bond yields closed higher during the week tracking G-Sec market. The 5yrs benchmark bond traded at 8.56% while 10yrs benchmark bond traded at 8.90%.

Rupee

The rupee appreciated against the dollar due to strong stock market, portfolio inflows and continuing weakness in US dollar in overseas. The Rupee ended at 48.49 against the dollar, appreciating week on week basis.

Fund Manager's Comment

The markets would react with an expectation that the transfer of securities under HTM is being considered may this may make the yields move slightly downward. However the 10 yrs may not go below the 7.25% level. Inflation would remain a threat and thus the yields moving higher on slight negative news cannot be ruled out. On the whole it looks to be news driven market. As far as the liquidity goes it would remain comfortable though the tax outflows period is coming. The corporate bonds are also expected to be range bound.

Market Indicators as on 11th September, 2009

	11/09/09	04/09/09	% change
INR/USD	48.49	48.89	-0.82
Inflation	-0.12	-0.21	-42.86
Oil (\$/bbl)	69.91	66.80	-4.66
Gold (\$/oz)	1006.40	994.30	1.22
10 years G-Sec	7.37	7.45	-1.07
10 years AAA	8.90	8.85	0.56
Call Money	3.28	3.28	0.00

EQUITY MARKETS

Indian stocks kept pace with the global cues and key indices gained over 3% this week to close at their best levels for the current year. The market had doubled in six months, since the bottom of March 9, and it was the fastest ever 100% gain for key Indian indices. The previous best six monthly gains were around 45%, some time in October 1999. For the week Sensex and Nifty went up by 575 points (3.67%) and 149 points (3.19%) to close at 16,264 and 4,830 respectively. Sensex closing the week at 16,264 was the best for the current year and it was the best close since May 30, 2008. Thus the market had recovered back to the pre-Lehman fiasco trading range.

Mid and small cap stocks substantially lagged behind. When Sensex posted a gain of 3.7% this week, the BSE Small Cap Index gained only 1.6%. Metal, Bank and Oil & Gas were the sectors that had posted the maximum gain of 7.7%, 6.8% and 4.6% respectively. FMCG, Realty and Auto sectors went against the trend, out of fatigue and posted negative return this week.

This week, reversal of FII fund flow back in to India was the key source of strength. RIL was in forefront this week and it

accounted for over two-third of the gains in key indices during the first two days of the week. This week the focus was on large cap and the key driver was FII net inflows. For the week FIIs invested US\$ 559 mn in cash. For the current month total investment was US\$ 192 mn.

Early this week, global markets received a strong positive signal from the weekend G-20 meet that there was unanimity among all major countries in ensuring enough liquidity in the system. This prospect for enhanced dollar liquidity went against the dollar and in favour of stocks. Dollar's weakness, particularly against the euro was at the core of global market strength and the same was reflected in India too. The Dollar-Euro hit the year's low of 1.46 and remained there to keep the positive perception alive. During these six months since March 9 the euro gained over 17% against the dollar to 1.46 levels from 1.25. The market will continue to follow global cues and we do not see any dramatic change in the basic factors that would mould 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	11/09/09	04/09/09	Points change	% change
BSE Sensex	16264.30	15689.12	575.18	3.67
S&P CNX Nifty	4829.55	4680.40	149.15	3.19
BSE 100	8472.83	8231.24	241.59	2.93
BSE 200	1984.48	1931.20	53.28	2.76
CNX Midcap	6230.05	6117.20	112.85	1.81
S&P CNX 500 Shariah	1161.55	1137.11	24.44	2.15

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

04/09/09 to 10/09/09	Equity	Debt
FIIs	2474.00	1704.30
MFs	-190.80	4812.70

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