

## DEBT MARKETS

### GLOBAL UPDATE

US treasuries rose last week, mainly on account of the Libyan uncertainty continues and Saudi Arabia had to use police force against the protestors demanding democracy. The treasury papers also rose because of higher than expected reporting of the Non-farm payrolls and Moody's Investor Services cut the credit rating for Spain. On Friday, though, some sell off was seen in the treasuries on speculation that insurance companies may need to sell bonds to meet the claims due to earthquake in Japan. The 10 yrs benchmark note's yield fell by 9 basis points to 3.40%, where as the 30 yrs note traded at 3.55%, 5 basis lower than previous week.

### GOVERNMENT SECURITIES AND TREASURY BILLS

The G-Sec market remained range bound as traders await the mid term monetary policy review on 17th March. The record level of crude oil price put pressure on the G-Sec prices but was neutralized due to announcement by SEBI of auction for allocation on unutilized FII limits. The 10 yrs benchmark was traded in small quantum only as market awaits the new benchmark to be issued by RBI in coming weeks. With better liquidity in the system the cut-off yield for T-bills too was aggressive. RBI sold INR 50 bn 91 day T-bill at 7.1443 (bid to cover ratio of 2.18, same level as previous week) and INR 30 bn 364 day bill at 7.58% (bid to cover ratio of 2.18, 9 basis points lower than last issuance).

### LIQUIDITY CALL

Liquidity conditions turned comparatively easy than last week. The average amount under LAF was negative INR 55k Cr. against INR 66k Cr last week. Overnight rates like MIBOR, and CBLO traded between 6.86% -6.92% and 2.00% - 6.80% respectively.

### CORPORATE BONDS

Corporate bond yield curve remained inverted with 5 yrs bonds trading at higher yield compared to 10 yrs papers. The yields came off 2-3 basis points across the curve following the G-Sec counterparts. The 5 yrs AAA rated corporate bond yields closed at 9.17% while 10yrs benchmark bond yields remained range bound to close at 9.15%.

### RUPEE

The Indian Rupee depreciated against USD amidst global strength of dollar against major currencies and weak Indian equity markets. It traded in a narrow range of 44.97 to 45.30 to close at 45.24 appreciating 0.57% WoW.

### FUND MANAGER COMMENTS

The money market was full of action, very much in contrast to the G-Sec counterpart. The banks issued primary CDs of a whopping INR 60k last week. But the rejuvenated demand from the MFs not only absorbed the same but brought down the yield by 30-35 basis points in the 3m-12m segment yield.

This week the fixed income traders would keep a watchful eye on the mid-term monetary policy. We expect RBI to continue its gradual increase in policy rates (25 basis hike in both Repo and Reverse Repo) without going for any action in CRR front. Short term rates are likely to stabilize after the current rally, mainly on supply pressure and the likely outflow for advance taxes. The 10 yrs benchmark G-Sec is likely to trade in a range of 7.90%-8.05% in this week.

Market Indicators as on 11th March, 2011

	11/03/2011	4/03/2011	% change
INR/USD	45.24	44.99	0.57
Oil (\$/bbl)	101.16	104.42	-3.12
Gold (\$/oz)	1,417.45	1,430.90	-0.94
10 years G-Sec	7.95	7.95	0.00
10 years AAA	9.14	9.16	-0.02
NSE Mibor	6.86	6.95	-0.09

Source: Bloomberg

## EQUITY MARKETS

The Indian equity market continued to post negative return for the week. The BSE sensx and Nifty both lost 1.7% amidst the growing concern on the MENA unrest and its impact on the crude and thus, macro environment.

On the sectoral front, BSE realty posted positive gain of 1.3% followed by BSE Oil&Gas 0.7%. Rest all of the sector has posted negative growth. Capital goods lost 3% followed by Metal (-2.9%), Bankex (-2%) and BSE power (-1.6%).

Among the BSE 200 stocks, Mcloed russel gained 16% followed by Apollo Tyres (12.1%), Tata Global Beverages (11.6%). On the losing side, Educomp lost 10.9% followed by India Infoline (-10.2%) and Glenmark Pharma (-9.8%).

A massive quake hit the northeast coast of Japan, injuring many and triggering major fires. The US Geological Survey has pegged the magnitude of the quake at 8.9 on the Richter scale, which makes this the 5th biggest earthquake in history, ahead of the February 2010 quake in Chile. The Japan MET Agency warned that aftershocks of a possible magnitude of 7 and above on the Richter scale could happen in a month. A major oil refinery is on fire as well. The country has shut down all its ports, airports and nuclear installations.

India's merchandise exports maintained the strong momentum of the past few months in Feb'11 as well, bolstering optimism that the revised target for FY11 will be met comfortably. Exports provisionally rose by an annual rate of 49.8% to US\$23.6 bn, while imports increased 21.2% to US\$31.7 bn in Feb'11 - resulting in trade deficit to the tune of US\$8.1 bn in Feb'11.

India's industrial production slowed to 3.7% in Jan'11, as against 2.5% (upwardly revised from 1.6%) expansion in Dec'10 & 16.8% expansion in Jan'10. In Jan'11, manufacturing growth fell to 3.3% from 17.9% in Jan'10. The capital goods sector

contracted 18.6% in Jan'11, as against growth of 57.9% in Jan'10. The production in the consumer non-durables segment grew by 6.9% in Jan'11, as against 7% contraction in Jan'10. Mining growth also fell to 1.6% in Jan'11, as against 15.3% in Jan'10. Electricity generation rose by 10.5% in Jan'11, as against 5.6% growth in Jan'10. On the whole, 14 out of 17 industry groups achieved positive growth in Jan'11. Industrial output growth stood at 8.3% in Apr'10-Jan'11 period, as against 9.5% YoY expansion in Apr'09-Jan'10 period

India's net direct tax collections grew 20.75% YoY to ₹ 3,361.77 bn in Apr'10-Feb'11 period, as against ₹ 2,784.11 bn Apr'09-Feb'10 period. The collections of Corporate Income Tax rose 24.01% YoY to ₹2,236.12 bn in Apr'10-Feb'11 period, as against ₹1,803.18 bn in Apr'09-Feb'10 period. The collection of Personal Income Tax (including STT, and residual FBT / BCTT) increased 14.76% YoY to ₹1,121.14 bn in Apr'10-Feb'11 period, as against ₹ 976.92 bn in Apr'09-Feb'10 period.

On the global news front, Moody's Investors Service has downgraded Greece's government bond ratings to "B1" from "Ba1", while also assigning a negative outlook to the rating. Moody's said that the fiscal consolidation measures and structural reforms that are needed to stabilize the country's debt metrics remain very ambitious and are subject to significant implementation risks, despite the progress that has been made to date. Moody's has also downgraded Spain's sovereign debt rating by one notch besides lowering the outlook to negative. Spain's rating was downgraded to "Aa2" from "Aa1" by Moody's. The rating cut concludes the review Moody's undertook on December 15. Moody's said that the cost of shoring up Spain's banking sector would be more than the government expects, and would in turn lead to a further increase in the public-debt ratio.

### Taurus Benchmark Indices Movement

Indices	11/03/11	04/03/11	Points change	% change
BSE Sensex	18174.09	18486.45	-312.36	-1.69
S&P CNX Nifty	5445.45	5538.75	-93.30	-1.68
BSE 100	9458.28	9599.96	-141.68	-1.48
BSE 200	2234.96	2266.33	-31.37	-1.38
CNX Midcap	7605.60	7654.20	-48.60	-0.63
S&P CNX 500 Shariah	1263.55	1275.54	-11.99	-0.94

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

04/03/2011-10/03/2011	Equity	Debt
FII's	1483.20	1173.40
MFs	-64.00	15954.60

Source : SEBI site

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