

DEBT MARKETS

GLOBAL UPDATE

US treasuries rose last week, mainly on account of the Japan's nuclear crisis and Libyan political turmoil encouraged demand for US treasury papers. The yield of 2 yrs note fell by 6 basis points to 0.59%, where as 10 yrs paper's yield fell by 14 basis point to 3.27%. The uncertainties in the global markets caused USD weakness in the currency markets. The crude oil hovered around USD 100 per barrel for most of the week.

GOVERNMENT SECURITIES AND TREASURY BILLS

The G-Sec market remained range bound as traders remained cautious before the borrowing calendar for first half of FY12. Monetary policy was on expected lines with 25 basis hike in Repo and Reverse repo. With strained liquidity in the system the cut-off yield for T-bills too was 8 basis higher compared to previous week. RBI sold INR 50 bn 91 days T-bill at 7.22 and INR 30 bn 182 days bill at 7.47% (bid to cover ratio of 5.01, 4 basis points lower than last issuance).

LIQUIDITY CALL

Liquidity conditions were tight last week as around INR 50k Cr flew out of the system on account of the advance tax. The average amount under LAF was negative INR 126k Cr. against INR 55k Cr last week. Overnight rates like MIBOR, and CBLO traded between 6.90% -7.53% and 2.00% - 7.10% 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 1-2 basis points across the curve. The 5 yrs AAA rated corporate bond yields closed at 9.2350% while 10yrs benchmark bond yields remained range bound to close at 9.1350%.

RUPEE

The Indian Rupee remained rangebound due to lack of any fresh trigger in the domestic and global markets. It traded in a narrow range of 45.00 to 45.38 to close at 45.12 appreciating 0.27% WoW.

FUND MANAGER COMMENTS

The money market turned bearish expectedly after the outflow due to advance taxes. The supply pressure from banks was not matched by MFs putting upward pressure on yields, that went up by 10-15 basis points across the 3m-12m segment. The G-Sec market was comparatively muted, after RBI increased the benchmark rates on expected lines.

This week the money market traders are likely to remain on sidelines as Mutual funds prepare for the quarter end outflows from various investors. The likely range for 3m prime CD would be 9.90 - 10.10 in the coming week. 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 18th March, 2011

| | 18/03/2011 | 11/03/2011 | % change |
|----------------|------------|------------|----------|
| INR/USD | 45.12 | 45.24 | -0.27 |
| Oil (\$/bbl) | 101.07 | 101.16 | -0.09 |
| Gold (\$/oz) | 1,418.90 | 1,417.45 | 0.10 |
| 10 years G-Sec | 7.99 | 7.95 | 0.04 |
| 10 years AAA | 9.14 | 9.14 | -0.01 |
| NSE Mibor | 7.53 | 6.86 | 0.67 |

Source: Bloomberg

EQUITY MARKETS

The Indian equity market continued to trade in the negative zone for the week. The BSE sensex lost 1.6% while the NSE nifty lost 1.3%. BSE small cap index lost 1.29% while the BSE mid cap index lost 0.3% outperforming the benchmark indices.

The BSE auto index was the major loser during the week declining by 3.2%, as against the 1.6% fall in the Sensex. Concerns over disruption in supply of auto parts from Japan following the natural disaster there, rising crude oil prices and an increase in key policy rates to reign in inflation were the major headwinds that affected the sector during the week. Maruti Suzuki, Cummins India, Exide Industries, Hero Honda and Mahindra and Mahindra were the major losers among auto stocks, declining by 7.5%, 4.9%, 4.4%, 3.8% and 3.5%, respectively. BSE IT too lost 2.4% while Bankex and PSU closed almost on flat level.

India's annual inflation in food drifted lower in the first week of March, staying below the much dreaded double digit mark for the second consecutive week, data released by the Government showed. But, inflation in the fuel group spiked due to rising coal prices. India's food inflation stood at 9.42% in the week ended March 5 as against 9.52% in the previous week, the Commerce & Industry Ministry said in a statement.

Industrial growth continued to be sluggish, improving only marginally to 3.7% in January against 2.5% in the previous month of the current financial year. But, this should not lead to the conclusion that industrial growth is collapsing as

economists say that other pointers to the economy like exports, non-oil imports and corporate results indicate healthy industrial activities. The data on IIP showed that in the broad category, except for electricity generation, both manufacturing and mining performed dismally. While electricity generation grew 10.5% compared to 5.6% a year ago, manufacturing saw growth crashing 3.3% compared to 17.9% and mining just 1.6% against 15.3%. Till January this financial year, industry grew 8.3% against 9.5% a year ago. This, however, will enable the economy to grow 8.6% this financial year, as calculated by advance estimates, since industrial growth was taken to be 8.15% for the entire 2010-11.

In its policy meet this week, the RBI raised policy rates by 25 bps on 17 March 2011. Since 1 Jan 2010, RBI has effectively raised CRR by as much as 100 bps, Repo rate by 200 bps and Reverse Repo rate by 250 bps. RBI has revised its March 2011 inflation target to around 8.0% from 7.0%. The policy documents continue to highlight the risk of inflation as well as crude oil on the growth. RBI maintained that it will continue to pursue its anti inflationary stance.

On the global news front, Japan continues to face the risk of radiation from the troubled nuclear power plant. The stabilization process still continues in hostile condition. The commodity market cooled off a bit on the expectation of lower demand from the Japan economy.

Taurus Benchmark Indices Movement

| Indices | 18/03/11 | 11/03/11 | Points change | % change |
|---------------------|----------|----------|---------------|----------|
| BSE Sensex | 17878.81 | 18174.09 | -295.28 | -1.62 |
| S&P CNX Nifty | 5373.70 | 5445.45 | -71.75 | -1.32 |
| BSE 100 | 9344.45 | 9458.28 | -113.83 | -1.20 |
| BSE 200 | 2209.71 | 2234.96 | -25.25 | -1.13 |
| CNX Midcap | 7592.25 | 7605.60 | -13.35 | -0.18 |
| S&P CNX 500 Shariah | 1248.86 | 1263.55 | -14.69 | -1.16 |

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

| 11/03/2011-17/03/2011 | Equity | Debt |
|-----------------------|--------|---------|
| FII's | 348.60 | 2509.10 |
| MFs | 166.50 | 8270.40 |

Source : SEBI site

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