

## DEBT MARKETS

### Global

The US treasury yield remained flat during the week in absence of any trigger and mixed data coming from US economy. The US jobless claims rose to 5,76,000 in the week ended August 15 from a revised 5,61,000 the week before. The housing data was in line with market expectation and manufacturing index came better than the market expectation. The 10yrs US bond started the week at 3.55% and closed also at 3.55%, flat week-on-week.

### Domestic

The G-Sec yield hardened during the week on the backdrop of auction, higher auction cut-off and devolvement of securities. Higher inflation data, concern for deficient rain and rising crude prices aided rising yield. During the week RBI conducted auction of 3 securities worth Rs 120 bn and Rs. 65 bn of T-Bills. In OMO, RBI purchased securities worth Rs 54.11 bn against the notified amount of Rs 60 bn cr. The inflation based on Wholesale Price Index for week ended August 8, 2009 was negative 1.53%, higher than negative 1.74% noted previous week.

### CALL & CBLO

The Money market rates remained easy during the week on surplus liquidity in the system. The overnight MIBOR rate was steady between 3.27-3.30% during the week. The Inter-bank Call & CBLO range were 3.05%-3.35% & 2.30%- 3.30% respectively.

### Government Securities and Treasury Bills

The G-Sec yield hardened because of higher auction cut off, partial devolvement of auction, higher inflation data and hardening crude price. The G-Sec auction worth Rs 120 bn saw devolvement in two of the three securities. The cut off

set for 6.90% GOI was 7.30% while for 8.24% 2027 it was 8.10% higher than the market expectation. There was the partial devolvement in 6.49% 2015 and 6.90% 2019 GOI securities. The 10yrs benchmark bond started the week at 7.08% but closed at 7.31% on week's end.

### Corporate Bonds

The corporate bond yields closed higher week-on-week basis tracking G-Sec yields. The 5yrs benchmark bond traded at 8.35% up 10 bps while 10yrs benchmark bond traded at 8.84% up by 9 bps week-on-week basis.

### Rupee

The rupee depreciated against the dollar because of weak equity market, rising oil prices. The Rupee ended at 48.65 against the dollar, weaker by 40 paise week on week.

### Fund Manager's Comment

The hardening of yields in the Government Securities has made the income funds an attractive buy in the long term scenario. While we expect further hardening of yields, wherein the 10 yrs Government Security may move in the range of 7.30-7.60% due to various factors such as drought, inflation and oil prices and this we feel may affect the borrowing programme of the Government. It is felt that we may see some positives for the downward movement in the yields over a long term perspective but this may happen only from the end of the current quarter. The positives could be in the form of higher buyback amounts by RBI and lower borrowing since there is surplus presently in the Government account kitty. The liquidity may however remain comfortable.

### Market Indicators as on 21st August, 2009

	21/08/09	14/08/09	% change
INR/USD	48.65	48.25	0.83
Inflation	-1.53	-1.74	-12.07
Oil (\$/bbl)	73.89	73.27	9.45
Gold (\$/oz)	953.70	954.50	-0.08
10 years G-Sec	7.31	7.07	3.39
10 years AAA	8.84	8.75	1.03
Call Money	3.30	3.30	0.00

## EQUITY MARKETS

Indian stocks continued to remain volatile and moved in line with the global trend. Impact of domestic events was momentary and could not sustain for long. Thursday and Friday saw Indian market providing the turning point to global trend and they gained smartly against their Asian peers. But those gains were not going enough to wipe out the sharp loss registered on the first day of the week. Key indices ended with a net loss of over 1% this week. Sensex breached the 15,000 barrier decisively on Monday to close at 14,785 but recovered to end the week comfortably at 15,240. Nifty traced back the psychological barrier of 4500. For the week Sensex and Nifty declined by 171 points (-1.11%) and 51 points (-1.12%) to close at 15,241 and 4,529 respectively.

The negative impact of global trend was nominal in small cap stocks, as there was some value buying in this segment. A detailed analysis of Q1 results revealed that this segment improved profit margin sharply on the back of low raw material costs, cut in wage expenditure and interest outflow. BSE Small Cap is the only key index to close positive this week (a gain of 0.8%). Leading Capital Goods stocks were in improved demand and this sectoral index gained over 1%. Metal (-3.9%) and Oil & Gas (-3.7%) were the worst hit sectors while Realty and Auto sectors regained sharply during the last two days to end with much lower losses.

Although food inflation continued to claim up, overall inflation measured in terms of WPI continued to remain negative due to base effect. The most worrying domestic factor was bad monsoon. Cumulative rain fall was 26% below normal and sowing was completed only in 77% of the cultivable land. To compensate farmers, the government increased support price for rice and pulses (most affected crops). With almost 50% of the district in drought affected list, the budget deficit is likely to go up further as government will be forced to spend more on drought relief.

FII continued to remain net sellers, despite some new long term buyers building new portfolio and a last minute concerted buying on Friday. FII net sold over Rs. 25 bn in cash market during the first four days and bought over Rs. 5 billion on the last day. FII went on a late buying spree on Friday as the dollar turned weak and breached 1.43 levels against the euro. DII invested US\$ 327 mn in cash. For current month their total investment is US\$ 847 mn. Globally some leading economic and fundamental indicators were seen turning positive while employment outlook continued to remain bleak. But the stock markets around the world were moving in line with the dollar-euro than the event specific push or pull from fundamentals. The market continued to demand a weak dollar to keep stocks positive and this trend is expected to continue in the near term.

### Taurus Benchmark Indices Movement

Indices	21/08/09	14/08/09	Points change	% change
BSE Sensex	15240.83	15411.63	-170.80	-1.11
S&P CNX Nifty	4528.80	4580.05	-51.25	-1.12
BSE 100	7964.14	8069.14	-105.00	-1.30
BSE 200	1865.38	1889.04	-23.66	-1.25
CNX Midcap	5838.90	5940.80	-101.90	-1.71
S&P CNX 500 Shariah	1087.5	1101.81	-14.31	-1.30

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

14/08/09 to 20/08/09	Equity	Debt
FII	126.60	365.70
MFs	-141.30	3912.10

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