

DEBT MARKETS

Global

Positive economy news from US market encouraged value buying of US treasuries hence the US treasuries yield closed lower than the previous week. Increase in consumer spending, fall in jobless claim, better manufacturing index, higher home sales data and lesser contraction in GDP, kept the market buoyant for value buying. The 10yrs US treasury closed at 3.42% lower than the last week's close of 3.55%. The 2yrs, 5yrs and 30yrs yields closed at 1.04%, 2.47% & 4.22% respectively.

Domestic

The G-Sec yield hardened during the week on the backdrop higher than expected auction cut-off, concern on supply of G-Sec paper in the next month of September, and higher inflation figure for the week. During the week RBI conducted auction of 3 securities worth Rs. 120bn, Rs. 60bn of T-bills and Rs. 45bn of State Development Loan. In OMO, RBI purchased securities worth Rs. 26.65bn against the notified amount of Rs. 60bn cr. The inflation based on Wholesale Price Index for week ended August 15, 2009 was negative 0.95%, higher than negative 1.53% 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 3.27-3.29% during the week. The Inter-bank Call and CBLO range were 3.00 %-3.30% & 1%-4% respectively.

Government Securities and Treasury Bills

The G-Sec yield hardened because of higher than expected auction cut off, devolvement of 2 securities in auction, higher inflation data(specially for primary article) and weak monsoon. The RBI comment for price stability further cautioned the market as the market is now suspecting monetary tightening.

The G-Sec auction worth Rs. 120 bn saw devolvement in two of the three securities. The cut off set for 7.02% GOI 2016 was 7.44% while for 7.94% 2021 it was 7.99 % higher than the market expectation. There was the partial devolvement in 7.02% 2016 and 7.94% 2021 GOI securities. The cut off for 91-D and 364-D T-bill was 3.40% and 4.34% respectively higher than the previous cut-off. The 10yrs benchmark bond started the week at 7.31% rallied to the level of 7.13% during the week but closed higher at 7.35% 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 8.50% while 10yrs benchmark bond traded at 8.85% higher week-on-week basis.

Rupee

The rupee depreciated against the dollar because of month-end demand of dollars from importers. The Rupee ended at 48.67 against the Dollar, depreciating slightly week on week.

Fund Manager's Comment

While the interest rates have been hardened during the week across the curve one now has to look into the future wherein there is a likelihood of an action from the Central Bank as far as monetary tightening is concerned. Though there is ample liquidity in the system the inflationary pressures are being felt by the market as the weekly ticks are getting higher and the previous provisional figures are being revised higher. Another instrument which is being launched next week is the Interest Rate Futures which will also give an indication on the expected yield movements. We expect the yields to trade slightly higher during the coming week due to the negative factors mentioned above and the 10 yrs may range between 7.35% to 7.60%.

Market Indicators as on 28th August, 2009

	28/08/09	21/08/09	% change
INR/USD	48.67	48.65	0.04
Inflation	-0.95	-1.53	-37.91
Oil (\$/bbl)	72.29	73.89	-2.17
Gold (\$/oz)	955.00	953.70	0.14
10 years G-Sec	7.35	7.31	0.55
10 years AAA	8.85	8.84	0.11
Call Money	3.30	3.30	0.00

EQUITY MARKETS

Indian stocks posted smart gains for the second consecutive week and nearly wiped out the entire loss of 13.5% in key indices posted between June 10 and July 13. The Sensex gained almost 2,000 points in nine trading sessions to erase the losses during the previous 23 sessions. The week opened with a strong gain and the market moved sideways for the next two days. It received a strong boost on the back of good growth in core sector index and support from strength in global markets. There was a sudden spurt in FII turnover on Thursday (more than doubled) but the low net position did not indicate strong revival of long term inflow in trend. For the week Sensex and Nifty went up by 634 points (4.3%) and 194 points (4.43%) to close at 15,379 and 4,569 respectively.

Through the week, though Sensex and Nifty gained over 4% the follow up from mid and small cap segment was even stronger with key indices of these segments gaining respectively by 5.4% and 6.5%. Low growth in Corporate Tax collection at 3.3% is a concern but this was not reflected in the market sentiment as most results reported during the week were quite positive. Core Sector index growth at 6.5% in June was extremely positive and this should help improve IP growth expectations. Coal (14.7%), Electricity

(7%), Cement (12.8%) and Steel (5.3%) have all done very well to give a positive flip to the overall sentiment.

There was a reversal in the source of fund. FIIs turned net buyers for the first time this week while domestic institutions and retail segments were the net sellers, who were the strength of last week's rally. FIIs invested US\$ 184 mn in cash. For current month total investment is US\$ -650 mn. DII sold US\$ 23 mn in cash. For current month total investment is US\$ 1,170 mn. Realty sector continued to remain as the prime mover and this sector index gained a whopping 13.3%, on the back of a 17% gain the previous week. Auto Sector posted a gain of 9.4% this week while Metal Sector followed with a gain of 8.8%. Consumer Durables, IT and Telecom are the other sector indices that posted gains above that of the core indices.

The trend in quarter one results continued to remain the same as companies continued to post much higher growth in bottom line than in top line. A pack of 237 companies (Ex-banking and financials) registered bottom line growth of 34% (26% last week) while the top line growth was only 8% (11% last week). Bottom line got a higher boost in general, on the back of low interest payout and other income.

Taurus Benchmark Indices Movement

Indices	28/08/09	21/08/09	Points change	% change
BSE Sensex	15922.34	15240.83	681.51	4.47
S&P CNX Nifty	4732.35	4528.80	203.55	4.49
BSE 100	8322.22	7964.14	358.08	4.50
BSE 200	1949.00	1865.38	83.62	4.48
CNX Midcap	6112.80	5838.90	273.90	4.69
S&P CNX 500 Shariah	1149.37	1087.50	61.87	5.69

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

21/08/09 to 27/08/09	Equity	Debt
FII	2075.90	-220.50
MFs	1067.60	2827.60

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