DEBT MARKETS

GLOBAL UPDATE

Treasury papers rose for the fourth continuous week because of buying in treasuries triggered by the uncertainties of issues coming out of Europe. The 10 yrs benchmark paper's yield fell by 14 basis to close at 3.15%. The 2 yrs note closed at 0.55%, 5 basis point lower than previous week. Nymex crude fell by 14.70% and the Gold decreased by 4.36% to close at USD 1495.60 per ounce.

ANNUAL MONETARY POLICY REPORT

In its Annual Monetary Policy Review 2011-12 on May 3rd, RBI unexpectedly increased the Repo rate by 50 bps to 7.25%. RBI implemented the suggestions of Deepak Mohanty Committee on Operating Procedure of Monetary Policy. Under this new procedure, Reverse Repo rate will now be 100 bps lower than Repo rate and a new rate called Marginal Standing Facility was introduced which will be 100 bps above repo rate (Reverse Repo is at 6.25% and MSF at 8.25%). Hence, this will be the new corridor with Repo rate in the middle and RBI will take weighted overnight call rate as the operating target to be maintained around Repo rate. The GDP growth projection for FY 2011-12 placed at around 8% while the March 2012 WPI inflation is pegged at 6% with upside risks. The M3 growth is projected at 16%, deposit growth at 17% and non-food credit growth at 19%.

GOVERNMENT SECURITIES AND TREASURY BILLS

In the beginning of the week, the G-Sec market traded on a bearish note tracking apprehensions over the quantum of rate hikes in the monetary policy review. Post policy, the G-Sec yields hardened significantly tracking RBI's steep rate hikes. RBI policy was seen as highly hawkish with inflation concerns taking precedence over every other economic measure. Post mid-week short covering led to a pull-back in prices. The steep fall in oil prices towards the fag end of the week also supported prices marginally. The new 10 yrs benchmark security 7.80% GS 2021 ended at ₹97.48 (8.17%) vis-à-vis the previous closing of ₹97.75 (8.13%).

The cut-off prices for the G-Sec auctions were set as 7.59% GS 2016 at ₹96.78 (8.40%), 8.08% GS 2022 at ₹98.04 (8.40%) and 8.26% GS 2027 at ₹97.04 (8.60%). Cut off for West Bengal SDL came at 8.60%. The cut-off price for the 91 days T-Bill at ₹98.07 (7.89%) (compared to the previous cut-off of 7.52%) and for the 364 days T-Bill at ₹92.44 (8.20%) (compared to previous cut-off of 7.76%).

LIQUIDITY CALL

The week under review marked significant ease in liquidity tracking the month end Government spending. Despite the 50 bps rate hike the Reporting Friday witnessed an ease in the money market rates. The Call ended at an average rate of 6.88% on Friday as against 6.85% observed the week earlier. The CBLO levels moved to 5.91% compared to 6.73% in the previous week. Market participants accessed lesser funds at RBI's LAF Repo window. The amount stood at ₹22,585 Cr on an average daily basis. The average infusion stood at ₹39,306 Cr a week earlier.

CORPORATE BONDS

The start of the trade week witnessed a cautious approach towards corporate bonds in wake of the monetary policy review. Post policy release the corporate bond yields soared in line with the bearishness witnessed in the underlying G-Sec. market. Both investor as well as trader fraternity deferred taking any major position. The week ahead is expected to see an improved sentiment with several primary issuances picking up.

The corporate bond yields rose across maturities with the 1 year bond trading at a yield of around 10% compared to 9.60% seen a week earlier. The 1yr CD yield was seen trading at 9.90% in comparison to 9.75% seen previously. The 10 yrs AAA bond ended at a yield of around 9.35% compared to previous week's closing of 9.24%.

In the primary market, REC announced the issuance of its 10 yrs bonds to be conducted around May 11. The bonds will offer a coupon of 9.35% payable annually.

RUPEE

The Indian Rupee depreciated against USD because of weak equity market, fresh dollar demand by importers and strengthening of dollar against other Asian currencies. It traded in a range of 44.33 to 44.80 to close at 44.80 depreciating 1.30% WoW.

FUND MANAGER COMMENTS

The money market rates moved up by 15-20 bps post policy in 3 months segments. The market was mostly active in June and 3 Months segments. The likely range for 3m prime CD would be 9.20-9.40 this week. The 10 yrs benchmark G-Sec is likely to trade in a range of 8.10%-8.30% in this week.

Market Indicators as on 29th April, 2011

	6/04/2011	28/04/2011	% change
INR/USD	44.80	44.22	1.30
Oil ($/bbl)	97.18	113.93	-14.70
Gold ($/oz)	1,495.60	1,563.70	-4.36
10 years G-Sec	8.17	8.13	0.04
10 years AAA	9.34	9.22	0.12
NSE Mibor	6.90	6.89	0.01

Source: Bloomberg

EQUITY MARKETS

The Indian equity market continued to post negative gains during the week. The BSE Sensex lost 3.23% while the Nifty lost 3.44% during the week. BSE midcap lost 4.28% for the week while midcap lost 3.25%.

On the sectoral indices front, Metal index lost heavily by 5.11% followed by Auto (-3.5%), Bankex (-3.11%), Realty (3.9%) and Consumer durable lost 2.8%.

On the stock front, BPCL gained 5.8% followed by Hero Honda (3.25%) and BHEL (3.03%). On the losing side, Ambuja Cem lost 11.35%, Followed by ACC (-11.06%), Bajaj Auto (-10.5%) and Reliance communication (-10.3%).

The Reserve Bank of India (RBI) has raised its key interest rate by 50 bps to contain inflationary expectations. The repo has been raised by 50 bps to 7.25% from 6.75% with immediate effect, while the reverse repo, which is now determined with a spread of 100 bps below the repo rate, automatically adjusts to 6.25%. The RBI announced that the repo rate will be only one independently varying policy rate. The reverse repo rate will continue to be operative, but it will no longer be an independent rate. The Cash Reserve Ratio (CRR) has been left unchanged at 6%, while the Bank Rate has also been retained at 6%. Further, the RBI has decided to hike the savings bank deposit interest rate to 4% from 3.5%, with immediate effect. The RBI placed the baseline projection for wholesale price inflation for Mar'12 at 6% with an upward bias. The RBI expects growth rate to decelerate to around 8% in FY12 from 8.6% in FY11.

India's exports grew to US$29,134.89 mn (₹1,310.81 bn) in Mar'11, as against US$20,254.14 mn (₹921.49 bn) in Mar'10, registering a growth of 43.8% YoY in Dollar terms, and 42.2% rise in Rupee terms. India's imports valued at US$34,743.08 mn (₹1,563.14 bn) in Mar'11, as against US$29,626.87 mn (₹ 1,347.91 bn) in Mar'10, representing 17.2% YoY growth in Dollar terms and 15.9% YoY rise in Rupee terms. India's oil imports increased 8.2% YoY to US$9.43 bn in Mar'11, as against US$8721.6 mn in Mar'10. The country's non-oil imports rose 21% YoY to US$25.3 bn in Mar'11, as against non-oil imports worth US$20.9 bn in Mar'10. India's trade deficit estimated at US$104.83 bn in FY11, as against deficit of US$109.62 bn in FY10.

The annual rate of inflation in the food space decreased in the penultimate week of Apr'11 and stayed below the double digit mark for the sixth straight week, while the fuel inflation remained steady in the week under review. India's annual food inflation declined to 8.53% in the week ended April 23, 2011 from 8.76% in the previous week, 20.91% in the year-ago week. The index for food articles group rose by 1% to 184.5 in the week under review, as against 182.6 in the previous week. The inflation in the primary articles group rose to 12.11% in the reporting week, as against 12.08% in the previous week, and 21.67% in the year-ago week.

On the global news front, US consumer credit increased by $6 billion in March following a $7.6 billion increase in February. Economists had expected credit to increase by about $5 billion. UK Output price annual inflation came in at 5.3% in April, higher than the 5.1% forecast. But it slowed from March's 5.6% rate. China's non-manufacturing sector expanded at a faster pace in April, led by higher business activity in the construction sector. The China Federation of Logistics and Purchasing (CFLP) said that its purchasing managers' index for the non-manufacturing sector rose to 62.5 in April from 60.2 in March. A PMI reading above 50 indicates expansion of the sector.

Taurus Benchmark Indices Movement

Indices	06/04/11	29/04/11	Points change	% change
BSE Sensex	18518.81	19135.96	-617.15	-3.23
S&P CNX Nifty	5551.45	5749.50	-198.05	-3.44
BSE 100	9653.80	9991.88	-338.08	-3.38
BSE 200	2285.46	2363.68	-78.22	-3.31
CNX Midcap	7965.40	8200.95	-235.55	-2.87
S&P CNX 500 Shariah	1282.15	1322.23	-40.08	-3.03

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

02/05/2011-06/05/2011	Equity	Debt
FIIs	-2757.80	2695.70
MFs	348.30	-4329.10

Source : SEBI site