DEBT MARKETS

GLOBAL UPDATE

US treasuries bonds yields dropped to a record low this week as policy makers worked to contain contagion from European sovereign debt crisis. Investors sought refuge in U.S. government debt amid concern the global economy is on the brink of another recession. Yields on 10-yrs notes dropped 18 bps during the week to close at 1.83% on Friday. Nymex crude was down by 9.22% for the week and ended at $79.85. Gold decreased by 8.56% and closed the week at $ 1657/oz.

MACRO ECONOMIC INDICATORS:

The weekly primary articles inflation for 10-Sep-2011 stood at 12.17% vis-à-vis 13.04% last week. The index declined by 0.1% and the base effect also aided in easing of the headline rate. Within primary articles, both food and non-food articles' indices increased from previous week levels. The fuel and power index rose sharply by 0.8%. This marked an inflation of 13.96% compared to 13.01% noted in previous week tracking rise in electricity tariffs.

GOVERNMENT SECURITIES AND TREASURY BILLS

The G-Sec markets opened on a cautious note amidst no cues of whether auctions would be announced for the week ahead. The markets traded range bound in the initial part of the week amidst absence of any major market triggers. There were reported comments that RBI in close coordination with Government could increase the WMA facility of the government for the next quarter. This was tracking the tight situation of government's short-term fiscal situation. The sentiment changed during mid-week as Federal Reserve in its FOMC meeting held on 21-Sep-11 said US economy faces significant downside risks in its economic outlook including strains in global financial markets. Federal Reserve also started a new program to stimulate the economy under which it will sell $400 bn of short term securities and buy longer dated securities worth $ 400 bn from the proceeds. There was a huge sell-off in equity markets world-wide leading to a rush for safe-haven securities. The crude oil prices declined and US treasury yields eased significantly with US 10 year touching 1.78%. This led yields to decline from 8.36% to 8.30% levels on Thursday. The market traded range bound with a positive bias towards the fag end of the week. At close, the benchmark security 7.80% GS 2021 closed at ₹96.74 (8.30%) compared to ₹96.35 (8.36%) seen previously.

RBI set the cut-off price for the 91 days T-Bill at ₹97.94 (8.44%) and for the 364 Day T-Bill at ₹92.22 (8.46%). The cut-off yields in previous auctions were 8.39% and 8.34% respectively. The cut-offs were higher tracking RBI's recent policy rate hike of 25 bps in its Mid-quarter review. Both the bills were fully subscribed. RBI announced the sale of 91 days T-Bill for a notified amount of ₹7,000 Cr and 182 days T-Bill for ₹3,000 Cr via multiple price auctions to be conducted on Sep 28, 2011.

LIQUIDITY CALL

Tracking the Reporting week, the systemic liquidity eased during the week. RBI infused net average liquidity worth ₹55,467 Cr in this week, compared to an infusion of ₹70,487 Cr in previous week. The Call rate hardened in wake of the tight liquidity and reflecting the higher Repo rate. The Call rate ended at an average of 8.26% on Friday (close to RBI's Repo rate of 8.25%) as compared to 8.13% observed the week earlier. The CBLO moved to 6.81% compared to 8.02% in the previous week.

CORPORATE BONDS

The activity in corporate bond market remained lackluster with limited participation from market participants. There was a slight-sell off as yields trended tracking Federal Reserve's monetary policy. There were just two issues in primary market indicating lack of interest amidst corporates in issuing bonds given the global uncertainty.

The 1 yr bond traded at a yield of around 9.45% compared to 9.40% seen a week earlier. The 1 yr CD yield was seen trading at 9.10% compared to 9.60% seen previously. The 10 yrs AAA bond ended at a yield of around 9.48% compared to previous week's closing of 9.50%.

In the primary market, NABARD issued 9.65% 3 yrs paper to raise ₹500 Cr. NABARD also issued another lot of 3 yrs bonds at a rate if 9.48% worth ₹262 Cr. EXIM Bank issued 5 yrs bonds worth ₹ 255 Cr at a semi-annual yield of 9.15%.

RUPEE

The Indian rupee almost touches 50-mark this week, but closed at 49.43 on Friday. The rupee came down to close to the psychological 50-level mark at 49.90 as the lingering Euro zone crisis further pushed up the demand for dollar globally. It moved in the range of 47.82-49.90 during the week. The depreciation has been 4.58% in a week over the close of 47.27 last Friday.

FUND MANAGER COMMENTS

This week, witnessed busy activity in terms of quarter end CD issuances of approximately INR 300-320 Bn of issuances. However, amidst such high volumes, the marginal upward pressure in CDs was within our expected range. 3M CDs were issued up to 9.28% & 1Y up to 9.65%.

For next week, we expect inter-bank deficit at RBI's repo window to be in INR 550-750 Bn range. Expected trading range for 3M CD yields is 9.20%-9.35%. The 10 yrs G-Sec for the next week may remain in the range of 8.20%-8.35%.

Market Indicators as on 23rd September, 2011

	23/09/2011	16/09/2011	% change
INR/USD	49.43	47.27	4.58
Oil ($/bbl)	79.85	87.96	-9.22
Gold ($/oz)	1,656.80	1,811.88	-8.56
10 years G-Sec	8.30	8.36	-0.06
10 years AAA	9.48	9.44	0.04
NSE Mibor	8.30	8.13	0.17

Source: Bloomberg

EQUITY MARKETS

Investor's opinion that Central Banks in the developed nations are running out of solutions to propel the economic growth has sent global markets into selling zone. European banks solvency concern led to selling in financial stocks across Europe and America. During the week, US Federal Reserve statement "there are significant downside risks to the economic outlook of U.S." provided another red trigger for markets to react. In the two day meeting, Fed decided to buy longer term treasuries of $400 billion by selling treasuries of short term of equal amount by the end of June 2012. The step is taken to support economic recovery by putting downward pressure on long term interest rates.

Last week was one more extraordinary week that witnessed humongous sell-off in the global commodity markets in a condition of panic. Crude, base metals, precious metals and agriculture almost everything was swept away by a strong wave of negative sentiment. In what was described as exaggerated sentiment, crude prices fell, while across the complex prices of base metals plunged as broad weakness in macro data drove fears of a global slowdown. Gold shaved off 5.9%, silver was down by a whopping 17.7%, Lead down 17.1%, copper down 15.3% and nickel down 15% on weekly basis. In domestic currency market, the lagged impact of RBI moves along with continued weakness in developed markets led to INR losing nearly 10% in this quarter from 43.85 to 49.58.

It was all around red signs during last week in equity markets. Biggest looser among global indices were CAC40 down by 8.23%, Hang Seng down by 7.93%, S&P 500 down by7.11% and FTSE100 down by 6.09% on weekly basis. Asian markets (except Hang Seng) have been better off than their western counterparts with losses restricted to sub 5% level. Shanghai Corp on W-o-W down by 1.58%, Nikkei down by 3.43%, Strait Times down by 2.46%. Indian indices Nifty and Sensex were closed W-o-W down by 3.16% and 3.38%.

On the sectoral front, barring consumer durable index, all indices closed in weekly loss. Under performer were Capital Goods down by 5.61%, Oil and Gas down by 4.27%, Metal down by 3.80% and Realty down by 3.79%. Relative to broader markets, outperformance came from Banking sector down by 1.97%, FMCG down by 2.75%, Healthcare down by 1.71% and IT down by 1.71%. Amongst Sensex stocks, Wipro was only stock which was closed with 0.28% gain. Prominent looser were L&T down by 7.28%, Sterlite Industries down by 7.06%, ONCG down by 6.19%, DLF down by 5.54%, Bajaj Auto down by 5.16%.

Indian corporate tax refund has lent a big dent to the direct tax kitty this year, with the figure touching a staggering ₹ 48,426.20 crore till Sep 15th. India Net direct tax collection till 15th Sep recorded a growth of only 6.7% at ₹127,858 crore as against ₹ 119,849 crore collected during last year. Gross direct tax mop-up during the period has been ₹188,868 crore, showing a growth of 29.5% over previous year's.

Food inflation eased to a seven-week low in mid-September, it stood at 8.84% in the week ended September 10, easing from the previous week's 9.47%. It has remained above 8% level for more than eight weeks. But prices still remain firm. Onion prices rose 28.92% during the week to September 10; moderating from the 42.98% increase in the previous week, while fruit prices rose 17.67%, lower than then the previous week's rise of 22.64%.

IMF has trimmed the global growth forecast in its latest report on world economic outlook. The downward revision of U.S. growth was sharper at 1.5% in 2011 and 1.8% in 2012 (down from previously estimated 2.5% and 2.7% respectively). Growth in emerging economies is also been lowered. China is expected to grow at 9% in 2012 (9.5% earlier) and India at 7.5% (7.8% earlier).

Taurus Benchmark Indices Movement				
Indices	**23/09/11**	**16/09/11**	**Points change**	**% change**
BSE Sensex	16162.06	16933.83	-771.77	-4.56
S&P CNX Nifty	4867.75	5084.25	-216.50	-4.26
BSE 100	8529.43	8875.83	-346.40	-3.90
BSE 200	2014.80	2095.23	-80.43	-3.84
CNX Midcap	7185.30	7346.45	-161.15	-2.19
S&P CNX 500 Shariah	1169.44	1208.68	-39.24	-3.25

Weekly FII & MF Net Flows (₹. in crs.)		
16/09/2011-22/09/2011	**Equity**	**Debt**
FIIs	1269.80	46.50
MFs	178.10	4779.70

Source : SEBI site