DEBT MARKETS

GLOBAL UPDATE

US treasury yields rose last week, mainly on speculation that Japan's earthquake and subsequent nuclear crisis and Europe's struggle to contain the debt problems would not slow down the global economy. This, along with comments from Mr. Plosser, president of Philadelphia Fed that policy makers should detail a plan for withdrawal of monetary stimulus pushed the prices down for US treasuries. The 10 yrs benchmark note closed 17 basis points higher at 3.44.

GOVERNMENT SECURITIES AND TREASURY BILLS

The G-Sec markets surged as the borrowing calendar for first half of FY12 was more benign that market expectations. The RBI has slated to borrow INR 2.5 tn in the first half of the FY12. While it has barred supplies below 5-year segment, it has sketched to borrow ~ 45% from the 10-14 yrs securities, 40% from securities bearing 5-9 yrs maturity and the rest through 15 yrs and above. With the redemption of INR 130 bn the quarter is slated for a net borrowing of INR 1.35 tn. With negative liquidity, high crude prices and likelihood of more rate rises by RBI, 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 7.31 and INR 30 bn 364 days bill at 7.64% (6 basis points higher than last issuance).

LIQUIDITY CALL

Liquidity conditions eased slightly, as banks borrowed lower amount from RBI to balance the skewed borrowing in the first week of the reporting fortnight. The average amount under LAF was negative INR 69k Cr. against INR 126k Cr last week. Overnight rates like MIBOR, and CBLO traded between 7.68% -7.29% and 5.00% - 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 9.2200% while 10 yrs benchmark bond yields remained range bound to close at 9.1350%.

RUPEE

The Indian Rupee appreciated marginally against USD as equity market rallied on fresh inflows from domestic and foreign players. It traded in a range of 44.60 to 45.10 to close at 44.68 appreciating 0.98% WoW.

FUND MANAGER COMMENTS

The money market rates remained stable as Mutual funds looked to built portfolio taking into account the likely inflow in April. The market remained bearish throughout the week, to find itself suddenly be chased by traders and fund managers alike. The yields fell across 3m-12m category by more than 15 basis point in a single session on Friday.

This week the short end of the curve may see further buying as mutual funds, flush with cash, after meeting the redemptions, would look to buy at these levels, so as not to miss this rally. The likely range for 3m prime CD would be 9.30-9.70. 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 25th March, 2011

	25/03/2011	18/03/2011	% change
INR/USD	44.68	45.12	-0.98
Oil ($/bbl)	104.91	101.07	3.80
Gold ($/oz)	1,436.60	1,418.90	1.25
10 years G-Sec	7.99	7.99	0.00
10 years AAA	9.14	9.14	0.00
NSE Mibor	7.79	7.53	0.26

Source: Bloomberg

EQUITY MARKETS

During the week ended 25th March, Indian equity market posted one of their best performance in the recent time. The BSE sensex posted a gain of 5.24% while the CNX Nifty managed to post gain of 5.22%. The Indian markets also outperformed global peers (MSCI Asia ex-Japan and MSCI World were up 3%)during the week, reversing the lag seen in early-2011.

On the sectoral front, Bankex gained 6.1% followed by IT (6.1%), Pharma (2.9%) and Oil & Gas (3.3%). Realty sector too gained by 10%. Bankex was up on the news as The Government introduced a bill in the parliament to amend the banking law which will allow investors in private banks to have voting rights proportional to their shareholdings and raise limit in public sector banks from 1% to 10%, among others. Food inflation broke its three week downward trend and came in at 10.1% (up 60bps WoW) for the week ended 12th Mar'11.

Among the stocks, DLF gained 12% followed by JP Associate (9%) and BHEL (9%).

Non-food credit growth for the fortnight ended March 11, 2011 grew 23.03% to ₹3,789,993 cr. During the fortnight ended February 25 the credit off take grew by 23%. During the fortnight ended February 11 banks credit exposure rose by 23.6%. However, between April and March 11, credit has grown over 18.3% year-on-year or over ₹59,691.755 cr. In absolute amount the banks have added ₹709,546.87 cr between March 12, 2010 and March 11, 2011 while the fortnightly growth over February 25 is estimated at ₹44,840 cr.

Food inflation surged yet again to double digits at 10.05% for the week ended March 12 from 9.42% in the previous week as prices of fruits, vegetables and protein-rich edibles continued to rule at higher levels. During the week, while vegetable prices rose by 11.20% on a year-on-year basis, fruits remained dearer by 23.60% and eggs, meat and fish continued to rule higher by 13.21%

The Government introduced a bill in the Lok Sabha, seeking to amend three banking laws, including the removal of restrictions on the voting rights of a bank's shareholders. Under existing rules, the voting rights of a shareholder are capped at 1% in nationalised banks and 10% in private banks, irrespective of the equity stake. The proposed Banking Laws (Amendment) Bill 2011 proposes aligning the voting rights in private banks in proportion to the shareholding and raise the ceiling in public sector banks from 1% to 10%. The proposed changes will also let state-run banks issue bonus shares and rights shares. The amendments also propose letting public sector banks raise their authorized capital beyond the current ceiling of ₹30bn.

On the global news front, condition in troubled Japan reactor continued to remain same with passage of time. The radiation level is feared to be further go up.

Problems in Libya continue to remain at elevated level as the clash between Gaddafi and rebels continues. The NATO has extended their attacks on the Gaddafi controlled troops. Due to this, Crude oil continued to trade at higher level.

Taurus Benchmark Indices Movement

Indices	25/03/11	18/03/11	Points change	% change
BSE Sensex	18943.14	17878.81	1064.33	5.95
S&P CNX Nifty	5654.25	5373.70	280.55	5.22
BSE 100	9846.07	9344.45	501.62	5.37
BSE 200	2323.83	2209.71	114.12	5.16
CNX Midcap	7824.15	7592.25	231.90	3.05
S&P CNX 500 Shariah	1298.47	1248.86	49.61	3.97

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

18/03/2011-25/03/2011	Equity	Debt
FIIs	124.60	-2077.40
Mfs	189.70	7224.00

Source : SEBI site