DEBT MARKETS

GLOBAL

In the biggest reshaping of the financial industry since the Great Depression, two of Wall Street's most storied firms, Merrill Lynch & Co. and Lehman Brothers Holdings Inc. are headed towards extinction. New York-based Lehman, founded 158 years ago, said early today that it plans to file for Chapter 11 bankruptcy protection after failing to find a buyer. Merrill Lynch, 94 years old and also based in New York, agreed to sell itself to Bank of America Corp. for $50 billion in an emergency deal.

Further, The Federal Reserve widened the collateral it accepts for loans to securities firms to include stocks in an effort to help Wall Street weather Lehman Brothers Holdings Inc.'s plans for bankruptcy. The Fed also yesterday boosted its program for lending Treasuries to bond dealers by $25 billion, bringing it to $200 billion. At the same time, a group of 10 banks that includes JPMorgan Chase & Co., Goldman Sachs Group Inc. and Citigroup Inc. formed a $70 billion fund to ensure market liquidity.

Central bankers and banking leaders acted after three days of emergency talks led by Treasury Secretary Henry Paulson and New York Fed President Timothy Geithner on the mounting turmoil in financial markets. Yesterday's steps may spur speculation that the Fed may take further action, including lowering interest rates, to stem a deepening in the year long credit crisis.

The dollar rose to the highest level in a year against the euro on speculation that economic growth in Europe will be slower than in the U.S., prompting the region's central bank to lower interest rates. The U.S. currency climbed for a second day as traders raised bets that the European Central Bank will cut borrowing costs before a government report tomorrow likely to show industrial production in the euro area shrank. New Zealand's dollar dropped to its lowest level since October 2006 after Alan Bollard, governor of the nation's central bank, reduced interest rates by more than economists expected.

The European Commission said the euro region's economy will probably stagnate this quarter after shrinking the previous three months for the first time since the currency's debut in 1999. It cut its 2008 growth forecast to 1.3 percent, from 1.7 percent. By contrast, the median in a Bloomberg News survey of 84 economists was for U.S. growth of 1.7 percent.

U.K Home Retail sank 6.1 percent to 227 pence, the steepest drop since July. The owner of Britain's second-largest home- improvement chain reported lower same-store sales at its Home base and Argos stores as a housing slump worsened and consumer confidence slid to a four-year low.

Crude slipped to 6-month lows below the USD 100 per barrel mark as Hurricane Ike spared major US oil refineries in the Gulf of Mexico. The oil refineries are now preparing to resume operations. Fear of future supply shortage is disappearing as demand drops within OECD (Organisation for Economic cooperation and Development). Dollar strength also factors for some of the fall.

DOMESTIC

CBLO

The CBLO rates remained ranged bound last week with slight hardening bias and ranges between 6.00%-9.00% with some bouts of higher/lower rates. Liquidity situation in the system started showing signs of tightness as advance tax outflow of more than Rs 30,000 crores is expected to move out from the system. Overnight and short term money market rates are expected to remain tight for the week in wake of outflows.

SPREADS OF CORPORATE BONDS AS ON 15TH AUGUST 2008 OVER G-SECS

Government Securities and Treasury Bills

WPI inflation for the week ended 30th August, 2008 came at 12.10% (YoY) which was slightly higher than market expectation of 12.01%.

In the twin auction of Treasury Bills on Wednesday, the 364 day and 91 day T bill cut off came much below market expectation. For the 364 day t-Bill cut off was at 8.86% as compared to the previous fortnight cut off of 9.18% while the T bill had a cut off of 8.73% which was lower than the previous week cut off of 9.02%.

Also in twin auction of the Central Government Security held on Friday 8.24% GOI 2018 the cut off was at 8.30% and for 7.95% GOI 2032 the cut off was at 8.70%. Both the auction cut off was in line with market expectations.

10-year benchmark advanced once again tracking falling crude-oil prices and lower inflation rate. Moreover, demand for govern`ment security was buyout in wake of SLR requirement by banks. Yields fell to the lowest level to 8.24% from 8.40% last week. However, yields on 10 year benchmark closed at 8.36% on Friday.

Further, RBI has announced 91 day T-Bill auction of Rs 5,000 crores and 182 day T-Bill auction of Rs 2,000 crores to be held on 17th September, 2008.

Corporate Bonds

The credit spreads Corporate Bonds remained moved higher by 30-40 bps across the curve in wake of tighter liquidity situation and comparatively stronger rally in G-Sec market because of higher SLR demand by banks.

SPREADS OF CORPORATE BONDS AS ON 15TH AUGUST 2008 OVER G-SECS

	Rating		
Tenure	**AAA**	**AA +**	**AA**
1	246.80	267.80	292.80
3	222.80	240.80	269.80
5	243.00	272.00	296.00
10	228.50	271.50	302.50

Rupee

India's rupee declined for a fifth week in a row tracking huge demand for importers, specially from oil companies as they started building up their inventories as crude oil prices dipped from $108/bbl to $99.50/bbl. Rupee depreciated against all the major currencies like USD, EURO and GBP but appreciated against Japanese Yen.

FUND MANAGER COMMENTS

India's industrial output rose to 7.1% in July from a year earlier, above the previous month's 5.40%, data showed on Friday. The figure was above a median forecast of 6.5 percent in a Reuter's poll of economists. This shows the resilience of the Indian Economy.

With the tax flows hitting the system this week, the expectation is that the rates would be higher on account of these outflows from the system. The pressure on Government Securities is however reversed since the SLR demand is creating lower yields in the past week also.

The domestic as well as international scenario makes it more important to be cautious as far as money markets are concerned.

EQUITY MARKETS

The bearish trend in the market continued for the 2nd week ended September 12, 2008 when the worst fear of the market about Lehman Brothers and Merrill Lynch came true. This is inspite of the fact that on the domestic front, there were many positive news such as better than expected IIP figure at 7.1%, inflation cooling off to 12.10% and decline in the crude price to about $100 / barrel. However, heavy selling by the FIIs inspite of depreciation of rupees against dollar indicate that much more pain is likely to come in the near future. Indian market is likely to remain quite volatile and stocks are set to find new supports.

The new week commencing from 15th September will be more difficult when Sensex is likely to decline further and there is a possibility of forming the new bottom mainly on account of weak global cues. Many events such as IIP number in U.S on 15th September, Fed meeting for interest rate on 16th September, job data in U.S on 18th September may impact the market accordingly. Similarly, the discussions on Nuclear deal in U.S Senate will also start from 18th September and further exposure of Internal communication between the U.S President and Senate members cannot be ruled out.

The next trigger for the market can be the advance tax figure which will be known during the middle of week, followed by the impact of the various events marked for this week as stated above.

The release of arrears to the Govt. employees on account of implementation of 6th Pay-Commission during the first week of October 2008 will be another trigger followed by September Quarter results.

The Indian Capital market is at the cross road and fresh investment by FIIs in near future can provide necessary fillip. Logically, Indian market appears to be better in comparison to other emerging markets as well as BRIC countries on account of moderation in the economy.