

DEBT MARKETS

GLOBAL

Federal Reserve left its benchmark rate unchanged at 2 percent as expected and said that "downside risks to growth remain," dropping a reference in June's statement to diminished dangers. The Fed also said price increases are of significant concern.

Japan's government said the economy is "deteriorating," acknowledging for the first time that the country's longest postwar expansion has probably ended.

The Bank of England has also kept the main interest rate unchanged for four months after inflation accelerated and the economy teetered on the brink of a recession.

The rate at which companies worldwide default on their bonds may rise to as much as 10 percent in a year as economic growth slows, as per the views of Moody's Investors Service.

The European Central Bank kept interest rates at a seven-year high to fight inflation even as evidence of an economic slump mounts. ECB policy makers meeting in Frankfurt left the benchmark lending rate at 4.25 percent, as predicted by all 60 economists in a Bloomberg News survey. The ECB is concerned that the fastest inflation in 16 years will help unions push through demands for higher wages and prompt companies to lift prices. At the same time, record energy costs and the stronger euro are strangling growth. Economic confidence dropped the most since the Sept. 11 terrorist attacks. In July Europe's manufacturing and service industries contracted for a second month.

Over the past month the US dollar has rallied against all the major currencies and it remains to be seen whether this rally will continue or not in spite of not so good numbers emanating from the US.

DOMESTIC

CBLO

The CBLO rates remained range bound for the most part of the week and ranges between 8.90%-9% however on Friday CBLO rates has shown volatility and ranged from 7.50%-9.25%. Liquidity situation in the system remained tight as amount infused by RBI under LAF repo on Friday was Rs 32,720 crore. Liquidity situation in the system is expected to remain tight in wake of G-Sec auction outflow of Rs 10, 000 crores and T-bills auction outflow of Rs 4,500 crores due this week.

Government Securities and Treasury Bills

In the twin auction of Treasury Bills on Wednesday the 182 day T bill cut off came lower than expected at 9.30% as compared to the previous fortnight cut off of 9.32% while the 91 day T bill had a cut off of 9.23% as compared to the previous week cut off of 36%.

The twin auction of Government Securities on Friday also saw a lower than expected cut off as 8.24% GOI 2018 (10 year benchmark) cut off came at 9.14% and for 7.95% GOI 2032 cut off came at 9.88%.

Corporate Bonds

The credit spreads widened slightly mainly on account of lower yields on the cut off for the 91 day and 364 day. Also, the corporate bonds yields had already started to move up on wake of tight liquidity and hiking of BPLR/PLR by various banks. The yields and spreads may still remain high as few fresh supplies in the corporate debt market is expected.

SPREADS OF CORPORATE BONDS AS ON 8TH AUGUST 2008 OVER G-SECS

Rating			
Tenure	AAA	AA +	AA
1 year	154.90	175.90	200.90
3 year	156.10	173.10	201.10
5 year	147.40	176.40	201.40
10 year	150.50	193.50	224.50

Rupee

The rupee opened during the week has shown high volatility as it goes as high as 41.89 to as low as 42.40 and closed on Friday at 42.20. As far as its performance with other major currencies is concerned, it appreciated against all the Euro and GBP and depreciated against Japanese Yen.

FUND MANAGER COMMENTS

The yields on 10 year Government Securities the prices remained volatile during the week amidst volatile crude oil prices. The yields on 10 year Government Securities ranged from 8.97% to 9.10% and the lower than expected cut off for the same paper indicates the stronger demand for the Government Securities due to the liquidity it offers in the market. However inflation is still a major concern for the RBI which came at 12.01% higher than the previous week of 11.98%. Though the pace of ticks remained soft during the last three weeks.

This week outlook for money market remains jittery as net of auction outflows will absorb around Rs 10,000-Rs 11,000 crores from the system. Call rates are expected to range between 9.10% to 9.50% as this is the reporting week. CD and CP rates will remain range bound and the expectation is that the rates may go slightly lower on mainly on account of the rally that has emerged in other debt instruments and the spreads getting attractive.

Yields on Government securities will be triggered by the crude oil levels and inflation number which is expected to remain above 12% mark. However lower crude prices may bring a relief rally in Government securities market.

Our view is that there has been a good rally in the Government Securities and the expectation is that the 10 year yield may go further down but it gives an opportunity to sell rather than taking fresh positions.

EQUITY MARKETS

It is the 5th consecutive week ended on August 8, 2008 when Sensex closed in the positive territory inspite of higher inflation and tightening measures undertaken by RBI. During the concluded week, Banking and Capital goods stocks were under pressure. The announcement of new-urea policy and postponing the policy of de-control in sugar industry, rate of inflation which has crossed 12% mark, were the highlights of the week.

The current week is short with four trading sessions only. This week is full of events, which may improve the market sentiments. The economic reform in the Insurance sector is likely to be announced by GOM followed by IIP number for the month of June on August 12, 2008. It is expected that IIP number for the month of June would be better than the previous month. SEBI is also holding a meeting on 13th August, 2008 where it is likely to revise its policy for issuing of the PE notes by the FIs.

Technically the market is also showing positive signals and the Nifty is likely to close above 4700 and Sensex over 15700.

