

DEBT MARKETS

GLOBAL

The U.S. trade deficit unexpectedly narrowed in June as the biggest jump in exports in more than four years overcame record imports of petroleum. The gap shrank 4.1 percent to \$56.8 billion from a revised \$59.2 billion in May 08.

JPMorgan Chase & Co. will write down the value of mortgage-backed assets by at least \$1.5 billion this quarter after credit-market turmoil and the U.S. housing slump deepened. Trading conditions "have substantially deteriorated" since July, and "sharply widened" spreads on mortgage-backed securities and loans caused losses, the second-biggest U.S. bank by market value said in a regulatory filing. Financial firms have reported more than \$492 billion of losses and writedowns on debt securities since the subprime-mortgage market meltdown in 2007.

Japan's economy contracted last quarter, bringing the country to the brink of its first recession in six years, as exports fell and consumers spent less. Gross domestic product shrank an annualized 2.4 percent in the three months ended June 30 after expanding 3.2 percent in the first quarter, the Cabinet Office said today in Tokyo. The Nikkei 225 Stock Average fell the most in a month.

The Bank of England cut its forecast for U.K. economic growth and held out the prospect of lower interest rates as unemployment rose the most in almost 16 years in July 08. Governor Mervyn King said the inflation rate will fall below the 2 percent target in two years if policy makers keep the benchmark interest rate at 5 percent. Claims for jobless benefits climbed 20,100 from June to 864,700, the biggest increase since December 1992. U.K. house prices posted the biggest annual decline since at least 2002 as banks choked off mortgage lending, deepening London's property slump.

UBS AG, Switzerland's biggest bank, reported a fourth straight quarterly loss on subprime-related writedowns and said it doesn't expect the "adverse

economic and financial trends" to improve for the rest of the year. The net loss was 358 million Swiss francs (\$329 million) in the second quarter, compared with a 5.55 billion-franc profit a year before, Zurich-based UBS said.

DOMESTIC

CBLO

The CBLO rates remained range bound for the most part of the week and ranges between 8.95%-9.05% however, on Friday CBLO rates has shown volatility and ranged from 6.25%-10.00%. Liquidity situation in the system remained tight as amount infused by RBI under LAF repo on Thursday was Rs 31,635 crore. Liquidity situation in the system may tighten slightly as T-Bills auction of Rs 4,500 crore and G-Sec auction of Rs 6,000 crore is scheduled during this week. However, inflows on behalf of interest payment of State Development Loans and redemption of T-Bills to the tune of Rs 9,700 crores approximately may restrict overnight rates to harden significantly.

Government Securities and Treasury Bills

In the twin auction of Treasury Bills on Wednesday the 364 day T bill cut off came lower than market expectation. It came at 9.29% as compared to the previous fortnight cut off of 9.30% while the 91 day T bill had a cut off of 9.15% as compared to the previous week cut off of 9.23%.

Yields on Government Securities have shown volatility during the week and 10 year benchmark security ranged from 8.88% to 9.20% tracking the volatile movements of crude oil prices and higher than expected inflation numbers.

Corporate Bonds

The credit spreads narrowed slightly mainly on account of lower yields on the cut off for the 91 day and 364 day. Also during earlier period the corporate bonds yields had already started to move up on wake of expected tight liquidity.

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

Rating			
Tenure	AAA	AA +	AA
1 year	158.30	179.30	204.30
3 year	162.90	179.90	207.90
5 year	152.20	181.20	206.20
10 year	146.60	189.60	220.60

Rupee

The rupee depreciated against US Dollar in wake of buying from oil companies and FII outflows. Rupee opened at 42.00 per dollar during the week and closed at 43.01 per dollar on 14th August, 08. As far as its performance with other major currencies is concerned it appreciated against the GBP and Yen but depreciated against Euro.

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 8.88% to 9.20%.

Outlook for money market remains range bound as net of auction, outflows will absorb around Rs 5,000-Rs 6,000

crore from the system. Call rates are expected to range between 9.10% to 9.50%. CD and CP rates may remain range bound with an upward bias as not many traders are taking fresh positions beyond one month due to uncertainty of liquidity movement.

Yields on Government securities will be triggered by the crude oil levels and inflation number which is expected to remain above 12.50% mark. Our view is that there has been a good rally in the Government Securities and the expectation is that the 10 year yield may range from 9.00% to 9.25% during the week and the cut off for the ten year may come between 9.10%- 9.15%.

However inflation is still a major concern for the RBI. The WPI numbers for the week ended 2nd August, 2008 came at 12.44% higher than the previous week of 12.01%. This was also higher than market expectation of 12.21%.

EQUITY MARKETS

The last week which ended on August 14, 2008 was full of events inspite of short trading sessions of only 4 days. Inflation surged further to 12.44% as against 12.01% resulting into negative sentiments in the economy and stressed liquidity in the market.

Selling pressure was observed in the market fearing further CRR hike by RBI to tame inflation. The crude also after touching a low of \$113 per barrel jumped to \$116 per barrel on Wednesday evening due to falling inventories in US. The week, therefore, ended at a lower level than the previous week indicating further decline in the market in the coming week.

The macro economic indicators, however, indicates bullish trend in the near future. The increase in the indirect tax collection in the first 4 months of current financial year, despite de-acceleration in economic growth and fear of global slow down, belie fears of slowing economy.

Further, large number of Sovereign Wealth Funds (SWFs) which have submitted their application to SEBI for the formal registration, indicate FIIs confidence in the Indian Capital Market.

Most of the world market is indicating mixed response with negative bias during the week.

The current week which commenced on 18th August after three holidays is likely to witness further pressure on account of global scenario.

NSG meeting in coming week will be another major step towards nuclear pact with U.S. This may provide good support to Sectors like Capital Goods and Power. Therefore, in the absence of any major negative /positive news, market is expected to take cues from global market moments.

Banking, Real Estate Sectors and other interest sensitive sector on the book of high inflation may pull the market in the negative territory. Such correction in the market, however, provides good opportunity for making fresh investment either directly in the market or through equity oriented growth Schemes of Mutual Fund.

