

## DEBT MARKETS

### GLOBAL

Paulson pledged to work with lawmakers after the House of Representatives rejected a \$700 billion rescue, sparking the biggest collapse in the Standard & Poor's 500 Index since the October 1987 crash. As Congress considers returning in the next two days to re-examine the proposed legislation, lawmakers are weighing the implications of inaction.

Citigroup Inc.'s rescue of Wachovia Corp. and its banking operations creates the third-biggest U.S. branch network while aiding regulators seeking to prop up confidence in financial institutions. The purchase gives Citigroup about 4,300 U.S. offices and 3,300 worldwide. The bank will cut its dividend in half, to 16 cents from 32 cents, and raise \$10 billion. The stock deal, announced before rejection of a bank bailout sent U.S. shares tumbling the most in 20 years, values Wachovia at \$1 a share.

Dexia SA, the world's biggest lender to local governments, will get a 6.4 billion-euro (\$9.2 billion) state-backed rescue after worsening financial markets drove the shares to a record decline.

Belgium's federal and regional governments, France and the company's largest shareholders will supply the funds.

Central banks from Australia to Japan pumped cash into their money markets and promised to take more steps to alleviate a credit shortage after U.S. lawmakers rejected a \$700 billion financial-rescue package. Japan and Australia's central banks injected \$20.8 billion into the financial system today and policy makers in Korea, India and Hong Kong pledged action if necessary. Asian stocks plunged, extending the worst global sell-off in 21 years, on concern the

deepening financial crisis will push economies into recession. Japan's industrial production fell at the fastest pace in at least five years in August and in South Korea a drop in shipments overseas widened the current-account deficit to a record.

### DOMESTIC

Considering the huge funding requirements of the sector, particularly for meeting Rupee expenditure, RBI has revised existing limit of USD 100 million to USD 500 million per financial year for the borrowers in the infrastructure sector for Rupee expenditure under the Approval Route. ECBs in excess of USD 100 million for Rupee expenditure should have a minimum average maturity period of 7 years. In view of widening of credit spreads in the international financial markets, the all-in-cost ceilings for ECBs of more than seven years are modified from LIBOR plus 350 bps to LIBOR plus 450 bps.

Further, Indian Oil Corp., the nation's biggest refiner, said its oil import costs may climb as much as 70 percent to \$45 billion this year, adding to increased borrowings and revenue losses from selling fuel below cost. The New Delhi-based refiner is paying \$110 to \$115 for every barrel of oil it buys from overseas, compared with an average of \$79 a barrel in the year that ended in March.

### CBLO

The CBLO rates moved up higher tracking huge liquidity crunch in the banking system due to advance tax outflow and global turmoil. CBLO rates ranged between 9.00%-14.50%. Liquidity situation in the system is expected to remain tight and overnight rates will remain at elevated levels.

## Government Securities and Treasury Bills

The Government of India has completed the issuance of dated securities for the first half of the current fiscal year as per the indicative calendar covering the period of April 1, 2008 to September 30, 2008. Keeping in view the emerging requirements of the Government, market conditions and other relevant factors, the Government of India has decided to advance the borrowing programme for the second half of the fiscal year 2008-09 by auctioning of dated securities amounting to Rs. 10,000 crore on September 26, 2008 of 7.94% GOI 2021 for Rs. 6,000 crore and 8.28% GOI 2032 of Rs. 4,000 crore.

The cut off for 7.94% GOI 2021 came at 9.04%, partially subscribed with Rs 1,641 crores being devolved by Primary Dealers and cut off for 8.28% GOI 2032 came at 9.26% which was fully subscribed.

Further, RBI has announced the indicative calendar for issue of dated securities for the second half of the year 2008-2009 covering the period from October 1, 2008 to March 31, 2009 totalling to Rs 39,000 crores.

WPI inflation for the week ended 13th September, 2008 came unchanged at 12.14% (YoY) which was in line with market expectation of 12.14%.

In the twin auction of Treasury Bills on Wednesday cut off for the 91 day T bill was at 8.56% and for 364 day T-Bill cut off was at 8.80% lower than market expectation. Further, RBI on Friday has announced auction of 91 day T Bill for Rs 5,000 crores and 182 day T Bill for Rs 5,000.

10-year benchmark yields moved higher by 25-30 bps tracking the liquidity tightness and the extra issuance of dated securities of Rs 10,000 crores. Yields of Government securities is expected to remain range bound as some bout of buying may come on behalf of SLR demand and risk aversion.

## Corporate Bonds

The credit spreads Corporate Bonds moved significantly higher in short term bonds tracking tight liquidity. However, spreads in longer tenor bonds have narrowed slightly in wake of hardening of G-Sec yields.

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

Rating			
Tenure	AAA	AA +	AA
1 year	307.80	328.80	353.80
3 year	226.50	244.50	273.50
5 year	232.80	261.80	285.80
10 year	203.80	246.80	277.80

## Rupee

The Rupee weakens against all the major currency because of higher demand of USD as Indian banks are finding it difficult to raise foreign currency overseas. Last week the Rupee depreciated against USD, Euro and GBP from Rs 45.40/\$ to Rs 46.43/\$, Rs 65.74/Euro to Rs 67.95/Euro and Rs 83.15/GBP to Rs 85.38/GBP. However the Rupee appreciated against the JPY.

## FUND MANAGER COMMENTS

The domestic fixed income market is expected to face a lot of challenges as far as the liquidity is concerned. The global market has created a lot of uncertainties in the domestic as far as the corporate bonds are concerned. The Government Securities may remain range bound as risk aversion grows and may range between 8.50%-8.75% during the week. While the banks are craving for some measures by way of RBI action to solve the domestic liquidity problem one feels that measures may not come before its monetary policy scheduled for the next month.

## EQUITY MARKETS

The last week ended on 27th September 2008 was full of bad news which has resulted in deep corrections in the stock market across the world in general and the Indian capital market in particular. The sadness of the Indian market can be visualized as the Index tumbled down above 6% on w-o-w basis and the Nifty closed below 4000 marks for the first time since May 2007.

The Trust of the investors has been shattered very badly inspite of salvaging of the capital market by the Central Banks of many countries. For the Indian market, inflation remains unchanged at 12.14%.

The main culprits were the Real Estate Sector (declined by about 13%), IT sector (declined by 11%) and Capital Goods sector (declined by 9%).

The market appears to be in a highly oversold zone so a relief rally due to short covering cannot be ruled out in the near future. Any positive news from the U.S front (like reconsideration of financial bail out plan by Congress, rate cut by Fed Reserve etc.) can also fuel a short rally but such rallies would be for a short period. NAV propping by domestic Mutual Funds may also provide some support to the market.

Further, the current week will be only for four trading sessions and fresh investment can be considered only when global markets show some positive signs of recovery. The expected Q2 financial results of Indian companies will also provide some stock specific cues to the market but definitely in the current scenario, the market will give more weightage to the global sentiments.

