

## DEBT MARKETS

### GLOBAL

Crude oil and gasoline rose in New York as the approach of Hurricane Gustav shut eight U.S. Gulf Coast refineries and 96 percent of offshore oil production. Crude oil for October delivery rose as much as \$2.54, or 2.2 percent, to \$118 a barrel in electronic trading on the New York Mercantile Exchange. The contract traded at \$116.71, up 1.1 percent, at 2:46 p.m. in Singapore. Prices, up 22 percent this year, have gained 1.6 percent since Gustav formed Aug. 25. Gulf Coast refineries have cut at least 1.56 million barrels a day of production, about 9.8 percent of the U.S. total production.

The euro dropped to the lowest level in more than six months against the dollar after a report showed business confidence in Germany fell more than forecast in August. The currency also declined for a second day versus the yen on bets credit-market losses and slowing exports will deter the European Central Bank from raising interest rates this year. The consensus is that it would maintain its rates at current level of 4.25% in its meeting to be held on 4th September 08.

The yen rose against the Australian and New Zealand dollars as a drop in Asian stocks prompted investors to pare holdings of higher- yielding assets funded in the Japanese currency.

### DOMESTIC

#### CBLO

The CBLO rates softened for the most part of the week and ranges between 4.00%-9.50% with some bouts of higher/lower rates. Liquidity situation in the system eased in wake of lower demand as banks has covered for their CRR product in first week. However, the scheduled CRR hike of 25 bps will take out Rs 9,000-10,000 crore from the system which will create some bit of pressure upon CBLO and Call rates.

#### Government Securities and Treasury Bills

In the twin auction of Treasury Bills on Wednesday, the 364 day T bill cut off came below market expectation. It came at 9.18% as compared to the previous fortnight cut off of 9.32% while the 91 day T bill had a cut off of 9.06% which was lower than the previous week.

Yields on Government Securities softened considerably due to strong demand by insurance companies and banks for the purpose of statutory requirements. 10 year benchmark security eased from 8.89% to 8.67% during the week.

#### Corporate Bonds

The credit spreads have moved higher during the week though the Treasury bills yields softened however yields on Corporate Bonds remained range bound. The spreads moved higher by approximately 25-30 bps across the yield curve due to the softening of the Treasury bill yields.

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

Tenure	Rating		
	AAA	AA +	AA
1	213.30	233.30	259.30
3	184.20	201.20	229.20
5	202.20	231.20	255.20
10	190.90	233.90	264.90

### Rupee

The rupee has shown strong volatility against US Dollar tracking the volatility in oil prices and equity market. USD/INR opened last week at Rs 43.79/\$ and moved up to a low of 44.07/\$ and closed at 43.50/\$. As far as its performance with other major currencies is concerned it has also shown similar volatility. Overall Rupee depreciated against the GBP and Yen but appreciated against Euro.

### FUND MANAGER COMMENTS

The GDP growth for the first quarter ending June 2008 was 7.90% vs. 9% YoY. The yields on 10 year Government Securities eased considerably in wake of comfortable liquidity and strong demand by banks and insurance companies. Further easing of oil prices and inflation numbers has made markets participants to believe that RBI may not take any monetary action anytime soon.

The yields on corporate bonds have moved slightly lower,

however spreads have widened due to the degree of easing up of yields of Government Securities is much higher. This was mentioned earlier also that demand for Government Bonds based on the incremental growth in bank deposits of banks. The additional demand was on behalf of redemption of government bonds to the tune of Rs 19,000 crore.

The outlook for money market remains range bound with slight easing bias. Call rates are expected to range between 9.10% to 9.50%. CD and CP rates may remain range bound with downward bias tracking inflows on behalf of redemption of government bonds.

The outlook for Government security market remains cautious with strong influence of inflation numbers and crude oil prices.

The WPI numbers for the week ended 16th August, 2008 came at 12.40% lower than the previous week of 12.63% which boosted the market sentiments. The inflation for the week ended 23rd August, 2008 is expected to remain around the current level of 12.40%-12.60%.

## EQUITY MARKETS

The week ended on 29th August 2008 has witnessed a seesaw action. Last week, which was started on a firm note but subsequently could not rise further due to profit booking mainly on account of expiry of F&O segment and expected higher inflation figures. The last week has also witnessed an interesting development when rollover till Wednesday was quite poor and it was expected that the rollover would be lowest in the recent past. However, the rollover finished the August expiry with an impressive 84% against 80% in July and average of 82% in last couple of months.

Interestingly, the market started the new series for the month of September with a bang when the Nifty ended the day with a significant gain of 146 points or 3.46% higher at 4360. The movement in the Nifty on Friday recovered the losses of previous two days i.e. Thursday and Wednesday. The volumes were also high. This buoyancy on the last day is mainly on account of rumors of decline in inflation figures and better GDP numbers. The Indian economy grew 7.9% in the quarter ended June 2008 against the expectation of 8.1%. Annual inflation however, eased in mid August to 12.4% as against 12.65% in the previous week.

The week starting from September 1, 2008 appears to be a non-event week on account of a holiday in the US on Monday and for the Indian market on 3rd September on account of Ganesh Chaturthi. The NSG meeting which is scheduled to be started on September 4, 2008 is to be watched and future market behaviour may depend on the outcome of this meeting. Weakening of INR against the dollar will have its positive impact on a sector like IT.

Following developments may have its own impact on the market in due course:

- Equity of about 40 foreign pension funds in India despite the turmoil in global markets.
- Withdrawal of RIL proposal for transfer 80% of its participatory interest in KG basin to its various wholly owned subsidiaries.
- In the last few weeks, about 244 new FII's have registered with SEBI. This clearly indicates about FII's interest in the Indian economy and capital market.

With all fairness, we still believe that the market is unable to give any direction and likely to be remain sideways during this week.

