

DEBT MARKETS

GLOBAL

The U.S. economy expanded less than what was forecasted in the second quarter as the drag from housing and rising unemployment blunted the impact of federal tax rebates.

The economy grew at a 1.9 percent annualized rate from April through June, after a 0.9 percent pace in the first quarter that was lower than previously estimated.

The Federal Reserve extended its emergency lending programs to Wall Street firms through January after policy makers judged that markets are still "fragile."

The FOMC meeting this week is expected to keep interest rates at the current level and may however give its comments on inflation and the slow down in the economy.

U.K. house prices declined the most in almost two decades in July and consumer confidence fell to a record low as the economy edged closer to a recession.

Inflation in Europe accelerated to the fastest pace in more than 16 years in July after oil prices reached a record. The inflation rate rose to 4.1 percent from 4 percent in June, the European Union statistics office in Luxembourg said today. The rate, the highest since April 1992, matched the median estimate of 36 economists in a Bloomberg News survey. A separate report today showed unemployment remained at 7.3 percent.

China's debt ratings were raised by Standard & Poor's as its foreign-exchange reserves surged and the economy withstood a U.S. slowdown.

DOMESTIC

CBLO

The CBLO rates moved lower and came down to 4.00% also on the Reporting Friday as most of the banks were covered for the reporting fortnight. The volumes in CBLO were also higher as compared to the previous week. However with the start of the new fortnight the rates may once again move in the range between 8.50-9.00% for the week. The liquidity support would be provided by the RBI and can range between Rs 200 billion to 350 billion for the week.

Government Securities and Treasury Bills

In the twin auction of Treasury Bills on Wednesday the 364 day T bill cut off came higher at 9.56% as compared to the previous fortnight cut off of 9.45% while the 91 day T bill had a cut off of 9.36% as compared to the previous week cut off of 9.06%.

There is an auction of Government Securities during the week to the extent of Rs 100 billion in two issues. The cut off for the 10 year GOI is expected to be between 9.30-35% since the same is based on the uniform price basis. The yield on the 24 year security to be auctioned may come around 9.75-9.80%.

Corporate Bonds

The credit spreads narrowed mainly on account of higher yields on the cut off for the 91 day and 364 day. Also, the corporate bonds yields had already started to move up before the credit policy; hence the reaction post credit policy was slightly benign. The yields and spreads may still remain high as not much of liquidity is there in the system.

SPREADS OF CORPORATE BONDS AS ON 1ST AUGUST 2008 OVER G-SECS

Rating			
Tenure	AAA	AA +	AA
1 year	143.90	164.90	189.90
3 year	148.40	165.40	193.40
5 year	133.80	148.80	168.80
10 year	122.70	149.70	196.70

Rupee

The rupee opened during the week at 42.30 and remained range bound for most the week. It depreciated to 42.54 during the week inspite of RBI hiking the policy rates. It however closed at 42.40 for the week. As far as its performance with other major currencies is concerned it appreciated the Euro and GBP but depreciated slightly against the Japanese Yen.

FUND MANAGER COMMENTS

The yields on 10 year Government Securities the prices remained volatile during the week of the credit policy. The yields touched 9.54% on the ten year post the announcement of the Repo rate hike by 50bps. However the yields once again moved down and touched 9.23% during the week mainly on account of the CBLO rates and oil prices moving lower.

The inflation figures came higher at the 11.98% higher than the previous week of 11.89%. Though the pace of ticks is reduced slightly during the last two weeks it still remains at elevated levels.

It had been brought forward in the previous week report that the RBI may hike the CRR and the Repo rates, however the hike of 50 bps in the Repo rate came a bit of a surprise though the CRR hike of 25bps was as per the market expectation.

This shows that the present state of affairs is not in the comfort zone of the RBI. RBI has clearly stated that it targets the credit growth as a major concern which needs slow down. It has also indicated that the quality of credit dispersal needs to be monitored closely. It has revised the GDP growth target to 8.00% from 8.50%. It also revised the expected inflation for the FY year 2009 to be around 7.00%. It has thus sacrificed growth targets to bring the inflation within the tolerance level.

EQUITY MARKETS

The week that ended on 1st August 2008 has witnessed a seesaw movement in the Sensex. The market has corrected by about 1150 points during the first two days of the week, which was partly on account of the RBI'S announcement to hike in CRR and Repo rate and also on account of global clue.

In the balance three trading sessions, Sensex moved upward by more than 1500 points, mainly on account of a fall in the crude price, which touched a low of about \$120 per barrel and short covering by FIs. It is the 4th week, when the market closed higher than the previous week. This is a good sign and indicates positive movement in the coming week.

In the absence of any domestic triggers, market is expected to take cues from overseas markets. Fed Reserve's meeting on Tuesday will be the key event for this week to be eyed upon. Short position of the July expiry has not been carried over much to the August month expiry. This indicates that F&O investors do not expect further downside in the market. The behaviour of the market in the last couple of weeks gives the signal of consolidation and downward risk appears to be low. Sensex is expected to be in the range of 12800 to 15300 levels in the near future. Some upward rally is expected in the midcap stocks.

We, therefore, believe that market volatility can be used for trading purposes and buying can be initiated at the time of major correction.

