DEBT MARKETS

Global

US Treasury yields eased in backdrop of safe haven buying. Dallas Fed Manufacturing Index for April 2009 was noted at negative 31.6 compared to market estimates of negative 44.2. 10 years bond closed at 2.90%. The yen fell for a fifth day against the euro, its longest losing streak in six weeks, and slid to a six-month low against Australia's dollar signs the recession is easing spurred investors to buy higher-yielding assets. The yen fell against all of the 16 most-traded currencies after China's manufacturing expanded for the first time in nine months.

Domestic

Inflation for the week ended April 18, 2009 was at 0.57%, which was above the market expectations. The inflation reported was higher on account of sharp rise in manufacturing index. RBI in its "Weekly Statistical Report" has reported the breach in "Ways and Means Advances (WMA)", a borrowing facility given by RBI to the Government to the tune of Rs 200 bn. It has been reported that the Government has borrowed around Rs 400 bn in last fortnight.

CALL & CBLO

Money market closed range bound with slight hardening bias tracking the long weekend. The average amount absorbed by RBI through its LAF Reverse Repo was more than Rs 1.10 tn. The overnight call rates were ranged between 3.25%-3.35% for the week and the overnight CBLO was ranged from 1.00% to 3.25% for the week ended April 29, 2009.

Government Securities and Treasury Bills

The yields on government securities were flat with hardening bias. The benchmark 10 Year G-Sec closed at 6.23% against 6.17% previous week. The negative bias was on account of profit booking and in absence of positive cues in the market. Further Government has announced the T-bill auction of Rs 90 bn to be held on May 06, 2009.

Corporate Bonds

The yields of corporate bonds also remained flat. However, the spreads on the longer end of the curve narrowed due to relative hardening in Government security.

Rupee

INR depreciated against USD in wake of strengthening of USD against the major currencies and lower export demand. INR closed at 50.52 against USD.

Fund Manager Comments

Liquidity for this week also is expected to remain at comfortable levels. Short term money market rates are expected to remain flat with slight hardening bias due to low demand. Yields on government security is expected to harden slightly in wake of higher borrowing by Government in WMA which will further trigger the fear of over supply of government bonds. Looking at the way yields of G-Sec is moving we prefer to adopt the cautious stance. As yields on the money market instruments move up, it will create the new opportunity in Liquid and Liquid Plus. For the long term investor the hardening of G-Sec yields will pave the way for attractive returns in Income Fund.

SPREADS OF CORPORATE BONDS AS ON 29th April 2009 OVER G-SECS

Rating			
Tenure	AAA	AA +	AA
1 year	182.80	200.80	219.80
3 years	149.60	167.60	186.60
5 years	141.50	160.50	180.50
10 years	173.90	192.90	230.40

EQUITY MARKETS

The expectation of a recovery in the domestic and global economies has supported the markets which posted positive gains for the eighth consecutive week. Additionally, better then expected results for Q4 Financial Year 2009, along with expectations of near normal monsoon, have helped the broader indices. It was a three day short week for Indian stock market and closed mixed, despite a very strong pull back on large cap segment on the last day. Among key indices only Sensex ended positive with a gain of 0.7% while other indices have all closed with a loss.

Sensex went up by 74 points (0.65%) and Nifty went down by 7 points (-0.2%) to close at 11,403 and 3,474 respectively. The revival was restricted to large cap segment. CNX mid cap and BSE small cap indices closed with a respective loss of 2.5% and 3.1%. IT sector posted a smart recovery this week and this index closed with a gain of 4.2%. Bank and Telecom are the other sectors that posted an overall gain of over 1%. Realty was once again on the block and this sector index lost 5.6%. Metal and Consumer Durable sectors lost over 3% while Power and PSU stocks lost between 1% and 2 %.

Market was very volatile and individual scrip movement erratic. Sustenance of the uptrend depended purely on the net position of FIIs. When they net sold, the market tanked and when they net bought the market went up. During the week, FIIs were net buyers to the tune of Rs 2,664.8 crore. Mutual Funds sold stocks worth Rs 396 crore. Overall volumes were stable. Globally, key stock indices were seen moving in agreement with the dollars relative value against the euro. When the dollar strengthened the stock indices weakened, when the dollar weakened the stock indices strengthened. The political uncertainty will continue to be an overhang on the markets and thus cap any significant upside. Support comes in the form of foreign funds that continue to invest in the Indian markets. Also, global news flow, relating to the economic recovery particularly the US economy, will be crucial. In this context, investors also need to watch stocks in the IT sector which will directly benefit from the recovery. Expect a high degree of volatility during the week.

However, there are many blue chip stocks with strong operating cash-flows and robust business model available at attractive valuations. We think its good times to start bottom fishing and cherry pick stocks as the valuations are compelling due to the broader market fall and negative sentiments. Long term investors should use the next few months to get invested in large-cap oriented funds through SIP route.