

DEBT MARKETS

Global

The US treasury markets remained bearish during the week. The 10 yrs paper yield climbed 26 basis points to 3.80%, the highest level in 4 months. The spread between the 2 yrs and 10 yrs papers widened to 2.88% during the week, on speculations that the sustained recovery will fuel inflation and reduce the demand for long term US treasuries. The crude oil rose during the week by more than 6.5% to close the week at USD 78.05 per barrel, where as the Gold prices remained stable at USD 1105.45 per ounce.

Domestic

The overall bearish sentiment in bond market witnessed last week continued on apprehension of sooner policy reversal. Also the rising US treasury yield, record quantum of US treasury auction, and the climbing crude prices put pressure on domestic bond yield too. The week started with the benchmark 10yrs bond trading at 7.73%, however softer primary inflation number 14.66% (y-o-y), lower than 14.98% last week, and absence of any auction led to some value buying. The 10yrs benchmark bond closed the week at 7.68% marginally lower than the last week close.

CALL & CBLO

The liquidity was comparatively easy but money market rates hardened because of a long weekend. The range for MIBOR was 3.30%-3.51% during the week. The Inter-bank Call and CBLO range were 2.75%-3.75% and 2.00%-3.59% respectively.

Government Securities and Treasury Bills

The G-Sec market last week was range bound in absence of any clarity on RBI action. The rising inflation and mixed comment from RBI and PM Economic panel, coupled with

rising US treasury yield and benign Primary article inflation led to range bound G-Sec yield. The benchmark 10yrs G-Sec remained in the range of 7.68%-7.73%. The RBI conducted 8000 Cr of T-Bills auction last week which was fully subscribed. The cut-off for the 91days T-Bill was 3.77%, higher than 3.68% seen previous week. The 182days T-Bill auction saw a cut-off yield of 4.34%, higher than 3.82% seen previous auction.

Corporate Bonds

The corporate bond yields too came off tracking the G-Sec market. The 5yrs benchmark bond traded around 8.23% while 10yrs benchmark bond traded around 8.68% levels.

Rupee

The activity in the forex markets remained subdued as most of the traders remained away due to Christmas long weekend. The rupee traded in a very narrow range of 46.65-46.93 for the week ending on December 24. It appreciated by 0.16% to close at 46.65.

Fund Manager's Comment

Indian Fixed Income market G-Sec Volumes is likely to come down during the last week of the year. The trading interest will emerge once there is more clarity on RBI incorporating any change (upwards) in the CRR to take out the excess liquidity. The liquidity condition is likely to ease out further, easing out the low end of the yield curve. The returns for the Liquid schemes of Debt based Mutual funds are likely to be better than previous fortnight.

Market Indicators as on 25th December, 2009

	24/12/2009	18/12/2009	% change
INR/USD	46.65	46.725	-0.16
Inflation	NA	NA	NA
Oil (\$/bbl)	78.05	73.26	6.54
Gold (\$/oz)	1105.45	1113.20	-0.70
10 years G-Sec	7.68	7.719	-0.51
10 years AAA	8.6625	8.68	-0.20
Call Money	3.32	3.28	1.22

Source: Bloomberg

EQUITY MARKETS

The Indian markets surged ahead during the current week of trade, with both the benchmark indices, the BSE Sensex and the NSE Nifty, ending higher by 3.8% each. Both the BSE Mid-and Small-Cap indices, however, underperformed the benchmark Sensex, gaining 2.6% and 3.0%, respectively. The BSE Sensex gained 641 points and ended the week at 17361 while Nifty shut shop at 5178, a gain of 190 points on the weekly basis. The BSE Metal Index gained 6.8% over the previous week, outperforming the Sensex by 3%. Among the ferrous pack, SAIL, Tata Steel, JSW Steel and Jindal Steel were up by 11.3%, 9.3%, 4.8% and 2.6%, respectively, on the back of expectations of steel prices firming up next month. Among other sectors, Bankex was up by 4.5% followed by PSU (+4.5%) and BSE IT (+2.5%). Strong Advance tax flow coupled with Finance minister's forecast of growth rate at 7.75% in FY2010 has sparked the rally in the equity markets. FII's were net buyer to the tune of Rs.1726cr.

Core Infrastructure Index grew 5.3% in November 2009 (0.8% in November 2008) taking cumulative April-November 2009 core industries growth to 4.6% (3.5% in April to November 2008). The latest data showed that corporate advance tax payments for the October-December 2009 quarter shot up sharply at 44% to Rs 48,300 crore against a 3.7% decline in April-June quarter and a 14.7% increase in July-September quarter. The company-wise break-up of advance tax collection suggests a broad-based recovery with automobiles, cement,

metals and consumer goods, doing well. Food price index rose 18.65% in December 2009. This has reinforced market expectations of a hike in Cash Reserve Ratio (CRR) by the central bank to suck out excess liquidity in the banking system so as to control inflation.

During the week, the media reports suggested that Indian power generators including NTPC may be allowed to sell as much as 50% of unallocated electricity from new plants at market prices. This will have some positive impact on their revenue growth of the company. India's textile exports grew by 8% in November after declining for more than a year, because of a recovery in demand in Europe, African and Latin America exports started falling October last year.

Senate Democrats cleared the last 60-vote hurdle on Obama's healthcare overhaul, virtually ensuring final passage of its version of the biggest health policy changes in 4 decades. On the first day of Trading after Copenhagen summit, European and United Nations carbon prices fell (-8.3%) the most since February, after the climate accord didn't set targets that would boost demand for permits.

The next week is expected to remain range bound on back of the year end holiday season which is expected to have less participation in the equity markets. Thursday can see some action on back of the December future expiry but overall we expect a very flat trading week ahead.