

## DEBT MARKETS

### Global

US Treasuries fell, with the 10-years note posting its biggest weekly loss since June 2008, as the U.S. prepared to resume debt sales after a two-week pause. Yields on 10-years notes climbed above 3.4 % for the first time since November 2008 as investors also raised concern about the possibility that record supply of Treasuries to pay for a mounting budget deficit may jeopardize the U.S.'s AAA credit rating.

### Domestic

The inflation for week ended 9 May, 2009 was at 0.61%, higher than 0.48% noted previous week. The index increased tracking rise in prices of Primary Articles (tea, bajra, raw cotton etc) and Manufactured Products (Food Products & Textiles). The reading on inflation was in line with market expectations.

### CALL & CBLO

The money market rates remained range bound amidst continued comfortable liquidity position. Overnight call rates were ranged from 3.00% to 3.50%. The overnight CBLO rate was in the range of 0.50% - 3.75%. The average amount absorbed under LAF Reverse Repo was around Rs 1.25 tn.

### Government Securities and Treasury Bills

The yields in G-Sec market hardened tracking the oversupply of G-Sec. The 10 - years closed at 6.48% higher than previous week level of 6.38%. In the G-Sec auctions of Rs 150 bn the cut-off for 6.07%

GOI 2014, 6.35% GOI 2020, 8.24% GOI 2027 and 7.50% GOI 2034 was at 6.09%, 6.85%, 7.49% and 7.56% respectively. The cut offs were slightly above the market expectation.

### Corporate Bonds

The spreads of corporate bonds remained at previous levels. However, the parallel shift on yield curve was observed in wake of hardening of G-Sec yields. The shorter end of the curve also remained in the range tracking the low demand.

### Rupee

INR continued to appreciate and closed at 47.13 against USD. The sharp appreciation in INR was mainly on account of USD weakening against all the major currencies.

### Fund Manager Comments

Liquidity for the week is expected to remain comfortable. Money market rates are expected to remain range bound with slight hardening bias tracking the lower demand of longer papers. G-Sec yields are expected to harden slightly in fear of higher than estimated borrowing by government. Secondly, the yields on 10 - years benchmark is also expected to harden tracking rumour of issuance of new 10 - years benchmark due larger outstanding in current 10 - years benchmark.

## Market Indicators

	22/05/09	15/05/09	% change
<b>INR/USD</b>	<b>47.19</b>	<b>49.55</b>	<b>-4.76</b>
<b>Inflation</b>	<b>0.61</b>	<b>0.48</b>	<b>27.08</b>
<b>Oil (\$/bbl)</b>	<b>61.55</b>	<b>56.47</b>	<b>9.00</b>
<b>Gold (\$/oz)</b>	<b>956.35</b>	<b>930.7</b>	<b>2.76</b>
<b>10 year G-Sec</b>	<b>6.48</b>	<b>6.38</b>	<b>1.57</b>
<b>10 year AAA</b>	<b>8.65</b>	<b>8.57</b>	<b>0.93</b>
<b>Call Money</b>	<b>3.25</b>	<b>3.25</b>	<b>-</b>

## EQUITY MARKETS

Indian stock market reacted positively to the election outcome that delivered a stable government, against market expectation of an unstable collusion government. The decisive verdict for the Congress-led UPA saw the bulls come out in force and provide the momentum to last week's rally. The market celebrated the event by hitting the roof of the circuit breaker twice (10%, +5%) within 30 seconds of opening for the first time in its history, and trading was halted for the day. During the week Sensex and Nifty went up by 1714 points (14.08%) and 567 points (15.44%) to close at 13,887 and 4,239 respectively

The story was different the next day and the Indian market clocked its highest ever turnover, with a very sharp increase in cash segment, as borrowed shorts were squished out when index gained over 15% the previous day. Compared to broader indices, the rally in the BSE Small-Cap and BSE Mid-Cap was larger with gains of 29 per cent and 25 per cent, respectively. Realty was the largest gainer this week and the index rose 38%. Capital goods got a boost on expectation that the infrastructure sector would get a quick and strong

boost from the new government and this index gained 28%. Expectation of fast and increased dilution of government holding in public sector companies send positive vibe around PSU stocks as a whole and this sector gained 27%. On the contrary, strengthening rupee was seen as the weak spot for IT sector and this index was the only one to end the week with a loss (-0.7%). FMCG managed to stay afloat with a nominal gain of 1.2%.

Although political uncertainty is over and the market has reacted quite positively, volatility is extremely high. FIIs invested US\$ 643 mn in cash. For current month total investment is US\$ 2,268 mn. DII sold US\$ 398 mn in cash. For current month total investment is US\$ -266 mn. The market is expected to be liquidity driven and falling in line with global cues. FII net fund flow direction will be the key issue that would determine future momentum.

Post the allocation of portfolios to ministers, the markets will be looking forward to policy announcements for further direction. However, near-term upsides appear to be capped as these expectations have been factored in. FIIs are playing a crucial role in the current rally and their extent of participation could influence the market movement.

Indices	22/05/09	15/05/09	Points change	% change
<b>BSE Sensex</b>	<b>13887.15</b>	<b>12173.42</b>	<b>1713.73</b>	<b>14.08</b>
<b>S&amp;P CNX Nifty</b>	<b>4238.50</b>	<b>3671.65</b>	<b>566.85</b>	<b>15.44</b>
<b>BSE 100</b>	<b>7241.69</b>	<b>6219.37</b>	<b>1022.32</b>	<b>16.44</b>
<b>BSE 200</b>	<b>1684.27</b>	<b>1437.53</b>	<b>246.74</b>	<b>17.16</b>
<b>CNX Midcap</b>	<b>5083.65</b>	<b>4142.20</b>	<b>941.45</b>	<b>22.73</b>
<b>S&amp;P CNX 500 Shariah</b>	<b>973.85</b>	<b>853.35</b>	<b>120.50</b>	<b>14.12</b>

Weekly FII & MF net flows (Rs. in crs.)	Equity		Debt
	FIIs	<b>6011.20</b>	<b>-116.10</b>
	MFs	<b>-931.90</b>	<b>1928.20</b>