

DEBT MARKETS

Global

US Treasury yields hardened tracking better than expected Jobless Claims data. The Jobless Claims for week ended April 12, 2009 was noted at 610,000 lower than market expectations of 660,000. Euro slid to a one-month low against the dollar and weakened against the Yen on speculation the European economy will deteriorate as central bank officials disagree on measures needed to combat the recession. The Euro weakened against 13 of the 16 most-active currencies this month on signs the recession in the 16-nation region is deepening.

Domestic

The inflation for week ended April 4, 2009 was at 0.18%, slightly lower than 0.26% noted previous week. The index increased tracking rise in food articles (fruits and vegetables) and non-food articles (rubber, cotton, etc).

CALL & CBLO

The money market rates remained soft tracking comfortable liquidity in the system. The average surplus liquidity parked by banks under RBI LAF reverse repo was more than Rs 1 trillion this week also. Overnight call rates remained between 3.20% - 3.60% and average CBLO rates remained between 2%-3%.

Government Securities and Treasury Bills

The G-Sec market rallied tracking positive sentiment in the market. The cut-offs in G-Sec auction were in line with market expectations. The yields hardened a bit towards the end in backdrop

of profit booking by market participants. The cut-off for the 7.56% GOI 2014 was at 6.10% and for 8.24% GOI 2027 was at 7.44%. The benchmark 10 years G-Sec closed at 6.40%.

Corporate Bonds

Rates for short end eased further. Spreads between AAA corporate bonds and G-Sec also narrowed slightly tracking the easy liquidity situation. However, profit booking at longer end has capped the significant gains in the longer bonds.

Rupee

INR appreciated against USD at the beginning of the week tracking lower import demand and appreciating equity markets. However it depreciated at the close tracking the strengthening of USD against all the major currencies.

Fund Manager Comments

Liquidity situation is expected to remain at current levels. Short term money market rates will remain at these levels with slight easing bias. We are expecting the RBI to maintain status quo on interest rates in forthcoming monetary policy on April 21, 2009. And if the above holds true there might be slight hardening of G-Sec yields. However, looking at liquidity situation aggressive buying of government securities may continue and will push yields down if 10 years benchmark moves above 6.50%. We expect that Income funds will perform better as traders will take fresh position after the policy results.

SPREADS OF CORPORATE BONDS AS ON 17th April 2009 OVER G-SECS

Rating			
Tenure	AAA	AA +	AA
1 year	172.90	190.90	209.90
3 years	192.10	210.10	229.10
5 years	154.60	173.60	193.60
10 years	184.70	203.70	223.70

EQUITY MARKETS

Signs of economic recovery, easing credit situation and positive cues from the international markets helped the Sensex and Nifty to gain by 219 points (2.03%) and 42 points (1.27%) to close at 11,023 and 3,384 respectively. FII's were on a charge and pumped in the highest amount of money in to the stock exchange after December 2007. Since March 9, 2009 when Sensex touched its year's low of 8160, FII's have pumped over Rs 60 billion and the market has scaled new peak week after week. During this period, Sensex posted a gain of over 35%. This week alone, the net inflow from FII's was Rs 24.1 billion while domestic institutions sold Rs. 8 billion.

What was really new this week was that the results of Infosys have failed to set the tone in line with the glum picture that was emanating from its guidelines. It was the retail participation that continued to hold the market sentiment high despite strong domestic institutional selling. The buying in mid and small cap counters helped the respective indices outperform the broader indices with positive gains of 3.4% and 4.88% respectively. Many banking stocks posted over 15% gains and BSE Bank index ended at top among sector indices with a gain of 9.5%. Many stocks in realty and capital goods

segment gained sharply and these indices gained over 6%. There was a further increase in volume this week and it rose by 15% in cash segment and over 19% in Futures.

The week ahead could be more volatile partly due to the ongoing elections and the results season. Profit-booking may emerge at higher levels given the strong rally in the past few weeks preventing larger gains for the indices. The Reserves Bank of India's meeting on April 22, 2009 to review the interest rates is an important event to watch out for inflation reaching historically low levels of 0.18% could result in RBI cutting interest rates further. Also, the global markets and flow of FII money could determine the trends. On a positive note, the Indian Meteorological Department on April 17, 2009 forecasted a near normal monsoon this year.

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.