

DEBT MARKETS

Global

The Fed's plan to buy \$300 billion of government bonds signaled Bernanke's determination to keep market rates from rising as the Treasury sells records amounts of debt to finance U.S. President Barack Obama's stimulus plan. The Fed also committed to purchasing \$750 billion of mortgage-backed bonds issued by government-sponsored enterprises, plus another \$100 billion of their debt obligations. Treasuries had their biggest one-day rally since 1962, with yields on 10-year notes falling 47 basis points to 2.54 percent, after Fed policy makers announced their plan.

Domestic

The inflation based on the Wholesale Price Index for the week ended 7 March, 2009 was seen at 0.44%, sharply lower than 2.43% which was noted previous week. The fall in the inflation rate was primarily on account of a higher base effect.

CALL & CBLO

The money market rates hardened tracking continued tightness in liquidity. The overnight call rates were seen around the 4.50-5% levels. The average LAF deployments were around Rs. 200 bn. CBLO volumes have gone up from Rs. 600 bn. to Rs. 720 bn. indicating the surplus cash with mutual funds.

Government Securities and Treasury Bills

Yields on G-Sec moved in a very volatile range throughout the week tracking the auction results and inflation numbers. The new 10 year benchmark has moved in a range of 6.25% to 6.55%. Further, RBI has announced G-Sec auction of Rs. 120 bn to be held on 26 March, 2009. The RBI has also announced the State Development Loan auction of Rs. 50.48 bn. to be held on 24 March, 2009. However to inject liquidity and to reduce the upside pressure on G-Sec yields. The RBI has announced the OMO auction of Rs. 100 bn. to be held on 25 March, 2009.

Corporate Bonds

The corporate bond yields hardened tracking the volatility in the G-Sec market. The benchmark 5Y and 10Y AAA yield closed at 9% and 9.25% respectively. The short term yields also hardened tracking the tightness in liquidity.

Rupee

The INR appreciated sharply due the dollar weakening across the globe. The dollar weakened against its major counterparts amidst increasing concerns over US economy and financial markets.

Fund Manager Comments

Liquidity in the system is expected to remain at current levels with slight easing bias as pressure of advance tax outflows is over now. Call rates are expected to remain in the range of 4.25-4.50%. However, auction outflow may put some pressure of overnight rates. G-Sec yields are expected to harden

from here tracking the auction of T-Bills, SDLs and G-Sec of Rs. 250 bn. versus the OMO of Rs. 100 bn. Further more, the auction calendar for the first half of the next financial year is expected to be released in this week which will put more pressure on the yields. Factors to look for in the week will be auction results and segmentation of the G-Sec auction calendar.

SPREADS OF CORPORATE BONDS AS ON 20th March 2009 OVER G-SECS

Tenure	Rating		
	AAA	AA +	AA
1 year	285.50	303.50	322.50
3 years	224.90	242.90	261.90
5 years	217.40	236.40	256.40
10 years	206.40	225.40	245.40

EQUITY MARKETS

Indian stocks gained further ground for the second consecutive week, keeping in line with global clues. Broader indices delivered positive returns for the 2nd consecutive week. The Sensex and Nifty went up by 210 points (2.4%) and 88 points (3.23%) to close at 8,967 and 2,807 respectively. Investors went bargain hunting in small and mid caps pushing up the respective indices 6.2% and 4.6% respectively. The key driver was persisting positive inflow from FIIs in the cash segment, which commenced last Friday after a gap of a month. Domestic insurance and mutual funds have also pumped further net cash in to the market while retail segment turned out to be the net seller. However, the market could not sustain the strength on the last day as both, FIIs and DII, have turned net sellers. Inflation at 0.44% for the week ended 7 March, 2009 was positive for the markets.

Global events were purely driven by announcement that the US government will generate an additional liquidity of 1.3 trillion dollars through purchase of US treasury and asset backed securities. This news on the possibility of enhanced liquidity drove up all asset classes and core commodities. The main casualty was the US dollar. The news of expected sharp increase in dollar liquidity beat the currency down against all global currencies. Stocks around the world posted a relief rally. Domestic political developments are yet to make a dent in molding the

sentiment of the Indian stock markets, despite the fact that both the national parties were consistently facing difficult times with their regional allies.

The recently beaten down sectors gained the most this week - Realty (10.5%) and Metals (8.4%). The Oil and Gas sector (4.6%) and PSU segment (3.5%) are the next best gainers in sectoral analysis. Increased apprehension about possibility of a further decrease in capital expenditure worked against the interest of capital goods segment and this index was the only one to end the week in negative.

Liquidity generation in the US and UK was the key trigger for stocks this week. But one has to see how much of this additional liquidity will genuinely flow in to stocks as well as to international markets to sustain this rally. The Indian market would continue to tag along with the global sentiment until domestic election fervor builds up sometime in early April.

However, there are many blue chip stocks with strong operating cash-flows and a robust business model available at attractive valuations. We think it is a good times to start bottom fishing and cherry picking 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 the SIP route.