

DEBT MARKETS

Global

Bank of Japan has purchased corporate bonds worth USD 10.6 bn to ease credit off take in the economy while keeping the benchmark lending rate unchanged at 0.1%.

China infused USD 37 bn for the energy projects to stimulate growth as part of the stimulus package approved by the government for the oil refining and petrochemical industry in addition to the Yuan 4 tn stimulus announced in November 2008.

Domestic

Inflation for the week ended February 7, 2009 was at 3.92%, down by 41 bps W-o-W. Government has announced the interim budget on February 19, 2009 where in they have projected the fiscal deficit for Financial Year 2009 to be 6% and for Financial Year 2010 at 5.5%. Other major announcement was that market borrowing worth Rs 450 bn for Financial Year 2009 will be made by converting bonds under MSS into regular bonds.

CALL & CBLO

Liquidity in market continued to remain comfortable as indicated by amount absorbed the RBI under LAF Reverse Repo. However, the average daily amount parked with RBI by banks under the Reserve Repo dipped slightly by Rs 65 bn to Rs 421 bn in the week volumes under CBLO increased to eight-month high to Rs 552 bn reflecting higher degree of cash surplus with mutual funds.

Government Securities and Treasury Bills

Last week for G-Sec market reflected the mix of the sentiments as at the starting of the week market

was slightly positive because of the build up anticipation of some action in the interim budget. However with the announcement government borrowing in Financial Year 2010 of Rs 3.62 tn, the yields hardened by 25 bps. Some bout of relief came when RBI announced the buyback of Government securities worth Rs 60 bn through Open Market Operation.

Corporate Bonds

Non-SLR markets remained range bound with slight hardening bias. The hardening of G-Sec yields widened the spreads of longer tenure corporate debt and more buying was seen in less than five years public sector bonds.

Rupee

INR slipped sharply due to aggressive buying by importers and widening of fiscal deficit which increases the fear of downgrade of sovereign rating of India. The INR broke to as low as INR 50.06/USD.

Fund Manager Comments

Liquidity in the system will remain at current levels without much hardening pressure. Due to uncertainty prevailing in interest rate market, G-sec yields are expected to remain range bound with hardening bias. Major factor to watch for the coming week will be auction result of G-Sec worth Rs 120 bn and T-Bill worth Rs 80 bn. Factors which will also contribute will be WPI inflation numbers and movement of crude oil and global markets.

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

Tenure	Rating		
	AAA	AA +	AA
1 year	292.50	310.50	329.50
3 years	281.80	299.80	318.80
5 years	261.60	279.60	298.60
10 years	280.60	298.60	317.60

EQUITY MARKETS

Indian stocks tanked as the interim budget presented on Monday, disappointed the street, and as operators' unwounded their pre-budget position. From day one it was crystal clear that the interim budget was a vote on account, which can not address any policy issues. However during the previous two weeks, there was pre-budget proprietary position built under the pretext of India having decoupled from global trend as well as the budgetary expectation. However what followed the next day was an all around persistent FII unloading of stocks. Sensex fell 792 points or 8.2% to 8,843 whereas NIFTY fell 212 points or 7.2% at 2,736 in the week, the largest weekly fall since October 2008. In fact, Sensex fell in 4 out of 5 trading sessions in the week.

After remaining reluctant sellers for over a month, FIIs turned forceful sellers since Tuesday and it persisted through the rest of the week amid thin volumes. Markets were expecting tax sops and sector-specific measures from the government but were disappointed as the interim budget turned out to be a performance report of the government. The market sentiment was nervous due to selling pressure from the FIIs. When the budget failed to prop up sentiment, the market was trying to get consolation under expectations of a likely policy rate cut by RBI. Those expectations were jolted on Thursday when the central bank did market purchase of treasuries at the prevailing high market yields. Meanwhile, inflation eased to 3.92%, lower than previous week's annual rise of 4.39%.

In line with global trend, the worst hit was the financials and the BSE Bank Index lost the most 14.4%, among all other sectors. Metals (11.2%), Capital Goods (9.1%) and Realty (8.7%) were the other sectors that had registered a higher fall than the key indices.

A sluggish domestic economy and weak global indices might keep the markets subdued. The economy is the biggest headache with IIP data indicating degrowth of 0.25% for the December quarter. American economy is also wilting under the slowdown impact with a rise in unemployment rate. Expect a volatile week due to the expiry of F&O contracts for the month. Positives are the expectations of a rate cut after inflation slipped below the 4% mark and announcement of export sops. Domestically the market has already started shifting its focus towards Parliament elections while global attention is gradually shifting towards trouble brewing in Euro Zone. Both these issues are likely to create even more uncertainties and we expect the market to remain very erratic around the current trading range.

However, there are many blue chip stocks with strong operating cash-flows and robust business model available at attractive valuations. We think its good time 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.