

DEBT MARKETS

Global

The U.S. government is prepared to provide more than \$7.76 trillion on behalf of American taxpayers after guaranteeing \$306 billion of Citigroup Inc. debt. The pledges, amounting to half the value of everything produced in the nation last year, are intended to rescue the financial system after the credit markets seized up 15 months ago.

Stocks slumped worldwide as concern deepened that banks face more write-down and the global recession will stifle profits. The yen rallied as investors shunned higher-yielding assets. Global banks shares dropped fueled by speculation of more bank losses. Commodities and oil slid toward \$50 a barrel, sending commodity producers lower.

Treasuries rose, pushing two-year note yields to a record low as investors sought the safety of government bonds. Federal Reserve policy makers lowered forecasts for U.S. economic growth and employment in 2009, saying the outlook has "worsened significantly" since June. The U.S. economy is expected to contract through the middle of next year, and the unemployment rate is projected to be 7.1 percent to 7.6 percent in 2009.

Domestic

Inflation for week-ended November 8 declined to 8.90%. Indian banks have begun to face the heat of domestic developments. Fitch downgraded debt of UCO Bank and IndusInd Bank, and labeled their outlook as 'negative'. While the former is fraught with erosion of capital (net worth), the latter faces an asset-liability mismatch. Fitch has already issued a warning of a possible downgrade to Dena

Bank and ICICI Bank. Over the next six months, we can expect more downgrades on account of credit constraints and rising NPAs (due to slowing economy, slump in construction and manufacturing activity, and rising unemployment). This could toughen the credit approval process to corporate and consumers, hammering the overall lending business of banks.

CALL & CBLO

The interbank call money rate began the week ending down on Monday as supply was enough to meet the demand for funds. Moreover, the interbank call money rate continued to ease throughout the week amid ample liquidity situation in the banking system and also as demand waned with most banks having met reserve needs for the current Reporting Fortnight. CBLOs were dealt at a weighted average rate of 3.56% compared with 6.93% previous week.

Government Securities And Treasury Bills

RBI set a cut-off in the range of 7.77- 7.86% in the 10-year state development loan for five governments. Further, it set a cut-off at the 5.87%, 2010 GSec and 7.55%, 2010 for MSS GSec buyback auctions. RBI set a cut-off yield of 7.16% on the 7.56%, 2014 GSec and 7.42% on the 7.94%, 2021 GSEC. The GSec market witnessed a buoyant week as rate cut speculations gained momentum till the final trading day. The sentiment was further cemented by plunging crude price which was softened by 11% to USD 50.21/bbl since the beginning of this week.

Corporate Bonds

Yields on corporate bonds were down in the beginning of the week in the shorter tenor on account of improved liquidity conditions in the banking system. Moreover, during the week, yields continued to ease across tenors on account of the improving liquidity conditions and also tracking the easing in the gilt yields during the week. Spreads at

the short and medium of the curve were down by 18 bps and 2 bps respectively on account of improvement in the liquidity situation in the banking system, which had led to easing in the yields in corporate bonds more than that in the gilt yields. However, spreads at the longer end of the curve were up by 5 bps due to excessive supply at long end owing to primary issuances.

SPREADS OF CORPORATE BONDS AS ON 21st November 2008 OVER G-SECS

Tenure	Rating		
	AAA	AA +	AA
1 year	437.80	446.80	453.80
3 year	414.00	425.00	433.00
5 year	392.10	403.10	409.10
10 year	358.30	366.30	375.30

Rupee

INR touched a fresh low of INR 50.60/USD on November 20 due to growing concerns on domestic corporate profitability and flight of fund flows.

will ensure that banks pass on the benefits to end-users. The markets are however expecting 50 bps cut in both the rates.

Fund Manager Comments

We expect that the RBI may take some monetary measures the probability being a repo and reverse repo cut by 25bps during the course of the current year on the base of falling inflation. A cut in repo rate cut will reduce borrowing costs, reverse repo cut

G-Secs have already priced in such a move, and benchmark bond is likely to test the 7% which may be a barrier level for some time. In the absence of such measures however, G-Secs will witness some pull back and may climb up to 7.30%. The 1-year CD rates have eased significantly from 14% and are expected to remain around near 10.00-10.50% the latter would however witness a marginal upside.

EQUITY MARKETS

Equities continued their southward journey over the week despite Friday's bounce. The broader 50-share Nifty ended the week down 116.90 points, or 4.16% at 2,693.45 from its previous weekend's close. Continuing from where they had left on the previous week, the bears were seen relentless till Thursday. Fears of a deep recession in US, Japan and in some other European and Asian Countries triggered the panic selling across the globe. Disappointing outcome from the G-20 summit on the financial market and the world economy, overshadowed the Reserve Banks step's to enhance rupee and forex liquidity, besides reducing the risks weights for corporate and commercial real estate loans.

Expectations of a rate cut following inflation trending down fairly consistently for the past few weeks and short covering in the derivatives segment were among the significant factors that contributed to the market's spectacular surge in the last session of the week. The Prime Minister's statement that notwithstanding the global economic crisis India would be able to achieve a growth rate of 8% aided the sentiment to a notable extent. Although the rally provided some relief, unabated selling by foreign funds still remains a cause for the market.

The market are expected to be volatile next week in view of the expiry of the derivatives contract, which is likely to trigger short covering. The global developments will continue to influence local equity markets.