

DEBT MARKETS

Global

US Treasury yields eased tracking economic data releases. The Jobless Claims for week ended April 19, 2009 was at 640,000 similar to market expectations. The Federal Reserve took on more than \$74 billion in subprime mortgages, depreciating commercial leases and other assets after Bear Stearns Cos. and American International Group Inc. collapsed. In its biggest disclosure of the securities accepted to stabilize capital markets, the Fed said it had unrealized losses of \$9.6 billion on the assets as of December 31, 2008. The bonds, swaps and notes were taken in from Bear Stearns, once the fifth-biggest Wall Street firm by capitalization, and AIG, which had been the world's largest insurer.

Domestic

RBI cut its policy rates in its Annual Monetary Policy Review for Financial Year 2009-2010. The LAF Repo rate and LAF Reverse Repo Rate were cut by 25 bps each and stand at 4.75% and 3.25% respectively. RBI maintained the Cash Reserve Ratio at 5.00% and Bank rate at 6.00.

The inflation for week ended April 11, 2009 was at 0.26%, slightly higher than 0.18% noted previous week. The index increased tracking rise in food articles (tea, fruits & vegetables, etc) and food products (imported edible oil etc).

CALL & CBLO

The money market rates opened range bound tracking comfortable liquidity in the system. However, eased on Friday tracking the reporting week. Call rates were observed in the range of 3.25-3.5 and overnight CBLO rates were ranged between 0.50%-2.75%.

Government Securities and Treasury Bills

The G-Sec market rallied tracking rate cuts by RBI in Monetary Policy. Further, the G-Sec yields eased tracking aggressive cut-offs in G-Sec auction. The cut-off for 10 years benchmark was at 6.13% lower than market expectations. 10 years benchmark closed at 6.12%. RBI has announced the T-Bill auction of Rs 100 bn and State Development Loan Auction for three states for Rs 26.39 bn to be held on April 28, 2009.

Corporate Bonds

Spreads on corporate bonds remained range bound. However, the yields on corporate bonds across the curve rallied tracking the rate cuts.

Rupee

INR depreciated against the USD from previous week's level tracking the higher demand from importers and the global appreciation of USD. However, improvement in domestic equity market has helped INR to appreciate. INR closed at Rs 49.83 against USD.

Fund Manager Comments

In the absence of any major outflow liquidity is expected to remain at current levels. Money market rates are expected to be range bound. Rate cut by RBI was taken as a surprise by the market and G-Sec yields rallied significantly. We are expecting the yields on G-Sec to show volatility with slight easing bias tracking the absence of any major G-Sec auction this week. However, due to profit booking by traders any significant gains may be capped.

SPREADS OF CORPORATE BONDS AS ON 24th April 2009 OVER G-SECS

Rating			
Tenure	AAA	AA +	AA
1 year	182.80	200.80	219.80
3 years	144.20	162.20	181.20
5 years	153.90	172.90	192.90
10 years	191.40	210.40	230.40

EQUITY MARKETS

The market commenced the week on a weak note and key indices lost close to 2% by Wednesday, amid lukewarm net buying interest from FIIs. There was a sudden surge in net buying interest from FIIs since second half of Thursday and the market surged passed its recent highs to close with a smart gain of 3%. Domestic indices ignored the weak global markets and gained for the seventh consecutive week. Sensex and Nifty went up by 306 points (2.78%) and 96 points (2.85%) to close at 11,329 and 3,481 respectively.

With this the total gains for Sensex in this Bull Run amount to 39%, since March 9 when it was at 8160. Realty (73%), Metal (61%) and Bank (54%) were the sectors that had posted the maximum gain during this seven week rally. Demand for mid and small cap counters has helped BSE mid-cap and BSE small-cap indices to close with gains of 3.67% and 2.95% respectively during this week. Metal and Telecom were the two sectors that had done the best this week, with a gain of over 5% for these sectoral indices. The later was supported by strong growth in subscriber base in the recent month and expectation of reasonably good results. There was a dramatic drop in cash segment volumes, while it was little changed in futures.

A quick look at revenue growth of 69 companies, whose results are released, does not give proper clarity. There

is an anomaly between the top line and bottom line growth rates. Market seems to be completely liquidity driven and fundamentals are totally ignored. There was sharp resistance from DIIs on Nifty close to 3500. FIIs invested US\$ 195 mn in cash. For current month total investment is US\$ 1,039 mn. DII invested US\$ 89 mn in cash. For current month total investment is US\$ -49 mn.

The market is currently driven by the positive sentiment of a 25 bps rate cuts by RBI. Inflation at 0.26% is also encouraging. However, markets could see bouts of volatility ahead of the April 2009 derivatives expiry. Political uncertainty may also weigh on market fortunes. Meanwhile, markets would closely track global counterparts for direction. While FII have sold heavily this year, recent purchases of Rs 4,800 crore in April 2009 has reduced net sales to Rs 1,811 crore for the year. Continuation of this buying trend would be positive for markets.

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.