

DEBT MARKETS

Global

Most of the Central Banks across the world have taken light of the decelerating growth and this has resulted in reduction in rates in major countries of the world.

Bank of England has cut their benchmark rate by 100bps to 2% considering the slowing of economy. European Central Bank also slashed their benchmark rate by 75bps to 2.5%. New Zealand and Australia loosened their monetary policies after aggressively pruning rates by 150bps, to 5%, and 100bps, to 4.25% (cash rate), respectively.

Domestic

Inflation for week-ended November 22, 08 slipped by 40bps 8.40% against 8.84% in previous week. Petroleum Ministry announced a domestic fuel price with effect from 6th December 2008. The prices of petrol and diesel were reduced by Rs 5 per litre and Rs 2 per litre respectively which could further decelerate the inflation. RBI has reduced the repo rate under the LAF by 100 basis points from 7.5 per cent to 6.5 per cent and the reverse repo rate by 100 basis points from 6.0 per cent to 5.0 per cent, effective December 8, 2008. However, RBI announced an additional borrowing calendar for the fiscal year 2008-09.

The total amount of additional borrowing for remainder of fiscal year is expected to be Rs 450 billion.

CALL & CBLO

Daily average volume of LAF reverse repo was Rs 486.62 bn, nearly 6 times the previous week's amount. Call rates and CBLO rates were eased up significantly in wake of reporting week as banks have covered their reserve requirements. Call and CBLO rates closed at 4.50% and 2% respectively.

Government Securities And Treasury Bills

T-bill auction cut-offs of 91-day yield was at 6.60%, and for 364 day was at 6.30%. G-Sec yields have eased during the week on expectation of rate cuts by RBI. The 10 year Benchmark yield closed at 6.75% against 6.88% last week.

Corporate Bonds

Corporate bonds were the out performers, the five and ten-year softening 110bps over the week to touch 10.05-10.10%. The spread of the 10-year paper over G-Sec narrowed on the back of aggressive trades, it declined from 405bps on December 1 to 340bps on December 5, 2008.

SPREADS OF CORPORATE BONDS AS ON 5th December 2008 OVER G-SECS

Tenure	Rating		
	AAA	AA +	AA
1 year	386.86	398.80	411.80
3 year	377.40	385.40	393.40
5 year	333.60	351.60	360.60
10 year	316.20	392.20	339.20

Rupee

Rupee remained volatile last week, depreciating 40 paise from the week's opening level to INR 50.59/USD (lowest ever) on December 2, 2008.

Fund Manager Comments

Liquidity scenario next week is expected to be comfortable, considering Rs 500 bn as cash in excess is shown in the Reverse Repo figures. Yields on G-Sec and Corporate bonds are expected to remain range bound as most of the positive news has already been announced by RBI and government.

EQUITY MARKETS

With the mood remaining extremely cautious, ahead of the expected Fiscal stimulus package, the Sensex oscillated up and down during the week. It opened on a negative note at the start of the week on the back of weak global cues but briefly recovered on the back of the expected fiscal stimulus package and expected RBI cut which was to be announced over the weekend. During the week key indices were highly volatile as alternate bouts of buying and selling often tossed the markets in green and red. Finally for the week, NIFTY lost 1.5% (-128 points) to end the week at 2714.40 levels and SENSEX lost 1.4% (-40.70 points) to end the week at 8965.

Inflation continued to ease with the inflation for the weekend 20th Nov 2008 falling to 8.40% better than what the market had expected. Markets smartly reacted to this positive news with the expectation of the rate cut in sight. Among the sectoral indices, BSE Realty gained by 8.4%. The Capital Goods remained stable with a modest gain 0.3%. The PSU and Consumer Durables declined marginally. BSE IT, lost 5.1% on the back of negative news flow from western countries. TECK rose 3.84%, Power and FMCG rose marginally over the week.

NIFTY continues to witness a ranged action between 2500 and 2850 levels as expected during the week. Any close above this level may see indices witnessing a fresh positive action helping NIFTY to cross levels of 3000 in short-term. Markets would continue to remain volatile and range bound in the coming days. Also, effects of RBI rate cuts and stimulus package announced by the government would be closely watched by the markets to gauge their impact on the respective sectors.

However, there are many blue chip stocks with strong operating cash-flows and robust business model available at attractive valuations due to the broader market fall and negative sentiments. We think it's good times to pick stocks with high earnings visibility, low dependence on fresh capital, strong balance sheet & operating cash-flows, positive leverage to lower commodity prices & lower interest rates.

Long term investors should use the next few months to get invested in large-cap oriented funds through SIP route.