

DEBT MARKETS

Global

The US Treasury yields hardened tracking economic data that showed improvement in the economy. The New Home Sales for February was noted at 337,000 higher than market estimates of 330,000. The U.S. government's comments on banks, GM and Chrysler helped push the yield on the 10-year Treasury note down seven basis points to 2.69 percent, while European government bonds rose for a fourth day. The dollar and yen climbed against the Euro as investors sought assets perceived as relatively safe.

Domestic

The inflation for the week ended 14 March, 2009 was at 0.27%, lower than 0.44% as noted in the previous week. The index rose tracking increase in prices of food articles (barley, fruits and vegetables etc) and manufactured products group (oil cakes, cooking oil, etc). The reading on inflation was slightly higher than market expectations. The RBI released an indicative auction calendar of G-sec under Government Borrowing Program for first half of FY 2009-10. The Government would borrow Rs. 2.41 trillion in the first half. The RBI also announced its intended purchases under Open Market Operation for the first half of FY 2009-10. The RBI would purchase securities worth Rs. 800 bn. in the first half of FY 2009-10. The RBI also said that MSS securities worth Rs. 420 bn. is expected to be unwound in the same time period.

CALL & CBLO

Overnight rates hardened slightly tracking tightening of liquidity in the system. The call rate was ranged from 4.25% to 5.00%. The overnight

CBLO rate was in the range of 1.25% - 4.25%. The average amount absorbed under LAF Reverse Repo operation was around Rs. 300 bn. except on Friday as it was noted at Rs. 137.50 bn. The RBI also infused Rs. 26 bn. under LAF Repo operation. The average CBLO volumes have also dipped to Rs. 500 bn., indicating the reduction in cash positions of mutual funds.

Government Securities and Treasury Bills

The yields in the G-sec market hardened substantially on Friday after the bearish results of G-sec auctions. The G-Sec auction saw devolvement in 10 year benchmark auction. The cut-off of 7.27% GOI 2013 was at 6.77% and the cut-off of 6.05% GOI 2019 was at 6.97%. The markets were also in a bearish sentiment tracking concerns over the Auction Calendar of the Government Borrowing program for the first half of FY 2009-10. The 10 year benchmark closed at 7.02%.

Corporate Bonds

The yields on corporate bonds harden slightly tracking the liquidity tightness and large government borrowing calendar. However, the spreads of AAA bonds narrowed slightly in the wake of lower supply of long term corporate bonds.

Rupee

The INR opened stronger at Rs. 50.46 against the USD and remained range bound in the wake of lower import demand and appreciation in capital market. The INR closed at Rs 50.60 against the USD.

Fund Manager Comments

Liquidity for the week is expected to ease from previous week levels. The yields on short term corporate bonds like CD and CP is also expected to ease from previous week levels. The announcement of large supply of government securities will put some pressure on the yields of

G-Sec. However, the relief provided by the RBI by buy back of G-Sec under OMO and unwinding of MSS bonds may bring short term relief rally in the market. Secondly, the expectation regarding the further rate cuts by RBI is also floating in the market which may also help in pushing the yields down.

SPREADS OF CORPORATE BONDS AS ON 27th March, 09 OVER G-SECS

Rating			
Tenure	AAA	AA +	AA
1 year	275.20	293.20	312.20
3 years	190.40	208.40	227.40
5 years	173.70	192.70	212.70
10 years	199.90	218.90	238.90

EQUITY MARKETS

The Indian market continued to tag along with global cues and gained sharply in line with the overall mood. The optimism in the global financial markets helped the Sensex inch past the sentimental 10,000-point barrier. Key indices gained for the third consecutive week and the BSE Sensex spurted 1,082 points or 12.06 per cent to end the week at 10,048 and the Nifty jumped 302 points or 10.74 per cent to 3,109. The rally was mainly centered on top line stocks and so mid and small cap stocks gained very little. While the CNX Mid cap index gained just 6.6%, the BSE Small Cap gained even less at 4.3%, a third of the gain in the Sensex. Apart from the positive global cues, inflation at 30-year lows decreasing from 0.44% to 0.27% for the week ended March 14, 2009 also aided the sentiment.

Stepped up inflows from FII's was the key driver of bullish fervour for Indian stocks. FII's, who were the major sellers over the last year, made net purchases of around Rs. 1,315 crore in the week. Short covering in the expiry week has also helped to end the week with major gains. Surprisingly domestic institutional investors were net sellers and they net sold US\$ 53 million in cash. The main selling pressure was from the insurance segment, despite augmenting huge sums of money through tax saving schemes. There was a sharp increase in volumes due to increased momentum. Daily average volume shot up by 38% in futures and 25% in cash. This was the highest weekly volume registered during current year.

Sector wise Banking and Metals were the top gainers

with a respective gain of 19% and 16%, with few key individual scrip posting gains of over 25%. Oil & Gas and Capital Goods were the other sectors that posted a gain of over 10% this week. RIL was the key stock that gave the lead for this bull charge till Thursday and it along with RPL contributed to a fifth of Nifty's gain this week.

The stepped up activism from the Obama administration to ensure that they would fix the problems of financial sector and step up credit flows to various segments of the economy was the key to the global rally. The markets have spurted around 23 per cent from the earlier lows in March. A bit of profit-booking could be the order of the day. The political uncertainty ahead of elections would be a dampener. On the macro front, worsening fiscal deficit and slower GDP growth are concerns along with declining corporate profits. As per estimates, exports for February are down by 13.7 per cent, which would mean a fall for the fifth straight month. Inflation on the downward journey has raised expectations of a further easing of the monetary policy.

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 time 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.