DEBT MARKETS

Global

The US Treasury yields hardened despite weaker than expected economic data. The Jobless Claims for week ended February 22, 2009 was noted at 667,000 higher than market expectations of 625,000. The benchmark 10Y bond closed at 2.99%.

The Euro fell to a one-week low of $1.2562 on February 27, 2009 tracking the of request for Eastern Europe Aid Plan by EU leaders.

Asian stocks weakened, dragging the Nikkei 225 Stock Average down the most in six weeks, and U.S. futures fell as declines in Japanese wages and South Korean exports fueled concerns the global recession is deepening.

Domestic

The GDP growth for third quarter Financial Year 2008-09 was at 5.3%, lower than market expectations of 6.1%.The major sectors like agriculture, manufacturing and services grew by negative 2.2%, 0.8% and 9.5% respectively. The inflation for week ended February 14, 2009 was at 3.36%, lower than 3.92% noted previous week. The index fell primarily on account of decline in prices of food articles and chemicals.

CALL & CBLO

Liquidity in the system remained comfortable because of excess surplus maintained by banks in wake of reporting week. The average deployment under RBI LAF Reverse Repo was above Rs 600 bn. Call rates and CBLO rates remained range bound with easing bias and closed at 4.10% and 3.50% on February 27, 2009.

Government Securities and Treasury Bills

Last week G-Sec market rallied significantly on the hope of rate cut by RBI. New 10 year benchmark closed at 6.01%. The Rs 127.59 bn 10-year SDL auction for 10 states cut-off ranged from 7.59% to 7.98%, the lowest being for Meghalaya and the highest for J&K. Announced scheduled G-sec auction of Rs 120 bn to be held on March 6, 2009. RBI also announced T-Bill auction of Rs 50 bn to be held on March 4, 2009. Further, RBI has also announced the OMO auction for buyback of G-Sec of Rs 60 bn with Green Shoe option of Rs 30 bn to be held on March 5, 2009.

Corporate Bonds

The spreads on corporate bonds narrowed across the curve in wake of rate cut expectation and steep rally in G-Sec prices.

Rupee

The INR depreciated significantly against USD and closed at INR/USD 51.15. The sharp depreciation of INR was on account of offshore buying of USD and higher demand by importers.

Fund Manager Comments

Liquidity for the week is expected to remain comfortable. G-Sec market is expected to remain range bound and further movement will be decided by the result of OMO buyback auction and G-Sec auction of Rs 120 bn on March 6, 2009.

SPREADS OF CORPORATE BONDS AS ON 27th February 2009 OVER G-SECS

Rating			
Tenure	**AAA**	**AA +**	**AA**
1 year	263.30	281.30	300.30
3 years	251.30	269.30	288.30
5 years	247.20	265.20	284.20
10 years	253.40	271.40	290.40

EQUITY MARKETS

Indian stock market, like its peers elsewhere, is groping in dark trying to find a firm direction, momentum and liquidity. Markets got some positive news in the form of tax (excise as well as service) cuts announced by the government to revive demand. The Sensex increased 48 points or 0.55% to 8,891 during the week and Nifty increased by 27 points or 1% to 2,763. Even after the tax concessions doled out during the middle of the week, it could not help to give markets a sustainable positive perception. But the cut in excise and service tax by 2% and fresh sops for labour oriented export sectors such as textiles, leather, jewellery and carpets has helped stem the strong pessimism that was carried over from the previous week end. These fresh concessions are expected to add another 0.5% to the already high fiscal deficit, in the form of revenue short fall. The only point of consolation for the markets was the falling Inflation numbers which touched a14-month low at 3.36 %.

There was a substantial improvement in FII interest and they have become persistent net sellers. Domestic institutions took the lead in absorbing the net sale from abroad. On Friday there was a strong negative reaction to the GDP figures (5.3 % growth y-o-y in Q3Financial Year 2009), which was lower than the expected consensus 6.1% growth rate. But it recovered back most losses amid strong buying support from domestic insurance major. There was a sharp fall in retail interest despite over all improvement in volume, particularly from FII segment

Auto sector got a boost following release of funds for state government to buy commercial vehicles. After a very long time, this sector index leads the sectoral pack as the largest gainer; 5.4% gain this week. Further pressure on rupee helped prop up some sentiment in favour of IT stocks and this sector index was the second best gainer of the week at 2.8%. Realty (2.8%), Consumer Durables and Banking (1.4%) each were the worst performing sectors this week.

Domestic indices are likely to be affected by weak global markets. The US GDP shrank 6.2% in Q4 and further news, that the US government will own up to 36% of Citigroup, would weigh down the markets. Apart from global cues, bludgeoning fiscal deficit estimates is also a concern. Continuing FII sales (net sold $1.65 billion since beginning of the year) are a cause of concern and the markets will keep an eye out for FII activity. The market is also expected to keenly watch fund flows from FIIs through March 2009. With the last parliament session for this present government being over, from now onwards the attention will be more tuned to political development than policy issues.

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.