

DEBT MARKETS

Global

The European Central Bank cut its benchmark rate by 50 bps and reduced the rate from 2.00% to 1.50% which is in line with analyst expectations.

The Bank of England has also cut the Bank Rate by 50 bps and reduced the rate to 0.50%. The major reason behind the cut was the domestic factors like sharp drop in output, marked increase in unemployment levels and continued tightness in credit markets.

The US Treasury yields hardened further in the wake of reports that possible announcement on stimulus package from Chinese Government could boost global recovery.

Domestic

RBI on March 04, 2009 has announced a 50 bps cut in both LAF Reverse Repo rate and LAF Repo rate. The LAF Reverse Repo rate and LAF Repo rate stand reduced to 3.5% and 5.0% respectively. The major reason behind the surprise move by RBI was the slow down in GDP growth and negative readings on export growth and IIP.

The inflation based for week ended February 21, 2009 was at 3.03%, considerably lower than 3.36% noted previous week. The index fell primarily on account of decline in prices of food articles, basic metals and transport equipments. The reading on inflation was slightly lower than market expectations.

CALL & CBLO

Liquidity in the system remained comfortable as RBI absorbed average of Rs. 600 bn under LAF

Reverse Repo. Average Call rates after the rate cut announcement from RBI hover around 3.50-75%. CBLO absorption was also observed more than Rs. 500 bn which indicates the comfortable cash surplus with mutual funds.

Government Securities and Treasury Bills

G-Sec yields have moved up even after the 50 bps rate cut by RBI. The over supply of G-Sec lead the major sell off by the traders. New 10 years benchmark G-Sec yields closed near to 6.50% higher than the previous week level of 6.04%. Further, RBI has announced the auction of Rs 150 bn of State Government security, Rs. 80 bn of T-Bills and Rs 120 bn of scheduled G-Sec auction to be held in forthcoming week. RBI has also announced the buyback of G-Sec under OMO of Rs 70 bn with the option of extra buyback of Rs. 350 bn.

Corporate Bonds

The corporate bond yields declined at the short end and rose significantly at the longer end. The decline in short a term bond yield was primarily on account of rate cut by RBI. However, the rise in longer end of the curve was due to sharp rise in the sovereign yields. The benchmark 5Y AAA yield closed at 8.49% and 10Y AAA closed at 9.35%.

Rupee

INR depreciated sharply against USD tracking considerable increase in the FII outflows. The INR closed at Rs. 51.70 against the USD. Other reason behind the sharp fall in Rupee was the dollar strengthening against its major counterparts.

Fund Manager Comments

Liquidity in the system for the week is expected to remain comfortable and overnight rates will remain at lower levels. However, this comfortable liquidity is expected to be absorbed in coming weeks by way of advance tax outflows and by the large issuances of government securities. Further, with closing of Financial Year 2009 there will be rise in yields of bank Certificate of Deposit (CD) and

Commercial Papers (CP). Sharp rise in yields at the longer end is also expected. But for the investor who is looking for the medium to long term investment, this is the right time to look forward for Income Funds as high yields will give him good opportunity to enter the market. Also, due to rise in CD and CP levels there will be good opportunity for the investor who is having short term surplus to enter in Liquid and Liquid plus funds.

SPREADS OF CORPORATE BONDS AS ON 6th March 2009 OVER G-SECS

Tenure	Rating		
	AAA	AA +	AA
1 year	289.40	307.40	326.40
3 years	256.30	274.30	293.30
5 years	227.90	246.90	266.90
10 years	250.00	269.00	289.00

EQUITY MARKETS

Bears ruled during the week ended March 6, 2009. The market went crashing down sharply due to a strong round of selling across the board. On w-o-w Sensex plunged 565.79 points or 6.36% to close at 8325.82. On the other hand, the broad NSE plunged 143.50 points or 5.19% to settle at 2620.15. Sell-off was not only seen on the domestic bourses but also in the Asian or European markets. A half-point rate cut and a seven-year low inflation of 3.03% for the week ended February 21, 2009 failed to bolster investor confidence and smother concerns about sagging growth. The buying support by domestic institutions too could not help the markets. The mood soured further due to falling rupee.

The FIs were net sellers for Rs. 2605 crore, while domestic institutions were net buyers for Rs. 4604 crore this week. Hot news during the week was the amalgamation of Reliance Industries with its subsidiary Reliance Petroleum at a 1:16 ratio. Shares of scandal hit Satyam Computer Services soared after it had received regulatory approval to start a global bidding for 51% of the company.

The market is likely to move in a tight range. Global economic crisis may keep investors nervous in the

truncated trading week, with stock markets remaining shut on March 10, and March 11, 2009.

Cement and telecom stocks witnessed accumulation of long positions last week, while banking continued to add fresh shorts on upsides. Also in the automobile long positions have been accumulated in the sector. Among the sectoral indices, BSE Bankex leads the list with a loss of 11.86%, followed by FMCG Index (9.26%), Capital Goods Index (5.71%) and Oil & Gas Index (5.61%). IT Index remained most defensive with a modest loss of 1.14%, Health Care Index (2.00%), Cons Durable Index (3.05%) and Metal Index 3.54%

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 its 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