

DEBT MARKETS

Global

The European Central Bank cut its benchmark rate by 50bps and the rate for Main Re-financing Operations was reduced to 1.25%. The US Treasury yields eased tracking worse than expected employment data. ADP Employment Challenger Survey for March was noted at negative 740,000 worse than market expectations of negative 663,000.

Domestic

The inflation for week ended March 21, 2009 was at 0.31%, slightly higher than 0.27% noted previous week. The index rose tracking increase in prices of non-food articles (soybean) and food products (oil cakes, packed tea, etc). The Balance of Payments for Q3 2008-09 was at a deficit of \$ 17.8 billion. This is the highest quarterly deficit in the entire series available since 1990. The BoP of Q3 2008-2009 comprised \$14.6 billion deficit on the current account and \$ 3.2 billion deficit on the capital account.

CALL & CBLO

Liquidity improved significantly as advance tax money started flowing back into the system. overnight CBLO rate was seen in the range of 0.50% - 3.85% and call rates were seen in the range of 3.50 - 4%. The average amount absorbed under LAF Reverse Repo operation was in the range of Rs 100 bn to Rs 600 bn seen on Friday.

Government Securities and Treasury Bills

The yields in G-sec market eased at the end of the week tracking improvement in liquidity situation and the RBI's announcement on March 31, 2009 of

lower than notified De-sequestering of MSS balances. The remaining would be transferred the Financial Year 2009-2010. Further, RBI has announced the G-Sec auction of Rs 120 bn to be held on April 9, 2009 and T-Bill auction of Rs 90 bn to be held on April 8, 2009. RBI has also announced the buyback of bonds of Rs 60 bn.

Corporate Bonds

Yields on corporate bonds have eased across the curve tracking the easy liquidity conditions and lower G-Sec yields. The impact of surplus liquidity was significant at the short end of the curve.

Rupee

INR appreciated significantly against USD tracking the lower import demands and USD inflows due to appreciation in Indian equity markets. The INR closed at Rs 50.74 against the USD.

Fund Manager Comments

Liquidity for the week is expected to remain in abundance tracking the G-Sec redemption inflows. The rates of short term corporate debt like CP and CD is expected to ease further. G-Sec yields are expected to remain range bound as the market is having mixed views after the announcement of G-Sec auction of Rs. 120 bn and buy back of Rs. 60 bn. The 10 year G- Sec yields are expected to range between 7.00-7.15% for the week. Investor looking to invest in Income funds could look to invest at these levels as yield are expected to ease as we head closer to 'First Quarter Monetary Policy' on the expectation of further monetary easing by the Central Bank.

SPREADS OF CORPORATE BONDS AS ON 3rd April 2009 OVER G-SECS

Rating			
Tenure	AAA	AA +	AA
1 year	225.40	243.40	262.40
3 years	182.80	200.80	219.80
5 years	156.10	175.10	195.10
10 years	185.70	204.70	224.70

EQUITY MARKETS

The Indian stock market too had joint the global party hailing the G-20 summit and stocks run through the fourth consecutive week of gain. The week started on a weak spot amid institutional and proprietary selling pressure but it recovered back all of its losses and gain further to end with a gain of 3% in Sensex and 3.3% in Nifty. As on Thursday the Sensex recovered back all of its losses through this year in just 15 trading days after touching its year's lowest point of 8160 on March 9, 2009. There were gains in three out of the four trading sessions in a curtailed week on account of Ram Navami. BSE Sensex surged 300 points or 2.98% to 10,349 and Nifty gained 102 points or 3.3% to 3,211.

Market was virtually tracking global cues and we expect it to continue the same way. Central bankers move to boost liquidity by buying up trillions in toxic assets from banking and financial system seems to be fueling liquidity in various markets. Negative news of a contraction of manufacturing activity and fall in exports for a fifth straight month did not dampen market sentiments. Inflation rose 0.31% for the week ended March 21, 2009.

During this week, the bullish fervor crept in to small and mid cap segment. Midcap and small cap counters outperformed, with BSE Mid Cap and BSE Small Cap

indices spurring 6.51% and 6.13% respectively. Sector wise realty was on top with a gain of 10%. Oil & Gas, Consumer Durables and IT were the other sectors that posted a gain of over 5% this week. Despite strong gains on the last day, banking sectoral index closed with fractional loss, along with FMCG index.

G20's proposal of a \$1.1 trillion stimulus package to put the global economy on track will be viewed positively by the markets. After ECB cut interest rates to 1.25%, there is an expectation that RBI might also cut rates. More than the international central bank actions, domestic macro factors like inflation, which has seen a sharp fall will raise expectation of a further cut. However, muted expectations of Q4 results and year end March 2009 earnings and political uncertainty surrounding the general elections slated to be held in mid-April 2008 to mid-May 2009, would provide further trigger to this rally.

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.