

DEBT MARKETS

Global

The US Treasury yields eased tracking release of minutes of FOMC held on March 17-18, 2009. The minutes indicated that Fed would buy range of long-term assets to support financial markets.

Bank of England kept its benchmark rates unchanged considering the better than market estimates of Nationwide Housing Prices for March 2009 which was at negative 15.70%.

Domestic

The inflation for week ended March 28, 2009 was at 0.26%, lower than 0.31% noted previous week. There was a decline in prices of Minerals (iron ore, fireclay etc) and a rise in prices of Manufactured Products (textiles). The reading on inflation was slightly lower than market expectations. The Index of Industrial Production for the month of February 2009 fell by 1.2% (y-o-y), which was in line with market expectations for a decline of around 1.3%. The Mining, Manufacturing and Electricity segments noted a decline of 1.6%, a decline of 1.4% and growth of 0.7% respectively.

CALL & CBLO

Liquidity remained robust for the week. Average deployment by banks under LAF reverse repo was more than Rs 1000 bn. Average CBLO rates were significantly lower than previous week levels and were traded in the range of 0.10% to 1%. Overnight call rates were in the range of 3.20% to 3.60%.

Government Securities and Treasury Bills

The G-sec markets rallied tracking adequate liquidity in the system and positive response to the G-sec

auction. The cut off for the G-Sec auction of Rs 80 bn of 10 year benchmark was at 6.75%. Further, RBI has announced the G-sec auction of Rs 120 bn and T-Bill auction of Rs 90 bn for the next week.

Corporate Bonds

The yields on corporate bonds eased further tracking the surge in liquidity conditions and the relative easing of yields of G-Sec. However, the easing of yields on corporate bonds were more and resulting into narrowing of spreads. The short end of the curve dips further. The rates of one year CP and CD were eased to 7% and 5.75% respectively.

Rupee

The INR appreciated against USD and closed at Rs 50.04. The appreciation in INR was on account of lower import demands and reported FII buying due to appreciation in equity market.

Fund Manager Comments

Liquidity for the next week is expected to remain at these levels. The short term money market rates are expected to ease further as a result of surplus liquidity. G-Sec yields are expected to correct slightly tracking the supply of Rs 120 bn through primary auction and some bout of profit booking by the traders. However, overall sentiment in the market is expected to remain positive due to surplus liquidity and the expectation in the market regarding further monetary easing by RBI in forthcoming monetary policy.

SPREADS OF CORPORATE BONDS AS ON 10th April 2009 OVER G-SECS

Rating			
Tenure	AAA	AA +	AA
1 year	184.20	202.20	221.20
3 years	168.50	186.50	205.50
5 years	135.20	154.20	174.20
10 years	167.00	186.00	206.00

EQUITY MARKETS

A US government plan to buyout toxic assets and a \$1 trillion spending by G20 to revive the world economy has ensured key Indian indices closed with gains for the fifth week in a row. BSE Sensex surged 455 points or 4.40% to 10,804 and Nifty rose 131 points or 4.1% to 3,342 in a curtailed week on account of Mahavir Jayanti and Good Friday. Market sentiment turned positive last week when it became clear that the companies need not book mark to market losses on their outstanding derivatives for the book closing in Financial Year 2008-2009. This was anchored well by persisting net inflow of funds through FII's in both the cash and futures segment. Net sales by domestic institutions and retail could not help slowdown the bullish fervour.

Midcap and smallcap counters were out performers. Prospects of better book earnings, due to lenience given on MTM write off, boosted sentiment of mid and small cap segment as well, and these indices gained 9.6% (BSE small cap) and 4.9% (BSE 200). However, industrial production growth fell 1.2% in February whereas inflation stood at 0.26% for the week ended March 28, 2009. Besides, globally once again easy access to cheap liquidity, made available through toxic asset purchase by government agencies, is flowing back in to all asset classes including stocks.

Meanwhile the market was extremely volatile amid improved volumes. Easy rollover facility given by domestic banks on maturing loans gave a boost to realty sector and this sector index gained the most this week with 13.7%. Consumer durables at 13.6% and Metals at 9.3% were the other sectors that posted the largest gain. Banking sector defied global trend and this sector gained 4.6%. Defensives along with IT were at the bottom with the least amount of gain.

Although, Indian markets would look at foreign shores for direction there are some near term issues. Apart from the political uncertainty ahead of parliamentary elections, Q4 results will be looked at by the markets keenly. However, foreign institutional investors have turned buyers recently and made net purchases which are a positive sign. A near-zero inflation and weak IIP numbers have raised the prospects of central bank further easing the monetary policy which could boost the market

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.