DEBT MARKETS

Global

(3rd Nov. - 7th Nov., 2008) Bank of England cut its bank rate by 150 bps to 3.00%, while European Central Bank cut its key refinance rate by 50 bps to 3.25% from 3.75%.

The real economic disruption in UK, Eurozone, and the US is indicated by a 13-15% decline in their respective house prices. The Euro zone's decline was at a 25-year, low while the GDP contraction in the UK was the worst of the three regions (Y-o-Y GDP contracted by 0.5% in Q3CY09), both of which called for a prompt slashing of benchmark rates by 50bps to 3.25% and 150bps to 3%, respectively

(10th Nov. - 14th Nov., 2008) Japan's economy, the world's second largest, unexpectedly shrank in the third quarter, entering the first recession since 2001 as companies cut spending. Gross domestic product fell an annualized 0.4 percent in the three months ended Sept. 30, the Cabinet Office said today in Tokyo. Economists predicted the economy would grow 0.1 percent after contracting a revised 3.7 percent in the previous period. The slowdown that last month forced Prime Minister Taro Aso to propose a stimulus package is likely to worsen as export demand weakens and companies respond with investment cuts and layoffs. Toyota Motor Corp. and Canon Inc. slashed profit forecasts in the past month as U.S. consumers spend less and the yen's rise against the dollar erodes the value of sales.

Oil fell for a second day in New York on signs the global slowdown is limiting demand in China and Japan, the world's second- and third-largest crude users. Japan entered the first recession since 2001 as its gross domestic product fell an annualized 0.1 percent in the three months ended Sept. 30 after shrinking 3.7 percent in the previous period. China National Petroleum Corp., the country's biggest oil producer, said demand has contracted ``sharply'' since September because of the global credit crisis.

The cost of living in the U.S. fell in October by the most in almost sixty years, while manufacturing and homebuilding sank deeper into a recession, economists said before reports this week. Consumer prices probably dropped 0.8 percent last month, the most since 1949, according to the median estimate in a Bloomberg News survey. Builders broke ground on the fewest houses in at least a half century and factory output weakened further, other reports may show. Commodity costs plunged in October when the economy, which descended last quarter, went into freefall as credit and financial markets collapsed. Slumping sales are forcing retailers to lower prices, giving the Federal Reserve scope to keep cutting interest rates to limit the damage.

Domestic

(3rd Nov. - 7th Nov., 2008) India's headline inflation for the week ended slightly up at 10.72% for the week ended 7th November, 2008 as against 10.68% previous week.

(10th Nov. - 14th Nov., 2008) Industrial production (IIP), which acts as barometer of health of the industrial sector of the economy, grew at 4.8% Y-o-Y for September, higher than estimate of 4.1%, significantly improving over the August 1.4% level. This rise was in line with the growth of six core infrastructure sectors, which grew 5.1% and weighed ~26% in the IIP during the same period. Despite a jump from previous release to a sub-5% level, the growth slowdown concerns are by no means mitigated. This induces market participants to anticipate policy rate cuts to lubricate the flow of credit in the economy. The money market rates eased tracking ease in liquidity situation. The call rates was largely remained range bound between 7.00% - 7.50%.

CALL & CBLO

(3rd Nov. - 7th Nov., 2008) The interbank call money rate eased throughout the week which is quite evident from the decreasing repo figures and the increasing reverse repo numbers during the week. Call money rate eased further on Friday due to adequate cash supply and subdued demand as it was Reserves Reporting Day. CBLO was dealt at a weighted average rate of 5.09%, compared with 9.33% previous week.

(10th Nov. - 14th Nov., 2008) CBLO rate was seen in the range of 6.00% - 7.25%. The volume traded in CBLO was between Rs 250 bn-350 bn. Volumes in CBLO were higher in wake of lower call rates.

Government Securities and Treasury Bills

(3rd Nov. - 7th Nov., 2008) Government bond prices fallen tracking the RBI's decision to cut SLR to 24%. Further, RBI announcement of the sale of 8.24% 2018 gilt worth Rs.60 bn and 8.28% 2032 gilt worth Rs.40 bn on Nov 07 also added to the selling pressure in the G-sec. However the cut in the repo rate and the CRR by the RBI to ease the liquidity pressure in the system. Auction of 50 bln rupees of 91-day T-bills, and 20 bln rupees of 364-day T-bills awarding a cut-off yield of 7.3937% and 7.3739% respectively. RBI repurchased 50 bln rupees of 5.48%, 2009 paper and another 50 bln rupees of 6.65%, 2009 paper at a yield of 6.8243% and 6.7814% respectively. Another auction of 60 bln rupees of 8.24%, 2018 paper and 40 bln rupees of 8.28%, 2032 paper awarding a cut-off yield of 7.7269% and 8.4430% respectively.

(10th Nov. - 14th Nov., 2008) After a weak start and sideways trading across the curve on the first two days, a positive dose of single-digit inflation, plunging crude price, and better than expected auction cut-off (MSS buyback) provided the much needed boost to the downbeat market sentiment. cut-off price at the auction of 7.56% GOI 2014 was at 7.38% and for 7.95% GOI 2032 the cut-off at 8.22%. The yields in G-sec market eased tracking substantial decline in WPI based inflation numbers which was 8.98% for the week ended November 1, 2008. The markets rallied further expecting moves by RBI to ease monetary policy. The OIS rates also eased across the curve tracking the movement in G-sec yields.

Corporate Bonds

(3rd Nov. - 7th Nov., 2008) The yields on corporate bonds eased on account of easing in the overnight money market rates. However, spreads at the medium end of the curve were up by 25 bps. Spreads at the short and long end of the curve were down by 55 and 34 bps respectively.

(10th Nov. - 14th Nov., 2008) Short-term non-SLR rates remained subdued for most of the week; one-year certificate of deposits (CD), at 10.80% on November 12, softened further as it trailed the sovereign bond movement on the final trading day. As REC and PFC planned to raise INR 5 bn (actual amount raised – INR 14.74 bn) and INR 2.5 bn (INR 2.5 + Greenshoe), respectively, in various maturities (subsequently adding to the supply in the long run), the corporate bond yield curve witnessed some stickiness near the previous week levels

SPREADS OF CORPORATE BONDS AS ON 14th November 2008 OVER G-SECS

	Rating		
Tenure	AAA	AA +	AA
1 year	456.00	465.00	472.00
3 year	405.60	417.60	424.60
5 year	382.30	393.30	399.30
10 year	318.30	326.30	335.30

Rupee

(3rd Nov. - 7th Nov., 2008) Rupee began the week on a stronger note ending at Rs.48.65 per $1 as against 49.46 per $1 on previous week as inflows from foreign funds, after large outflows seen last month, boosted sentiment for the local unit.

(10th Nov. - 14th Nov., 2008) The INR depreciated by 163 paise over the previous week to touch 2-week low of INR 49.49/USD. The FIIs net sell-off amounting to ~ INR 19 bn for the week. The GBP weakened to a six-year low of USD 1.4557/GBP on November 13, as the UK battled fears of a deeper recession, more so as its jobless claims rose to the highest level since March 2001. Bank of England's (BOE) intimation to keep cutting interest rates, as the economy trails further slowdown, was also reflected in southward movement of the pound sterling.

Fund Manager Comments

(3rd Nov. - 7th Nov., 2008) Comfortable liquidity situation may provide some support to G-Sec prices. Prices may also track the movement in crude oil prices for further direction. Yields on corporate bonds are also expected to ease further in the shorter tenor on account of the continuing improvement in the liquidity situation in the banking system.

(10th Nov. - 14th Nov., 2008) Liquidity during the next reporting week is expected to improve. However, going forward due to INR depreciation and advance tax outflow in mid December, 2008 liquidity is expected to be tighter. Outflow for this week would be Rs 100 bn auction payout and INR 70 bn T-bill auction and inflow of Rs 170 bn in the form of MSS repayment, interest payment, and redemptions. Key concern for the next week would be the rupee movement that is currently lurching near INR 50/USD mark. Any further depreciation from current levels will lead RBI to intervene, which will mop-up liquidity from the system. Amid softening inflation, mounting concerns of slowing economy, shrinking corporate profits, and rising credit spreads, we can expect another round of monetary measures from RBI. The probable action would be to cut reverse repo and repo by another 50bps. CPs are unlikely to attract more volumes, primary issuance in CD might cap significant softening from current levels. G-secs are expected to have entered a bull phase, and the momentum in the next week is likely to be downwards; 10-year bond is likely to range between 7.35%- 7.55%.

EQUITY MARKETS

The Indian markets continued their downward direction with the benchmark, Sensex and Nifty indices falling by 4.77% and 0.11% respectively during the first three weeks of November. The broader index, BSE 200 also fell by 4.60%. The fall in the BSE Mid Cap and BSE Small Cap indices was higher at -6.49% and -8.09% respectively. Within the sectors BSE IT, BSE Metals and BSE Auto were the worst performing sectors with returns of -11.75?%, 12.70% and 9.04% respectively. The only sector with positive returns over this period was BSE FMCG which clocked in higher at 6.52%.

The Reserve Bank of India (RBI) continues to play an active role. They announced further measures to ease the liquidity situation. It cut the CRR by 100bps to 5.5%, the repo rate by 50bps to 7.5% and the SLR by 100bps to 24%. Additionally, a further INR 600bn repo facility for onward lending to Mutual Funds and NBFCs was also announced. The RBI also announced the dollar swap facility for Indian and private banks in order to provide for dollar liquidity to their foreign branches.

The Industrial Production Index (IIP) announced grew 4.8%, in September, which was higher than the 1.4% revised number for August. Capital Goods showed impressive growth of 18.8%. Consumer durables grew by 13%, which could possibly be due to higher production for the festive season. What continues to worry a decline of 3.3% y-o-y for intermediate goods. Inflation unexpectedly fell to single digits, to 8.98%, the sharpest ever week on week drop of 174 bps from 11.72%. At last count it stood at 8.90%. Expectations are now being built around inflation of sub 5% by end of this FY.

However, exports for the month of October 2008 declined 15% YoY, the first month of decline in the last five years. Nonoil exports, (accounting for 80% of the export basket) dipped by 20%.

On the global front, the Bank of England (BoE), followed in the steps of the Federal Reserve and the Bank of Japan last last month, and slashed rates by 150 bps to 3%. Commodity prices continued to fall (oil down by more than 20% in this period and base metals down by 39% YTD). It is now clear that central banks around the world have shifted focus from inflation to growth with bold communications to adopt all possible measures to get the economies back on track.

Sensex EP of Rs 850 in FY08, suggest that the Indian markets are currently trading at 9.5-10X trailing earnings, which reasonably capture the earnings slowdown expectations. We feel these valuations are in an attractive zone now and while it is difficult to predict the market tops and bottoms, long-term equity investors may start investing in a staggered manner.