DEBT MARKETS

Global

The US Treasury yields eased further in the wake of a good response to the 30-years note auction. However, the cost of borrowing in dollars is rising as the global recession deepens and central bank efforts to accelerate the financial system fail to prevent a growing number of banks from requiring government bailouts. The London Inter Bank Offered Rate (LIBOR), that banks say they charge each other for three-month loans stayed at 1.33 % today, near the highest level since January 8, 2009 and up from this year's low of 1.08% on January 14, 2009 the British Bankers' Association said. The LIBOR-OIS spread, a gauge of bank reluctance to lend, widened to the most since January 9, 2009.

Domestic

The Index of Industrial Production for the month of January 2009 fell by 0.5% (y-o-y), which was lower than market expectations for a decline of around 0.9%. The decline for month of December 2008 was revised lower to 0.6% from 2.0% estimated earlier. The inflation for week ended February 28, 2009 was at 2.43%, lower than previous week levels of 3.03%. The fall in inflation rate was primarily on account of a considerable benign base effect.

CALL & CBLO

The money market rates were easy, as the liquidity remained comfortable. The overnight call and CBLO range was at 3.55% - 3.70% and 2.70% - 3.56% respectively. The average amount absorbed under LAF Reverse Repo was more than Rs 500 bn.

Government Securities and Treasury Bills

The G-Sec yields increased sharply and remained at the higher levels for the most part of the week tracking bearish cut-off rate for underwriting and also higher cut-off yields at the OMO purchase. A higher than expected cut-off yield at the T-Bill auction also hurt the sentiment negatively. However, the sentiment improved considerably towards the close tracking announcement from RBI over cancellation of the G-Sec auction of Rs 120 bn. Further, The RBI announced an OMO of Rs 100 bn to be held on March 16, 2009 and Rs 100 bn on March 19, 2009. RBI has also announced a G-Sec of Rs 100 bn to be held on March 20, 2009 and State Development Loan auction of 11 states of Rs 121.15 bn to be held on March 17, 2009.

Corporate Bonds

Corporate bonds moved in tandem with the movement in G-Sec yields. Yields on corporate bonds including CD and CP remained at the higher levels for the most part of the week. However, after the auction cancellation by RBI on Friday yields on long term corporate bonds also eased considerably.

Rupee

The INR strengthened significantly and close at Rs 51.48 against the USD. The reason behind the strengthening of INR was the gains in capital markets and lower levels of crude prices.

Fund Manager Comments

Liquidity in the system is expected to remain at comfortable levels with slight hardening bias tracking the advance tax outflow. The rejection of G-Sec auction of Rs 120 bn on Friday by RBI gives a signal to the market that RBI is not comfortable the over pessimistic yields. The gains on G-Sec on Friday were significant higher as new 10 years benchmark moved from 7.20% to 6.60%. Further the announcement of OMO auction of Rs 20 bn for next week will also boost the market sentiments. We are expecting the yields on remain range bound with some gains at the start of the week. However, the sharp gains in the G-sec market will be capped as and when traders will start booking profits and with the further announcements of G-Sec auction. The major factors to look for the week will be the cut off results for the auctions announced by the RBI.

SPREADS OF CORPORATE BONDS AS ON 13th March 2009 OVER G-SECS

	Rating		
Tenure	AAA	AA +	AA
1 year	335.50	353.50	372.50
3 years	241.60	259.60	278.60
5 years	232.40	251.40	271.40
10 years	222.70	241.70	261.70

EQUITY MARKETS

For Indian stock markets it was a short and eventful week in which key indices tested the recent lows and bounced back with vengeance to close the week with a smart gain of over 5% in Nifty and close to 4% in Sensex. Recovery of global markets supported the domestic indices in a truncated week. Interestingly Sensex at a low of 8110 and Nifty at 2555 have breached the October closing 2008 lows before bunching back after two holidays. The recovery was in line with the global trend and centered mainly on the front line stocks. Sensex gained 431 points or 5.2% to end the week at 8,757 and Nifty rose 99 points or 3.78% to end the week at 2,719. The market gained in two out of three trading days in the week.

Inflation at six-and-a-half year lows of 2.34% also assisted smart bounce back. Low inflation was a positive while a second negative growth in IIP was a negative. However the domestic market shrugged off weak Industrial production numbers of a negative 0.5 % on the way up. Overall, FIIs who were net sellers this year have been net purchasers to the tune of Rs 27.43 crore during the week.

Interest in mid and small cap was lukewarm and the gains were also very modest – BSE Small Cap Index was up 0.8% and CNX Mid Cap rose 2.3%. Both the down and up sides were lead by banking and realty stocks and these sectoral indices ended with a gain of 6.3% and 4.6%. However the top gainers were Auto and Oil & Gas sectors, both have gained around 6.5% each. Volumes continued to remain thin.The key positive at the close of the week was that the FIIs turned net buyers on the last day and it gave the real thrust to the stocks after mid-day. This was the first positive flow from FIIs in a month. Domestic insurance companies, particularly LIC, continued to be net buyers while flow from domestic mutual funds remained erratic.

Domestic indices could track global equity markets in the near term. Reassurances from Citigroup, Bank of America and J P Morgan could sustain positive sentiments. Lower inflation numbers over the last few months and its sharp fall recently has raised expectation of further rate cuts by central bank, which would be a positive. On the agriculture front, there is an expectation that this year's Rabi crop would also be good. The fourth tranche of advance tax payments of corporate India is due on March 16, 2009 which should also give direction to 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.