DEBT MARKETS

Global

US Housing data continued to indicate a looming depression as new-home sales contracted by a record 14.7% in December 2008 while house prices declined by 18.2% (Y-o-Y). The Fed in its January 29, 2009 monetary review retained the target rate in the 0-0.25% range.

The Japanese industrial production which contracted by a record 9.6% in December and unemployment soared further to 4.4% (reported the sharpest slump in 44 years).

Domestic

RBI has announced the third quarter review of monetary policy on January 27, 2009 and left all the benchmark rates unchanged.

Annual inflation for week ended January 17, 2009 rose marginally up 4bps from previous week to 5.64%. Fuel and fuel products' prices hardened 0.1% on the back of costlier aviation turbine fuel and furnace oil.

CALL & CBLO

The average overnight rate remained below the reverse repo and closed 45 bps lower on January 30, 2009. The daily average surplus absorbed by RBI under the reverse repo rose from the previous week by Rs 77.12 bn to Rs 582.58 bn. Liquidity position remained comfortable also because of the reporting week. CBLO rates remained range bound with intra week low of 1% on January 30, 2009.

Government Securities and Treasury Bills

G-Sec yields hardened in wake of "Status Quo" stance by RBI in its third quarter review of monetary policy. The 8.24% GoI 2018 lost 59bps from week's open to post an intra-week high of 6.31% before closing at 6.17% up by 88bps for the month of January 2009. RBI has also announced the auction of new 10 year benchmark at 6.05% which triggered in further sell off of 8.24% GoI 2018 bond. For the next week RBI has announced the T-Bill auction of Rs 950 bn and State Development Loan Bonds of Rs 460 bn.

Corporate Bonds

Due to monetary policy action and subdued Non-SLR volumes spreads widened across the curve. However, later in the week spreads compressed slightly in wake of hardening of underlying G-Sec yields.

Rupee

On account of FIIs selling of over USD 1 bn in January 2009 and the refiners' demand for the USD, INR weakened for most of the week touching week's low of INR 49.13/USD, recovering on the final day to close at INR 48.87/USD.

Fund Manager Comments

Liquidity for the coming week is expected to remain comfortable. However, yields on Government and corporates bonds are expected to remain range bound due to absence of any fresh triggers. The spreads between old and new 10 year benchmark is expected to widen as traders will prefer to sell the older and take fresh position in the new security. Further, BoE and ECB are expected to cut their benchmark rates by 25 bps this week.

SPREADS OF CORPORATE BONDS AS ON 30th January 2009 OVER G-SECS

Rating			
Tenure	**AAA**	**AA +**	**AA**
1 year	353.50	361.50	378.50
3 years	315.30	336.30	352.30
5 years	277.70	292.70	307.70
10 years	266.40	280.40	295.40

EQUITY MARKETS

During the past week Obama's stimulus plan boosted sentiment across financial markets. Indian market opened firm in line with positive global sentiment on the back of clearance for Obama's stimulus package. Strong buying support from domestic institutional investors (DIIs), at a time when FII net selling was weak was the main strength for the present up tick. After three weeks, bulls have taken a firm grip on the Indian stock market where Sensex rose 750 points or 8.6% to 9,424 points whereas Nifty gained 103 points or 3.7% to 2,874.80. The truncated week saw a bout of short-covering of open positions in the closing week of January 2009 derivative contracts.

On Tuesday, the negative impact of a lame duck credit policy from RBI could not sustain beyond an hour and it also failed to stem the bullish fervor, where RBI maintained a status quo on the Interest rates. Inflation for week ended January 17, 2009 was at 5.64% marginally higher than 5.6% in the previous week. Government also effected price cuts in the auto as well as cooking fuel segments. After the fuel-price cut, more populist measures might be doled out in view of general elections in the country.

Metals, realty, oil & gas led the charge in the week. Among the sectoral indices, BSE Metals leads the list with a gain of 15.2%, followed by realty (10.2%) and BSE Oil & gas (10.1%) . FMCG remained most defensive with a modest gain of 5% . Bankex gained 9.3% and IT gained 8.1% . CG gained 4.3% and Auto gained 5.5% .The results season is almost over, with all major companies having declared their results. The attention would now shift to the likely impact of the slowdown in demand and its impact on profitability going ahead. Indian bourses would look for cues from global markets as a recent IMF assessment says that US GDP would contract by 1.6% and Japan's by 2.6% . Volatility in the financial markets would persist in the light of local and global developments.

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.