DEBT MARKETS

Global

The week started with US Treasury yields eased as economic data reflected mixed outlook on US economy. The Housing Statistic for May 2009 was 532,000 higher than market expectations of 485,000. However, US Treasury yields hardened significantly on announcement of auctions worth record USD 104 billion to be held next week, the highest auction figure in a week. The benchmark 10Y bond closed at 3.83%. The 2Y, 5Y and 30Y yields closed at 1.25%, 2.84% and 4.60% respectively.

Domestic

The inflation based on Wholesale Price Index for week ended 6th June, 2009 was negative1.61%, lower than 0.13% noted previous week. This is the lowest WPI-based inflation in the time-series.

CALL & CBLO

The money market rates were range bound because of continued surplus liquidity in the system. Overnight call ranges from 3.10% to 3.30% and the overnight CBLO rate ranges from 0.25% to 3.05%.

Government Securities and Treasury Bills

The G-Sec yields eased slightly on value buying. The T-bill cut-off was in line with market expectations. The yields also eased because of negative WPI based inflation for week ended 6th June, 2009. The G-Sec yields eased tracking aggressive cut-offs in auctions. In OMO, RBI purchased securities worth Rs 46.20 bn against the notified amount of Rs 60 bn. The government is auctioning 150 bn of bond this week also. The 10 years benchmark G-Sec bond ended at 6.93%.

Corporate Bonds

Yields on corporate bonds eased tracking the G-Sec yields and easy liquidity. The 10 year corporate bond ended at 8.65%. The yields of short term Money market instruments like CP and CD also came down due to excess liquidity.

Rupee

The rupee depreciated against USD tracking weak capital market and strengthening of Dollar against all the major currencies. Rupee closed at 48.08 against Dollar.

Fund Manager's Comment

The yields may remain range bound for the coming week. The budget would play a major role in deciding which side the yields are going to move. If the borrowing is as per expectations there could be a softness in the yield to the extent of 25bps. The liquidity would remain comfortable and there could be softness in the short term rates in the next month since this month was a month of tax outflows where the short term rates usually harden.

Market Indicators as on 19th June, 2009

	19/06/09	12/06/09	% change
INR/USD	48.08	47.61	0.99%
Inflation	-1.61	0.13	-1338.46%
Oil ($/bbl)	69.40	72.25	-3.94%
Gold ($/oz)	933.30	939.10	-0.62%
10 years G-Sec	6.93	6.89	0.58%
10 years AAA	8.65	8.78	-1.48%
Call Money	3.27	3.28	-0.30%

EQUITY MARKETS

Indian stocks clearly displayed a downward trend, in line with global cues, and key indices lost 4.5% to 7% during this week. Markets ended their 14-week winning streak. The week also saw major global indices close in the negative territory on worries that the global recession would stretch longer. Sensex and Nifty declined by 716 points (-4.7%) and 270 points (-5.89%) to close at 14,522 and 4,314 respectively. The Mumbai High Court's judgement accentuated the downward bias. Markets were unaffected by FM's call for lower interest rates.

Profit booking by FII's was visible as they sold stocks (net) of $350 million during the week. However, in June they were net buyers of $950 million. The week also saw inflation falling to sub-zero levels. The worst hit this week was Oil & Gas, Realty and Metal sectors and these indices had lost around 10%. Power and Capital Goods were the other sectors that had lost over 5%. Banks, IT, FMCG and Healthcare are the only sectoral indices that had gained this week, but the gains were less than once percent. FII net selling was at the core of the bearish trend. Overall they net sold over Rs. 23 billion in cash segment alone this week.

The Fed's two-day monetary meeting scheduled during the week could give some direction to the global markets. Expectations of a pro-reformist budget and faster progress of monsoon could improve sentiment. NSE is adopting free-float market mechanism for the Nifty from June 26, 2009 and it should help stocks like L&T, HDFC, Infosys due to their increased weightages.

However, domestic markets are expected to be choppy in the June derivative expiry week. The market could consolidate its gains at these levels but an up move will depend on global cues. Profit-booking could happen at higher levels in the run-up to the budget. Foreign buying could be crucial for any up move ahead. It would be interesting if markets can reverse the losses of earlier week and continue the three-month rally. Any policy action to revive growth in the badly hit SME, exports, textiles, commercial vehicles, infrastructure and housing segments would be a positive. The progress of the Monsoon will also be keenly watched.

Taurus Benchmark Indices Movement

Indices	19/06/09	12/06/09	Points change	% change
BSE Sensex	14521.89	15237.94	-716.05	-4.70
S&P CNX Nifty	4313.60	4583.40	-269.80	-5.89
BSE 100	7570.32	7928.66	-358.34	-4.52
BSE 200	1761.66	1845.31	-83.65	-4.53
CNX Midcap	5308.20	5552.90	-244.70	-4.41
S&P CNX 500 Shariah	1018.79	1078.39	-59.60	-5.53

Weekly FII & MF net flows (Rs. in crs.)

12/06/09 to 18/06/09	Equity	Debt
FIIs	360.20	1016.10
MFs	-645.70	5509.20