

DEBT MARKETS

Global Update

The US treasury market remained strong for the third consecutive weekly gain on speculations that the plans to regulate banks by President Barack Obama will stifle the economic growth. The US government contributed USD 787 Billion as the economic stimulus during the biggest crisis since Great Depression of 1929. The speculations of Chinese officials will need to slow down the pace of economic expansion for the fastest growing economy push yields lower. The 10 year treasury notes came down by 8 basis points from 3.68%.

Domestic

Indian debt market moved in tandem with the global market and had best week for more than 2 months. With food inflation stabilizing (16.81% compared to 17.3% previous week), it is more likely that the Reserve Bank of India will keep the benchmark interest rates unchanged. The plans to increase the pace of stake sale in profitable PSUs, might see government raising Rs 25,000 Cr this fiscal, nearly half the amount raised by privatisation since 1991. This would reduce the pressure on the ballooning fiscal deficit. The yields of 6.35 percent 2020 paper came down by 11 basis points to 7.55% last week.

Call & CBLO

The money market rates did come down last week, though secondary market volumes were still low. The range for MIBOR was 3.30 - 3.32 % during the week. The Inter-bank Call and CBLO range were 3.00%- 3.40% and 2.25%-3.39% respectively.

Government Securities and Treasury Bills

The Indian markets saw a healthy gain across the yield curve, will higher end coming down more than the lower end. The 10 year yield came down by 11 basis points, where

as the one year paper yields saw a cool of 3-4 basis points. The INR 70 bn government bond auction saw a bid-to-cover of 2.81; the floating rate bond, for its protection against interest rate movements, was oversubscribed 3.24 times, eventually issued at INR 93. The cut-off yields stood at levels expected by the market, while the longest maturing 2032 bond was re-issued at par (at 8.28%), the 2014 bond yielded 7.13%. On Wednesday the INR 85 bn treasury bills auction had a low bid-to-cover ratio of 1.85. Both the tenders witnessed a cut-off higher than its previous level; the 3-month bill was sold 6bps higher at 3.928% while its 6-month counterpart was issued at 4.197% (12bps higher).

Corporate Bonds

The corporate bond yields tracked the Government Securities to close higher than previous week. The 5Y benchmark bond traded around 8.3250% while 10Y benchmark bond traded around 8.66%.

Rupee

The global strength in USD after US President Barack Obama's comments on curbing the risk taking of banks saw INR falling in tandem with other Asian currencies. Last week Indian Rupee fell most since October 2009, falling 0.8% to close the week at 46.1525.

Fund Manager's Comment

The coming week will be very crucial for the Fixed Income traders. All eyes will be on the Monetary policy to be announced on 29th January. The market expectation from the policy is divided. RBI is likely to keep the benchmark rates at current levels, where as it is likely to suck out around Rs 23,000 Cr by increasing the CRR by 50 basis points. The market is likely to remain range bound during the short week (26th being a holiday), the 10 year papers likely to trade at current levels.

Market Indicators as on 22nd January, 2010

	15-Jan-2010	22-Jan-2010	% change
INR/USD	45.7700	46.1550	0.84%
Inflation	NA	NA	NA
Oil (\$/bbl)	78	75.14	-3.67%
Gold (\$/oz)	1,130.93	1,085.32	-4.03%
10 years G-Sec	7.62	7.562	-0.76%
10 years AAA	8.69	8.66	-0.35%
Call Money	3.28	3.28	0.00%

Source: Bloomberg

EQUITY MARKETS

After continuing with its consolidation zone for several weeks, the Indian markets witnessed its first selling pressure during the week triggered by large scale profit booking. The BSE Sensex and the NSE Nifty, lost 4.0% and 4.1% during the week and ended the week at 16860 and 5036 respectively. The BSE Mid- and Small- Cap indices were also at the receiving end, losing 3.8% and 3.4%, respectively. On the sectoral front, all the major sectoral indices ended in the red, with the BSE Realty index losing the maximum of 8%. The top losers in the realty space were Peninsula Land (-11.3%), Unitech (-10.5%), Omaxe (-9.2%), Ansal Properties (-8.8%) and DLF (-8.7%). Realty stocks fell on reports that the finance ministry had rejected the Department of Industrial Policy and Promotion's (DIPP) proposal of dropping the mandatory three-year lock-in for foreign direct investment (FDI) in the real estate sector, affecting the prospects of the sector raising funds from overseas investors.

SII of in the global market triggered on Thursday as Barack Obama's proposed new restrictions on banks, which would prevent banks or financial institutions that own banks from investing in, owning or sponsoring a hedge fund or private equity fund weighed heavily on global stocks on Friday 22 January 2010. The rules would also bar institutions from proprietary trading operations, unrelated to serving customers, for their own profit. These bets have been enormously profitable for the banks but can hold huge risks for the financial system if they go wrong. In economic data, US unemployment claims unexpectedly surged in latest week, generating fresh anxiety about a labor market that has yet to catch up with growth in overall economy.

The inflation continued to remain in the concerned zone, food price index rose 16.8% in the 12 months to 9 January 2010, while the fuel index was up 6.34%. Due to which markets are expecting interest rate hike during the policy meet to be held on 29th January 2010.

The result season saw some good results barring a few biggies like L&T. The aggregate results for 439 companies announced so far showed that net profit rose 41.4% to Rs 31011 crore on 20.2% rise in sales to Rs 249678 crore in Q3 December 2009 over Q3 December 2008.

FII's sold US\$ 291 mn in cash. For current month total investment is US\$ 478 mn. DII invested US\$ 126 mn in cash. For current month total investment is US\$ 1,103 mn.

Reserve Bank of India may consider steps to withdraw excess liquidity in the system when it will announce its credit policy during the week. It may look to contain liquidity by opting for a hike in banks' Cash Reserve Ratio. Markets looks to have factored in a 50bps hike in CRR but any increase in rate hike may put some pressure into the markets. During the week market will take cues from results of commodity heavy weights and large PSU banks. We expect market to remain range bound on the back of F&O expiry and monetary policy meeting

Taurus Benchmark Indices Movement

Indices	22/01/2010	15/01/2010	Points change	% change
BSE Sensex	16859.68	17554.30	-694.62	-3.96
S&P CNX Nifty	5036.00	5252.20	-216.20	-4.12
BSE 100	8989.10	9373.44	-384.34	-4.10
BSE 200	2133.28	2223.40	-90.12	-4.05
CNX Midcap	7474.95	7796.40	-321.45	-4.12
S&P CNX 500 Shariah	1237.94	1297.81	-59.87	-4.61

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

15/01/10 to 21/01/10	Equity	Debt
FII's	-1215.30	2150.90
MFs	-1171.40	5244.60

Source : SEBI site

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