DEBT MARKETS

Global Update

The US treasuries rallied last week as foreign banks showed renewed interest in the treasury auctions. December, though, has been a bad month for the rate traders with 10 yrs benchmark levels rising by more than 50 basis to close the year at 3.29%. This is the highest rise in yield since December 2009. The main reason for the yield rise can be assigned to the speculation that the Fed Reserves asset purchases and extension of the tax cuts will bring back US economy on track. The Nymex Crude futures closed at USD 91.38 per barrel, same as last week.

Government Securities and Treasury Bills

The G-sec market remained rangebound on lack of any fresh trigger. OMO positive sentiments neutralizing the rising food inflation figures. The food price inflation moved up to 14.5% and primary article inflation recorded 17.2% week on week. Crude tested USD 91 per barrel. The auction was there in five securities: 6.49% 2015 & 7.02% 2016 (the less liquid counters) and the actively traded 7.99% 2017, 8.13% 2022 and 8.26% 2027 gilts.RBI auction of 91D and 364D T-Bills saw the cutoffs at 7.19% and 7.49% respectively.

Liquidity Call

Liquidity condition continued to remain in tight. LAF figures showed an average daily borrowing by SCBs of ₹119k Cr from RBI (down from ₹155k previous week) on the second week of the reporting fortnight. Overnight rates like MIBOR, and CBLO remained firm and traded between 6.71%-6.93% and 3.50% - 6.60% respectively.

Corporate Bond

Corporate bond papers traded in a small range. The 5 yrs AAA rated corporate bond yields closed at 8.94% marginally lower while 10 yrs benchmark bond yields closed at 8.96% 3 bps, same as last week.

Rupee

The Indian Rupee appreciated for the third week on account of firm stock markets and overseas weakness of USD. It traded in a range of 44.66 to 45.28 to close at 44.70 appreciating 0.91 percent week on week.

Fund Manager's Comment

The tight liquidity condition continued, with LAF showing an average of ₹119k Cr. The fresh issuances continued unabated for the bank CDs, but were easily absorbed by mutual fund buying. There was steep fall of around 35-40 basis points in the 3 months segment. It is likely to see more bidding this week, as MFs would step up buying to build the portfolio for the new quarter. The 10 yrs bond may trade in the narrow range of 7.90%-8.05%.

Market Indicators as on 31st December, 2010

	31/12/2010	24/12/2010	% change
INR/USD	44.70	45.11	-0.91
Inflation	7.48%	7.48%	0.00
Oil ($/bbl)	91.38	91.51	-0.14
Gold ($/oz)	1420.78	1381.47	2.85
10 years G-Sec	7.92	7.92	0.00
10 years AAA	8.96	8.96	0.00
NSE Mibor	6.71	6.96	-0.25

Source: Bloomberg

EQUITY MARKETS

During the last week of the calendar year 2010, the Indian equity market ended the week with positive gains. The BSE sensex ended the week with a gain of 2.2% while nifty posted gain of 2%. The CNX midcap and Small Cap too ended with positive gains as they manage to post 1.8% and 3.4% respectively.

On the sectoral front, most of the indices ended with positive gains except BSE Oil and Gas which lost 0.3% during the week. On the gaining side, Consumer durable index gained by 4.1% followed by Ralty (3.3%), FMCG (2.8%) & Bankex (2.8%).

Among the BSE 200 stocks, Hindustan Oil Exploration gained by 17.6% followed by MMTC (13.8%), Guj NRE Coke (11.2%). On the loosing side, Amtek Auto lost 6.5%, followed by Tata Global Beverage (-3.9%), PFC (-3.9%) & Indian Bank (-3.8%).

India's infrastructure output grew at a sharply slower pace in Nov'10 compared to the previous month, mainly due to the weaker performance of electricity, cement and steel constituents. The index of six core industries stood at 254.9 in Nov'10 (249.2 in Nov'09), registering a growth rate of 2.3%, as against 5.9% in Nov'09. Meanwhile, October's reading was revised to 8.6%, as against the preliminary estimate of 7%, while the index level was revised to 278.9 from the provisional forecast of 274.8. The output of six core industries grew by 5% in Apr-Nov'10 period, as against 4.5% in Apr-Nov'09 period.

The annual rate of inflation in the sensitive food articles space increased anew in the third week of December, putting further pressure on policymakers to check the spiraling prices of essential food commodities. The inflation in the food articles group climbed to 14.44% in the week ended December 18, 2010, as against 12.13% in the previous week – marking the fourth instance of an increase in food inflation after easing for seven consecutive weeks. The inflation in the primary articles group jumped to 17.24% in the week under review, as against 15.35% in the previous week. The inflation in the fuel & power group inched higher to 11.63% in the reporting week, as against 10.74% in the previous week.

Credit growth momentum has been strong at 23.7% as of 17 December 2010. With gradual pick-up in capex, aided by likely lower disintermediation due to rising alternate cost of funding, the 20% credit growth target for FY11 seems achievable. With rising rates, deposit growth 14.7% YoY should pick up; but it may miss RBI's target of 18%, leading to prolonged liquidity tightness, in effect keeping funding cost high and margin pressure intact (although with a lag).

On the global news front, PBOC increased key 1-yr lending to 5.81% from 5.56% and deposit rates by 25 basis point on Christmas Day in its 2nd move since mid-Oct. China aims to limit asset bubbles in the real-estate market and prevent rising prices from leading to social unrest.

China's largest energy firm, CNPC, has approached ONGC to forge a comprehensive agreement that could provide it access to India's oil and gas assets. India, which allows 100% FDI in the oil and gas business, is extremely cautious about China's entry in certain sensitive sectors such as energy, ports & telecom

Taurus Benchmark Indices Movement

Indices	31/12/10	24/12/10	Points change	% change
BSE Sensex	20509.09	20073.66	435.43	2.17%
S&P CNX Nifty	6134.50	6011.60	122.90	2.04%
BSE 100	10675.02	10461.92	213.10	2.04%
BSE 200	2533.90	2483.53	50.37	2.03%
CNX Midcap	8857.20	8698.75	158.45	1.82%
S&P CNX 500 Shariah	1436.15	1410.33	25.82	1.83%

Weekly FII & MF Net Flows (₹. in crs.)

27/12/10 to 31/12/10	Equity	Debt
FIIs	3409.00	445.30
MFs	-394.60	8423.90

Source : SEBI site