

DEBT MARKETS

Global Update

The US treasury was volatile last week with the 10 yrs yield trading in a broad range of 30 bps. The difference between the 10 yrs and 2 yrs paper increased to highest levels in a month. The nonfarm payroll increased by 67k for the month of August. This acted as a dampener to pull down the prices of treasury papers that had opened the week on a bullish note after Fed had said that it would keep its bond holding levels by purchasing the US treasuries. The Crude oil remained range bound to close at USD 74.60 per barrel.

Domestic

The Indian debt markets were mostly range bound, both on the short end as well as long end of the yield curve. The liquidity conditioned eased up enough, so as to absorb around ₹. 15-20k of CD issuances. The CBLO amount was as high as ₹. 70K Cr for most of the week. The benchmark 10 yrs paper again found favour with traders, with the spread reversing with the 12 yrs paper.

CALL & CBLO

Liquidity condition continued to remain easy last week. The LAF showed a positive average of ₹. 10K Cr. Overnight rates like MIBOR, and CBLO too showed fragile liquidity condition and traded between 4.61%-5.70% & 2.90%-4.75% respectively.

Government Securities and Treasury Bills

The G-sec markets saw value buying in 7.80 coupon 2020 paper last week. The spread of the 12 yrs paper over 10 yrs turned positive again by 5-7 bps from a negative 7-10 bps. After witnessing a devolvement of INR 13.87bn in previous auction, RBI successfully sold INR 120 bn of gilts. The cut-off

yield for INR 40 bn 7.46% 2017 and INR 50 bn 8.08% 2022 was set at 8.01% and 8.03% respectively, while the cut-off for INR 30 bn 8.30% 2040 paper was unchanged from previous auction at 8.40%. The INR 20bn 91 days T-bill was sold at 6.07 % (12 bps lower), while 182 day bill at 6.37% (9bps lower). The auction witnessed a cumulative bid-to-cover of 3.07X.

Corporate Bonds

Corporate bond yields remained range-bound. The 5yrs bond traded at 8.51%-8.55% while 10yrs benchmark Bond traded around 8.78%- 8.80% nearly at same level as last week.

Rupee

The Indian Rupee appreciated against USD week on week following the strength of Indian equity market and the related flows. The Rupee-Dollar traded in a range of 46.64 to 47.09 to close at 46.64 appreciating 0.53% week on week basis.

Fund Manager's Comment

The most significant characteristics of last week was Mutual fund's coming back to the CD markets to purchase around ₹. 20k Cr worth of papers, and yet short term rates coming down. This was mainly due to easy liquidity (LAF touching ₹. 30k positive). The 10 yrs paper though remained around 7.95%-8% levels, as traders continued to remain cautious.

The benchmark 10 yrs GOI may trade in a narrow zone in the forthcoming period. The mid September review of the monetary policy will keep the rate market in a tight zone. The pressure on short term rate may continue as we sail towards the September outflow. The likely range of benchmark yield will be around 7.90%-8.00% this week.

Market Indicators as on 3rd September, 2010

	03/09/2010	27/08/2010	% change
INR/USD	46.6400	46.8875	-0.53
Oil (\$/bbl)	74.6	75.15	-0.73
Gold (\$/oz)	1246.75	1238.10	0.70
10 years G-Sec	7.96	8.04	-0.07
10 years AAA	8.78	8.81	-0.02
Call Money	4.60	4.60	0.00

Source: Bloomberg

EQUITY MARKETS

Indian equity market has posted positive gains during the week and able to tide over the global volatility. The BSE Sensex has posted a gain of 1.24% while nifty posted a gain of 1.31%. BSE Mid cap and Small cap indices has continued to outperform as they posted gain of 2.94% and 2.82% respectively. Factors such as tabling of the Direct Tax Code Bill in the Lok Sabha, robust GDP growth of 8.8% in 1QFY2011, strong auto sales numbers, expansion in the manufacturing sector in August 2010, resumption of buying by foreign funds and mixed global cues weighed on investor sentiments during the week

On the sectors, FMCG posted 2.92% followed by Bankex (2.72%), Healthcare (1.70%) and Capital Goods (1.35%). On the losing side Power index closed negative with 0.82% loss while Consumer durable lost a minor 0.25%.

Among the index stocks, Bharti Airtel posted a gain of 7.3% followed by Ranbaxy Labs 7.12%, Tata Steel (6.04%) and Unitech (5.39%)

According to the CSO, the Q1FY11 GDP is 8.5% which is best in the last 10 quarters. The growth was led by manufacturing (up 12.4% YoY) trade, hotels, transport and communication (together up 12.2%), and mining and quarrying (up 8.9%)

Credit growth in the fortnight ended stands at 20.1%, higher from the 19.7% reported last fortnight. The Deposit growth for the industry stands at 14.1% compared to 14% reported in the last quarter. The low deposit growth compared to the credit growth is causing short term interest rates to rise and could push some pressure on the bank's funding cost

Annual food inflation rose marginally to 10.86% for the week ended August 21, after the previous two-week decline, despite a fall in vegetables prices. Cereal prices, rose by 6.76%, driven mainly by higher prices of pulses, rice and wheat compared to the same period last year. While pulses became dearer by over 14%, prices of

rice and wheat rose by 8.05% and 7 per cent, respectively, during the week under review on yearly basis. Among other food items, milk prices soared by 18.22%, and fruits became dearer by 9.27% during the week over the same period last year.

The Finance Ministry presented the new Direct Tax Code Bill, 2010, for discussion in the Parliament on August 30,

2010. The bill has rolled back almost all the changes proposed in the original discussion paper and is not much different from the existing laws.

the auto industry has posted a healthy growth in sales for the month of August. Sales are expected to continue a strong growth with the festival season around the corner. Car market leader Maruti Suzuki posted the highest-ever monthly sales in the month at 1.04 lakh units, while registering a growth of 24% over the same month last year. Hyundai, domestic sales rose 17.2% to 28,601 units, even as exports fell 12.3%. Thus, the overall rise in sales for the company was 2.3% to 50,636 units. Tata Motors posted a 32% rise in sales in August to 65,938 units. In the domestic market it sold 60,781 units, marking a 29% growth over the same month last year. Among passenger vehicles, sales grew 45% to 25,196 units, especially aided by increasing sales of the small car Nano.

On the global news, The Commerce Department in US reported on Monday, 30 August 2010 that savings rate for U.S. households fell in July to the lowest level in three months as spending outpaced income. Consumer spending rose 0.4% in July while personal income increased 0.2%. The savings rate fell to 5.9% from 6.2% in June, which had been the highest level in a year. The Labor Department in US reported on Friday, 03 September 2010 that the U.S. economy shed 54,000 non farm jobs in August, much smaller than an expected figure of 1,00,000. The unemployment rate ticked higher to 9.6% in August from 9.5% in the previous month.

Taurus Benchmark Indices Movement

Indices	03/09/10	27/08/10	Points change	% change
BSE Sensex	18221.43	17998.41	223.02	1.24%
S&P CNX Nifty	5479.40	5408.70	70.70	1.31%
BSE 100	9784.41	9647.60	136.81	1.42%
BSE 200	2345.91	2309.07	36.84	1.60%
CNX Midcap	8923.35	8757.80	165.55	1.89%
S&P CNX 500 Shariah	1309.03	1295.45	13.58	1.05%

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

27/08/10 to 02/09/10	Equity	Debt
FII	1461.70	-729.10
MFs	-97.70	13035.40

Source : SEBI site

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