DEBT MARKETS

Global Update

The continuance of discouraging news from US and China and persisting Euro region risk aversion has led to fall of treasury yield around the world. While the US non farm payroll data came lower than expected (amidst lowering inflation which indicates soft deflation gaining ground) and Fed's dovish stance wherein it pledged to maintain the increased balance sheet size, led to US treasury yield crashing to historical low of 2.67% against last week 2.82%. From Asian giant China, the import data recorded lower than the expected fuelling expectation of slower world growth.

Domestic

While US market showed crash in yield, Indian counterpart saw yield rising on the back of expected tighter liquidity and the constant supply of treasury papers. Even though there was no significant reason for yield hardening as the inflation figure is expected to soften on account of base effect and softer commodity prices internationally, the auction woes has led to yield hardening to 7.92%.The IIP data for July, published last week came-off to note 7.1% against the market expectation of 8.1% and last noted 10.5%.The benchmark bond closed at 7.86% after the IIP data. The next important event is inflation figure due on Monday which will cues to market direction.

CALL & CBLO

Liquidity remained neutral with negative bias. The LAF figure noted negative Rs. 2820 Cr to negative Rs.16340 Cr. Overnight rates like MIBOR, and CBLO too came down and traded between 4.99%-5.82% and 4.17%-5.63% respectively.

Government Securities and Treasury Bills

The G-Sec market remained range-bound with 10 yrs benchmark trading in a range of 7.76%-7.90%. The RBI at an auction held today successfully sold INR 120 bn of dated securities. It auctioned vended INR 40bn of 7.17% 2015 gilt at a cut-off rate of 7.7054% with bid-to-cover of 2.03X, while 7.80% 2020 (INR 50bn) and 8.26% 2027 (INR 30bn) were re-issued at 7.8988% and 8.3921% with a bid-to-cover of 2X and 2.52X respectively. It also auctioned INR 70 bn 91 days T-bill at cut-off yield of 6.15%, 17 bps higher from previous auction and INR 10 bn 364 day T-bill at 6.42%.

Corporate Bonds

Corporate bond yields remained range-bound. The 5yrs bond traded at 8.4975% while 10yrs benchmark Bond traded around 8.80% nearly at same level as last week.

Rupee

The Indian Rupee depreciated against USD week on week on taking cues from the overseas global market wherein the safe haven demand accelerated as the world growth is expected to moderate further. The Rupee-Dollar traded in a range of 46.13-46.78 to close at 46.76 depreciating 1.33% week on week basis.

Fund Manager's Comment

The liquidity conditions did not improve significantly, still flirting in the negative territory. The money market rates, as a result, too did not show any sign of softening. The 3-6 mths rates went up by 25-30 bps where as the long end of the yield curve remained range bound, without any significant directional move.

This week the most important data to be released is the inflation data, which is likely to provide a directional push to interest rate traders. The liquidity condition may improve, but LAF numbers are likely to remain around neutral territory. The 10-yrs benchmark G-Sec is likely to trade in a range of 7.75%-7.90% with downward bias.

Market Indicators as on 13th August, 2010

	13/8/2010	6/08/2010	% change
INR/USD	46.7650	46.1500	1.33
Oil ($/bbl)	75.39	80.7	-6.58
Gold ($/oz)	1215.50	1205.00	0.87
10 years G-Sec	7.86	7.82	0.04
10 years AAA	8.80	8.81	-0.01
Call Money	5.10	4.78	0.32

Source: Bloomberg

EQUITY MARKETS

During the week the markets were remain in a very narrow range with specific stocks outperforming because of the specific news flow. The BSE Sensex has posted a gain of 0.1% while the Nifty ended marginally higher at 0.2%. As the action was more outside the broader indices, the BSE Mid cap index and BSE small cap index outperformed the main indices. The BSE mid cap posted a weekly gain of 1.5% while BSE small cap index posted a gain of 1.6%. Factors such as strong numbers reported by Tata Motors and State Bank of India during 1QFY2011, lower-than-expected IIP growth at 7.1%, concerns over the pace and sustainability of the global economic recovery leading to mixed cues from global markets weighed on investor sentiments during the week.

On the sectoral front, majority of the sectoral indices ended in green, with the BSE realty index and BSE Bankex gaining the maximum by 6.6% and 3.4%, respectively. The top gainers in the real estate space were Anant Raj (up 19.2%), Omaxe Ltd. (up 12%), Sobha Developers (up 8.8%), HDIL (up 7.5%) and Akruti City Ltd. (up 6.1%).However, the BSE IT index lost the maximum during the week, ending lower by 2.2%.

Among the index stocks, Tata motor posted a gain of 17.16% followed by St bank of India (6.30%) Jindal Steel (4.41%) and HUL 4.29%. On the loosing side, Wipro lost 4.92% followed by sterlite Indus (4.91%) ITC (-3.65%) and Infosys tech (-3.18%).

The country's factory output growth moderated to 7.1% in June, the lowest in the last 13 months, largely driven by weak manufacturing output expansion and an adverse base effect - a statistical phenomenon that shows a decent growth appear modest when compared with a very high rate in the previous year. Mining output clocked a growth of 9.5% as against 14.2%, electricity generation expanded by 3.5% compared to 8% last year.

Food inflation, as measured by the Wholesale Price Index (WPI), rose to 11.4% for the week ended July 31, around two percentage points more from the previous week. After 15 days in July when it was in single digit - 9.53% for the previous week - prices of food items like cereals, fruits and milk have risen again spelling concern for the government and economy in particular.

India may raise as much as $3.3 bn from the sale of shares in Coal India Ltd.. The world's biggest producer of coal will file its draft sale prospectus with SEBI early next week, and plans to sell shares around mid-October, the people said, declining to be named before a public announcement. The Government also exempted public owned companies from 25% public shareholding rule.

Car sales rose 38% in July from a year ago, driven by easy access to low-cost loans, rising income and new models. The sales in July at 1,58,764 units were the highest for a month, surpassing the previous high of 1,55,600 units in March, according to data by the Society of Indian Automobile Manufacturers (Siam). In July last year, the industry sold 1,15,084 cars.

On the global news, The Federal Reserve said that America's economic recovery was "more modest" than had been anticipated and maintained its policy of quantitative easing. With fears of a double-dip recession rising, the Fed said it would buy Treasury debt using the proceeds from more than $150 bn of maturing mortgage debt that it owns.

Taurus Benchmark Indices Movement

Indices	13/08/10	06/08/10	Points Change	% Change
BSE Sensex	18167.03	18143.99	23.04	0.13%
S&P CNX Nifty	5452.10	5439.25	12.85	0.24%
BSE 100	9713.90	9674.09	39.81	0.41%
BSE 200	2323.67	2311.27	12.40	0.54%
CNX Midcap	8710.55	8546.30	164.25	1.92%
S&P CNX 500 Shariah	1308.88	1313.86	-4.98	-0.38%

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

06/08/2010 to 12/08/2010	Equity	Debt
FII's	1744.50	1252.10
MF's	-611.40	2468.00

Source : SEBI site