

## DEBT MARKETS

### Global

US Treasury yields hardened tracking better than expected Jobless Claims data. Initial Jobless Claims for week ended May 3, 2009 was at 601,000 compared to market estimates of 635,000. The euro advanced to a seven-week high against the dollar as optimism the global recession is easing spurred demand for higher-yielding assets. China's new lending cooled in April 2009, easing concern that banks are taking on too much risk in a credit boom after the government dropped restrictions on loans in November. Lending was more than 600 billion Yuan (\$88 billion), Consumer prices fell 1.5% in April 2009 from a year earlier.

### Domestic

The inflation for week ended April 25, 2009 was at 0.70%, slightly higher than previous week. The index increased tracking rise in food articles (tea, milk etc) and food products (rice bran oil, skimmed milk powder etc).

### CALL & CBLO

The money market rates stayed easy tracking comfortable liquidity in the system. Average amount absorbed by RBI under LAF reverse Repo was around Rs 1.45 tn. Further, RBI has started rejecting bids in LAF Reverse Repo and has also cancelled the Second LAF except on reporting Friday. This has further helped in easing of overnight levels. Overnight call rates and CBLO rates were seen in the range of 3%-3.25% and 0.05%-2% respectively.

### Government Securities and Treasury Bills

G-Sec market opened for the week in positive note. However, selling pressure was seen for the most

part of the week due to profit booking. 10 years G-Sec closed at 6.38%. Further, cut off for the 10 years G-Sec was at 6.33%. RBI has also announced the T-Bill auction of Rs 70 bn and G-Sec auction of Rs 120 bn.

### Corporate Bonds

Spreads on longer end of the corporate bonds has widened slightly tracking the hardening of G-Sec yields. However, short end of the curve has seen some consolidation due to RBI step of rejecting bids in LAF Reverse Repo and cancellation of Second LAF.

### Rupee

The INR appreciated against USD tracking the global weakening of USD. INR closed at Rs 49.26 against the USD.

### Fund Manager Comments

Liquidity for the week is expected to remain comfortable. Overnight rate are also expected to remain at current levels. However, yields on long term money market instruments are expected to go slightly higher tracking lower demand. G-Sec yields are expected to open higher tracking the comments made by RBI Governor that how the RBI would tackle interest rates if the economic scenario changes. However, yield on 10 years benchmark is expected to consolidate at 6.40% levels. Due to easy liquidity conditions the G-Sec yields may go down during the latter half of the week.

## SPREADS OF CORPORATE BONDS AS ON 8th May 2009 OVER G-SECS

Rating			
Tenure	AAA	AA +	AA
1 year	172.80	190.80	208.80
3 years	174.80	165.80	183.80
5 years	154.40	172.40	190.40
10 years	182.90	200.90	218.90

## EQUITY MARKETS

Indian stock market persisted with the bullish fervor, after displaying mixed signs during the previous week, and ended the ninth consecutive week of rally with smart gains. It started with a big bang, after missing two eventful days in the previous week, and later shed some of those extra fat built on the first day when global events failed to give strong follow through support. The Sensex zoomed up by 6.4%, one of the highest single day gains, on Monday. However later in the week, the Sensex gave up a third of the gain, to end with a gain of 4.15% for the week. Both the Sensex and Nifty scaled new bench marks on Monday at above 12,100 and 3,650, respectively. Sensex and Nifty went up by 473 points (4.15%) and 147 points (4.22%) to close at 11,876 and 3,621 respectively.

The rally was driven by positive global cues and strong buying support from foreign institutional investors who have pumped in Rs 3,269.6 crore in May 2009. Investors seemed willing to take on risk which pushed up the BSE Midcap and Smallcap indices by 7.3% and 8.5% respectively. Metal stocks muscled most this week on the back of rising global commodity prices, and the sector gained over 15%. Reports of more than expected sales of air conditioners and refrigerators gave lift to consumer durables and this sector index gained almost 11%. Realty sector also got a boost (index gained over

10%) amid reported prospects of realty major's managing to wriggle out of cash crunch. Net buying interest was seen mainly from FIIs. Domestic retail segment was mostly net reluctant sellers. So were the domestic institutions.

The US government stress tests found that 19 biggest American banks will need to raise another \$74.6 bn in extra capital to cushion themselves against losses of up to \$599 bn by the end of 2010 if the economy performs worst then expected. The markets appear to be range bound and the Sensex has not been able to break significantly above 12,000. Investors are probably awaiting election results to be announced on May 16. Market participants expect higher volatility due to the uncertainty and will probably stay on the sidelines. FII inflows into the Asian region have been strong and India could continue to receive its fair share of money.

However, there are many blue chip stocks with strong operating cash-flows and robust business model available at attractive valuations. We think its good times to start bottom fishing and cherry pick stocks as the valuations are compelling due to the broader market fall and negative sentiments. Long term investors should use the next few months to get invested in large-cap oriented funds through SIP route.