

DEBT MARKETS

Global

US Treasury yields eased further tracking worse than expected economic data. The Initial Jobless Claims for week ended May 10, 2009 was at 637,000 compared to market estimates of 611,000. The figure for previous month was also revised higher from 601,000 to 605,000.

Domestic

The inflation for week ended May 2, 2009 was at 0.48%, lower than 0.70% noted previous week. The index increased tracking rise in all 3 sub-groups. The reading on inflation was higher than market expectations. In the General Elections UPA now holds the majority in the Lok Sabha with 262 seats, which is much above the expectation of 160-180 seats received through opinion polls.

CALL & CBLO

The money market rates remained range bound amidst comfortable liquidity position. The average LAF reverse repo deployment was around Rs 1.25 tn. The overnight call rate remained in the range of 3.25%-3.35% and the CBLO rates were moved in the range of 1.50%-3%.

Government Securities and Treasury Bills

The yields in G-Sec market hardened at the beginning of the week tracking RBI's G-Sec auction announcement. However, the yields eased towards close tracking value buying by market participants.

In the twin G-Sec auction the cut-off for new 5 years G-Sec was set at 6.07% and the cut-off for 8.20% GOI 2022 was at 7.35%. Further, the auction of 91 day T-Bill was at 3.28% and for 182 day T-Bill was at 3.49%. RBI has also announced the T-Bill auction of Rs 60 bn for the next week.

Corporate Bonds

The yields on corporate bonds remained in the range. However, yields on shorter end eased slightly tracking the comfortable liquidity situation.

Rupee

INR appreciated against USD and closed at 49.41. The appreciation was on account of reported FII inflows and the appreciation of Indian capital market.

Fund Manager Comments

Liquidity is expected to remain at current levels. Short term money market rates are also expected to remain at current levels. G-Sec yields is expected to ease tracking the formation of stable government which will help to avoid any major change in fiscal deficit numbers announced in preliminary budget. 10 years benchmark is expected to move in a range of 6.15%-6.30%. Yields on corporate bonds are also expected to ease tracking the G-Sec market.

SPREADS OF CORPORATE BONDS AS ON 15th May 2009 OVER G-SECS

Rating			
Tenure	AAA	AA +	AA
1 year	173.80	191.80	209.80
3 years	131.70	149.70	167.70
5 years	153.20	171.20	189.20
10 years	178.10	196.10	214.10

EQUITY MARKETS

Amidst the uncertainty pertaining to the outcome of the parliamentary elections, the start of the week was a lackluster one for the markets. However post noon on Friday, there was clear signs of the left lead third front running out of the race and there was more positive moves in favour of the ruling UPA government forming the new government, if the actual numbers to be released on Saturday would be anywhere close to the exit poll predictions. Indian stocks ended the week on a positive note, following a strong thrust from FII's, as political front threw more market positive clarity. Till then the Indian market was moving in tandem with the global cues. Sensex and Nifty went up by 297 points (2.5%) and 51 points (1.41%) to close the week at 12,173 and 3,672 respectively.

However, sustained buying to the tune of Rs 4,400 crore in the first four trading days by foreign funds helped the Sensex and Nifty to post gains. For current month their total investment is US\$ 1,625 mn. For current month total investment by DII's is US\$ 132 mn. There was scant respect for economic fundamentals and even a 16 year worst manufacturing growth (IIP growth down 2.8%) figure could not change the market sentiment. Even the mixed trends in corporate revenue growth were ignored amid expectations of better growth in a couple of quarters from now. After rising for three consecutive

weeks, inflation numbers slowed down to 0.48% which will add to the positive sentiment.

However, the market continued to remain nervous and erratic amid low volumes. Gains in the mid cap and small cap indices were limited. The BSE Mid-Cap index increased 0.97 per cent while the Small-Cap index ended flat. Banks and IT stocks were in the fore this week and these sectoral indices gained respectively by 6.1% and 4.6%. Telecom and consumer durable sectors have also got a boost as revenue growth was much better than that of the other industries. Defensive FMCG was the least preferred and this sector index lost 1.8% this week. Metal and PSU were the other sector indices that ended the week in negative.

The markets will react positively to the development that a Congress-led coalition is likely to form the next government and take the economic reforms process forward. Apart from the news on the domestic front, global cues too will play a role. Even though the stimulus packages announced by various governments might have infused confidence, global growth numbers are yet to show any signs of a turnaround. Availability of liquidity and net inflow from FII were the key factors to uphold a positive perception in Indian stocks over the past few months. Both these will be keenly watched in the near future.