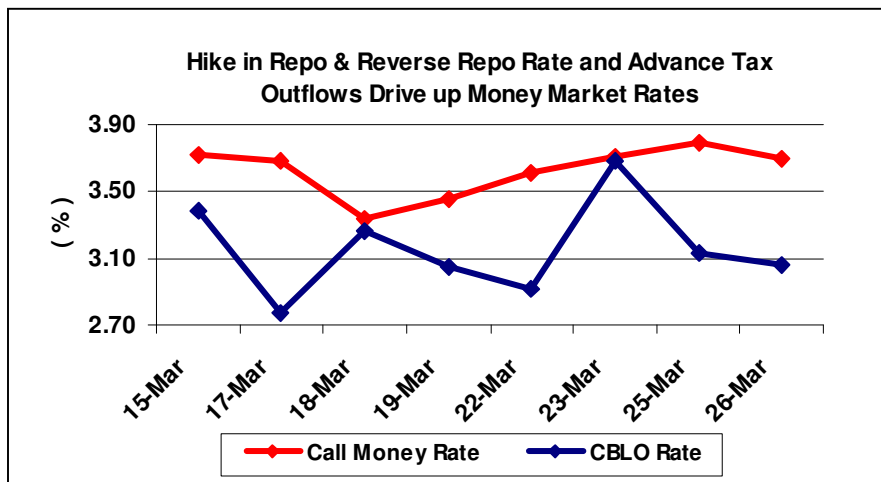




**Debt/Equity Market Update  
(For the week ended 26<sup>th</sup> March'10)**

**Money Market**

Money market rates remained firm as demand for funds remained strong in a holiday shortened week. Also with hike in key policy rates by 25 bps each, call rate rose and adjusted to the new corridor. Absorption under the reverse repo averaged at Rs. 24,935 crore during the week. Call rates ended the week at 3.70% vis-à-vis previous week's close of 3.45%, while CBLO rates ended the week at 3.06% vis-à-vis previous week's level of 3.05%



**G-sec Secondary Market**

Bond yields rose during the week under review as unexpected interest rate hike by RBI on 19th March after market hours took market participants by surprise. Yields surged with 10-yr yield rising past 8% in reaction to the rate hike. However, yields retreated later on emergence of value buying at higher levels. Market remained range bound in the remaining part of week amid thin volumes as traders preferred to stay sidelined ahead of release of borrowing calendar for the coming fiscal. Yield on 6.35% GOI 2020 firmed up by 3 bps to 7.85% from 7.82% in the previous week.

**Crude Oil**

Crude oil opened the week on a positive note helped by rise in equity markets. However, larger than estimated rise in US stockpiles pushed prices down by more than a dollar. Rise in equity markets was offset by strengthening of dollar. Crude closed the week at USD 80 a barrel vis-à-vis previous week's closing of USD 80.68 after US economy grew at lower than estimate rate in the fourth quarter. Crude oil closed the week at USD 80.68 a barrel as against USD 81.24 in the previous week.

## **US Treasury Market**

US treasury yields surged sharply with 10 year yield rising by more than 15 bps as heavy supply dampened sentiments. Weak demand in auctions of two, five and seven year papers during the week from players including foreign central banks pushed 10 yr yield past 3.85%. Further with the US economy growing by 5.6% in the fourth quarter of FY 2009-10 demand for treasuries weakened. After touching a high of 3.92% in intra day trade, yield on 10-yr paper closed the week at 3.85% as against previous week's closing of 3.69%.

## **Forex Market**

Indian rupee opened the week on a soft note as losses in domestic equities and strong dollar weighed on sentiments. However, rupee recovered and surged later as exporters sold dollars and stock markets pared losses. On the last trading day rupee strengthened to 18 months high after dollar plunged against euro after an aid for Greece was confirmed by euro leaders. While, considerable rise in Asian and domestic bourses also boosted sentiments. Rupee closed the week at 45.24/USD as against previous week's closing of 45.51/USD.

## **Equity Market**

After rising sharply in the previous week, equity market dropped in reaction to the unexpected interest rate hike by RBI. The drop was led by decline in interest rate sensitive stocks. However, strong buying amid firm global trend helped domestic markets to rebound. Equity markets inched up gradually regaining 17,500 mark on continued buying by funds in blue chip stocks. Decline in weekly food inflation rate to its lowest level in four months further accentuated the rise. On the last trading day, indices rose to touch a fresh two month high on back of continued buying momentum in heavy weight stocks. Benchmark indices Sensex and Nifty closed the week at 17,645 and 5,282 points respectively.

## **Outlook**

In the coming week, the borrowing schedule for FY 2010-11 will be major trigger and will set the course of yield movement. Though market has discounted front loading of government borrowing, any major deviation from expectations regarding the same may drive up yields. Trading volumes may rise in the new financial year as ambiguity regarding the calendar will be over which may induce fresh investments.

**(S. Ranganathan)**  
**Managing Director**