



Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.

		Sensex Close	
This Week: 51		36	14
Today: 233		126	106

Market Snapshot

Indices	12-Mar	WTD %	CYTD %
BSE Sensex	17,167	1.0	-1.7
S&P Nifty	5,137	0.9	-1.2
Dow Jones	10,625	0.6	1.9
FTSE 100	5,626	0.5	3.9
Nikkei 225	10,751	3.7	1.9
Bovespa	69,341	0.7	1.1
Hang Seng	21,210	2.0	-3.0
Seoul	1,663	1.7	-1.2
Shanghai	3,013	-0.6	-8.0
Straits Times	2,881	3.3	-0.6

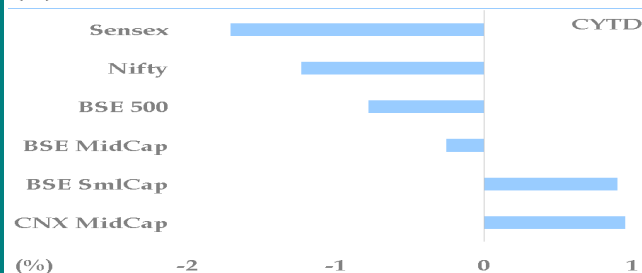
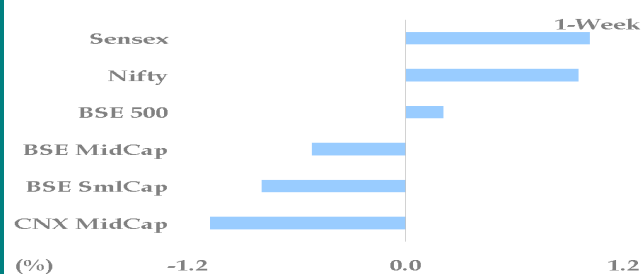
Market Capitalization

INR Bn	05-Mar	12-Mar	Abs Chg	% Chg
BSE	61,085	60,781	-304	-0.5
NSE	59,550	59,176	-374	-0.6

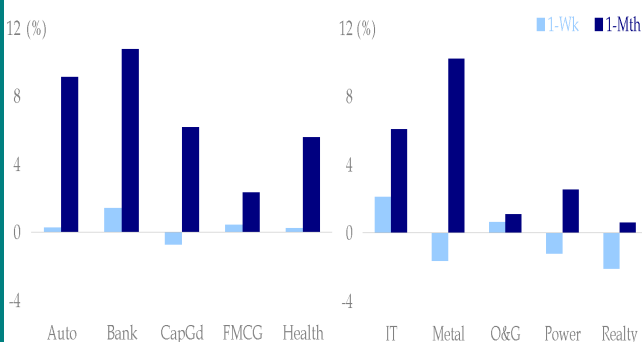
Institutional Activity

INR Bn	For the Week		Cash	
	Cash	F&O	MID	FYTD
FII's	67.75	9.79	111.09	1,017.76
MF's	-15.62	-	-17.30	-67.00

Market Moods



BSE Sectoral Indices



WATCH LIST

- US: FOMC Interest Rate, Mar 16
- JP: BoJ Interest Rate, Mar 17

'Test'ing Time, No T20

A lull seems prevailing on the street as bulls and bears' struggle for dominance made both camps fatigued. The markets gyrated in red and green thorough out the week, ending the fifth straight positive week with marginal gains. The stocks could stay within an ascending wedge with resistance ~17,250 as traders look for advance tax numbers, FOMC meeting and fear RBI's swift action. Short term technical indicators suggest market readying for sideways move with downward bias in new week.

Valuations are no longer cheap and expected tightening monetary measures and worries over growth momentum slippage post fiscal stimuli roll back resulted into deferment in investment decisions.

Poor response to NMDC FPO might jeopardize government's divestment plan to raise Rs 40,000 crores next year. DQ Entertainment, another public issue, oversubscribed whopping 86 times clearly shows investors are willing to put money but at attractive valuations.

IIP rose at 16.7% in January after growing at 17.6%, fastest pace since at least 1994, in December. Economic activity and inflation both are growing sooner and faster than expected earlier. As growth accelerates and the output gap closes, excess liquidity may exacerbate inflation expectations. Worries over supply considering government borrowings in FY11 is expected to be front loaded and inflation expectations push ten year bond yield above 8%.

Food inflation eased a bit to 17.81% during the last week of February, but may not soothe overall inflation considering hike in duties on petrol and diesel and other manufactured products.

Events during the week

Date	Events
15-Mar	US: Industrial Production, Capacity Utilization
16-Mar	JP: Machine Tool Orders; US: Housing Starts
17-Mar	UK: Jobless Claims; US: Producer Price Index (PPI)
18-Mar	US: Consumer Price Index (CPI), Initial Jobless Claims

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Base Rate to replace BPLR

RBI has recently released a draft circular that proposes to replace Benchmark Prime Lending Rate (BPLR) with Base Rate, a move that will make the process of fixing lending rate more transparent. The base rate is an improvement though not a comprehensive solution to the complex challenges in the pricing of loans. The base rate would be the benchmark for new customers; existing customers would have the option of status quo or switching to the base rate regime. Base rate is the minimum lending rate built on the concept of cost-plus model.

Most of the banks so far were lending at sub PLR, thereby decreasing the importance of PLR on account of excess liquidity. The concept of Benchmark Prime Lending Rate (BPLR) was introduced in November 2003 for pricing of loans by commercial banks with the objective of enhancing transparency in the pricing of their loan products. However over time, the system of BPLR has evolved in such a manner that it has lost its relevance as a meaningful reference rate as bulk of loans is advanced below BPLR.

BPLR failed to respond to the changes in monetary policy, as the reduction in policy rates announced by RBI were not translated in lending rates. Most PSU Banks were not able to maintain their margins because despite lower cut in PLRs, banks increased their sub-PLR lending. It has made the loan pricing system non-transparent. In order to make it more transparent, regulator has introduced base lending rates for banks with effect from July 1, 2010. The base rate will be much more dynamic and could change with any tweak in the monetary instruments.

Banks may determine their actual lending rates on loans and advances with reference to the Base Rate. Base Rate shall include all those elements of the lending rates that are common across all categories of borrowers. While each bank may decide its own Base Rate, its computation comprises of 4 parts namely cost of deposits, adjustment for the negative carry in respect of CRR and SLR, un-allocable overhead cost for banks such as aggregate employee compensation, legal and premises expenses, depreciation, cost of printing and stationery, advertising, IT spending, and cost incurred towards deposit insurance and profit margin.

The direct impact of replacing the BPLR is that banks will now on not be able to lend below Base Rate. In times of excess liquidity, as it is current, Banks lend

to good credit worthy corporate at a much lower rate to deploy the excess liquidity as well as to maintain relationship which might yield them better fee income. After the Base Rate gets affected, Banks will not be able to lend below base rate, this may lead to improvement in margins without affecting credit growth as no peer bank would also not be allowed to lend below base rate. While there is also an another probability that if liquidity continues to remain high and the better rated corporate move to alternate source of fund such as commercial paper and banks also with high liquidity might be compelled to invest in it, in such a scenario the improvement in margins might be limited.

The lending rate will be directly linked to cost to the bank including funding as well as non funding cost, which means those large banks which essentially enjoy low cost of funds with higher CASA and economies of scale in terms of operating cost will now be able to offer loans at a far competitive rate compared to other inefficient and small banks. This move might lead to consolidation as banks with higher cost would not be able to compete effectively.

The actual lending rates charged to borrowers would be the Base Rate plus borrower-specific charges, which will include product-specific operating costs, credit risk premium and tenor premium. Since the Base Rate will be the minimum rate for all commercial loans, banks are not permitted to resort to any lending below the Base Rate. Accordingly, the current stipulation of BPLR as the ceiling rate for loans up to Rs. 2 lakh stands withdrawn. It is expected that deregulation of lending rates will increase the credit flow to small borrowers at reasonable rate. Thus, direct bank finance will provide effective competition to other forms of high cost credit.

Since transparency in the pricing of lending products has been a key objective, banks are required to exhibit the information on their Base Rate at all branches and also on their websites. Changes in the Base Rate should also be conveyed to the general public from time to time through appropriate channels. Banks are required to provide information on the actual minimum and maximum lending rates charged to major categories of borrowers to the Reserve Bank on a quarterly basis. Apart from transparency, banks should ensure that interest rates charged to customers in the above arrangement are non-discriminatory in nature.



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