Weekly Debt Report

February 21, 2012

Debt Market Update

Strategy recommended:

While yields on papers more than 1 year could remain flat to up in the near term, those in the call money and at the shorter end could remain buoyant. Hence liquid and ultra short term could do well in the near term in terms of NAV performance. For the medium term, long dated FMP can be looked at and SIP investment can be initiated in Short term income plans.

Outlook for the week:

We feel that the 10-year G Sec yields could trade in the 8.05% - 8.30% band for the week.

G Sec:

- The Indian Debt markets witnessed range bound trading in a narrow band for the short week ended Feb 17, 2012. The G-Sec market saw bearish sentiment among participants on Monday ahead of the release of the inflation data for the month of January. The acute strain on the systemic liquidity which has been on the elevated level also subdued the sentiments.

- Gilt prices rose on Tuesday as the January Inflation number came in lower at 6.55% from 7.47% in December. The moderation in inflation numbers coupled with elevated liquidity tightness in the system raised the hopes that the RBI may cut policy rates in the forthcoming policy Review.

- G Sec yields rose on Wednesday as the participants trimmed their positions ahead of weekly bond auction. However, an announcement of OMO operation worth Rs 10,000 crore capped the fall in the prices.

- The RBI declared Thursday as a holiday owing to civic election in Mumbai. Prices of the Gilt ended marginally higher on Friday on the back of bullish cut-offs set by RBI in the weekly auction.

- Hence, the10 Yr benchmark, 'G Sec 7.79% GS 2021' bond yields closed the week flat at 8.19% (103.98) on Friday Vs. its close of 8.19% (103.92) on the previous week.

Debt Market Update contd…

OMO:

- Through OMO operation, the RBI bought back securities worth Rs 9,857 crore as against the notified amount of Rs 10,000 crore. The result was as follows: 8.07% GS 2017 worth Rs 1525.00 crorer at Rs 99.32 (8.24%), 9.15% GS 2024 worth Rs 3951.00 crore at Rs 106.77 (8.28%), 8.28% GS 2027 worth Rs 2897.00 crore at Rs 98.09 (8.50%), 8.97% GS 2030 worth Rs 1483 crore at Rs 103.91 (8.55%)..

WPI Inflation:

- The wholesale price index (WPI) rose a slower-than-expected 6.55% in January from a year earlier. The January figure compares with December's provisional increase of 7.47 percent. The annual reading for November was revised up to 9.46 percent from 9.11 percent.
- Primary articles inflation remained in low single digits at 2.25% supported by softening fruits & vegetables prices. Fuel inflation eased marginally to 14.21% in Jan-12 from 14.91% in the previous month. Manufacturing index rose by 0.43% in Jan-12 from last month which implies an annual inflation rate of 6.49%.
- Core inflation has also eased to 6.67% in Jan 2012 compared to 7.69% last month.

T-Bill:

- The T-Bill auctions held on Feb 15 were fully subscribed. RBI set the cut-off price for the 91-Day T-Bill at 8.94% which was higher than the previous cut off of 8.90%.
- The 182-day T-bill auction saw cut-off come in at 8.66% (higher than the previous cut off 8.65%). The central bank announced the sale of 91 Day T-Bill for the amount of Rs. 9,000 crore and 364 Day T-Bill for Rs. 4,000 crore. The auction will be conducted on Feb 22.

Corporate Bonds :

- The 1 year AAA bond ended at 9.65% which was marginally lower than the previous close of 9.66%. The 10-year bond traded at 9.24% which was marginally higher than the previous close of 9.23%.

Debt Market Update contd…

Call & CBLO:

- The liquidity in the system was hardened last week as compared to previous week. Bids for repo were a daily average of Rs. 1,67,000 crore for last week (Rs. 1,11,000 crore on previous week).
- The inter bank call rates hovered around 7.00% to 9.30% levels (an average of 8.90%). The CBLO rates were positioned at 8.50% level.

Change in Fixed Income securities over a week:

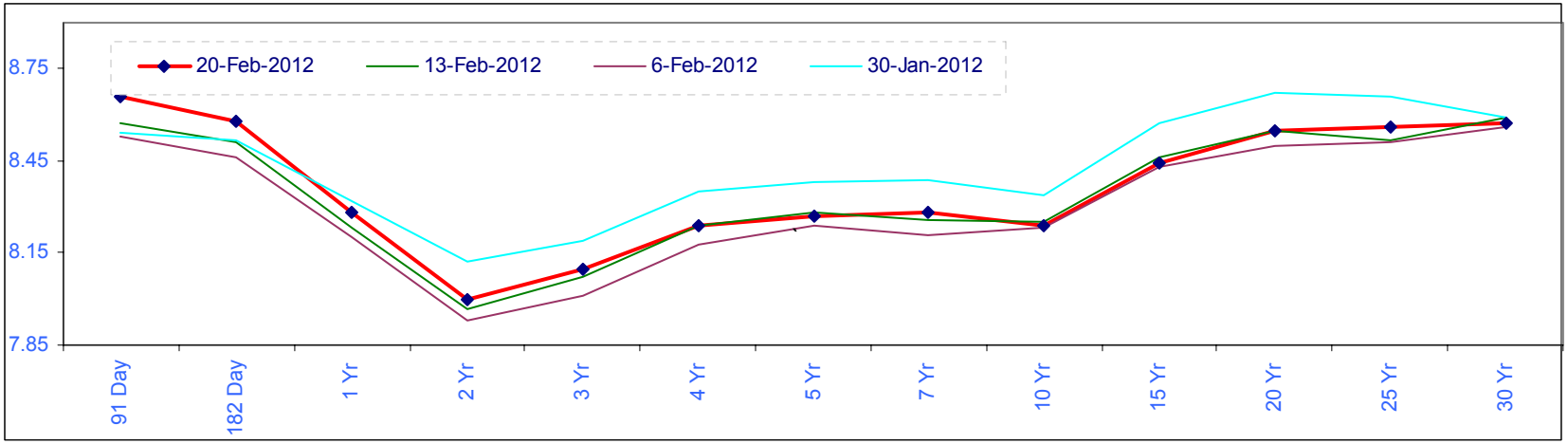
Debt (%)	17-Feb	10-Feb	Change (bps)
Call Rate	8.90	8.50	40
CBLO	8.50	7.90	60
Repo	8.50	8.50	0
Reverse Repo	7.50	7.50	0
10 Year G sec	8.19	8.19	0
MIBOR	10.08	9.92	16
LIBOR - UK	1.09	1.09	0
LIBOR - USA	0.52	0.52	0
LIBOR - Europe	1.03	1.03	0

Change in CD Rates:

Maturity	17-Feb	10-Feb
3 Months	10.34	10.00
6 Months	10.34	10.00
1 Year	10.13	10.05

Debt Market Update contd…

Gilt Securities Curve Movements for last 4 weeks:



Currency:

- The USD appreciated against the Euro by 0.42% for the week ended 17th February 2012.
- The USD depreciated against the Japanese yen by 2.50% for the week.
- The USD depreciated against the Pound by 0.05% for the week.

Corporate Bond Spread over Gsec:

AAA Corporate Bond Spread over Gsec		
Security	17-Feb	10-Feb
1 Year	98	97
3 Year	117	117
5 Year	100	101
10 Year	89	87

Debt Market Update contd…

Gold & Crude oil:

- Crude prices rose 2.31% to USD 103.24 per barrel for the week ended Feb 17, 2012.
- International Gold prices rose 0.35% to USD 1,726 per ounce for the week ended Feb 17, 2012.

Commodity price Changes:

Commodity	17-Feb	10-Feb	Change (%)
NYMEX Crude Oil ($/bbl)	103.24	100.91	2.31
Gold (oz/$)	1726.00	1720.00	0.35
Silver (oz/$)	33.56	33.84	-0.83

Global Updates:

- India to start releasing annual inflation data based on the consumer price index (CPI) every month starting on Feb 21.
- The US airline industry sues the Export Import Bank alleging that its financial support to Air India will harm the American airlines.
- The World Bank signs an agreement with India to provide Rs.1022cr for potable water facilities and sanitation interventions in rural Kerala.
- US Fed meeting minutes shows that members were divided over when or whether to make more bond purchases.
- US lawmakers reach a tentative agreement on a series of measures meant to prop up the economy and support the burgeoning recovery.
- US jobless claims fell by 13,000 to nearly four-year low level of 348,000 for the week ended Feb 11.
- US housing starts rose 1.5% to an annual rate of 699,000 in January from the revised December estimate of 689,000.

Debt Market Update contd…

- US PPI rose 0.1% in January following the 0.1% decline posted in December.
- The Philadelphia Fed saw its manufacturing survey rising from 7.3 in January to 10.2 in February.
- Moody's says it may cut the credit ratings of 17 global and 114 European financial institutions in another sign the impact of the euro zone debt crisis was spreading.
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- Euro zone finance ministers are expected to approve a second bailout for Greece to try to draw a line under months of uncertainty that has shaken the currency bloc.
- Twelve European Union leaders call for an open-markets strategy to stimulate growth and jolt the region out of its economic doldrums.
- ECB monthly report says that there are tentative signs of stabilization in economic activity at a low level.
- S&P warns that it could lower Japan's sovereign rating if the economy expands less than expected or if public debt continues to grow, as the country's unpopular government struggles to win support for higher taxes.
- Japan’s imports rose 9.8% from a year earlier, while exports were down 9.3%, resulting in a record monthly deficit of 1.48tn yen.
- Bank of China International to become the first Chinese member of the London Metal Exchange following authorization by the UK financial regulator.
- Singapore's real GDP grew by 3.6% on a year-on-year basis in Q4 2011, compared to the 6.0% in Q3.

Forthcoming Auctions:

Security	Date of Auction	Value (Rs. Crs)
91 Day T-Bill	22-Feb-12	9,000
364 Day T-Bill	22-Feb-12	4,000

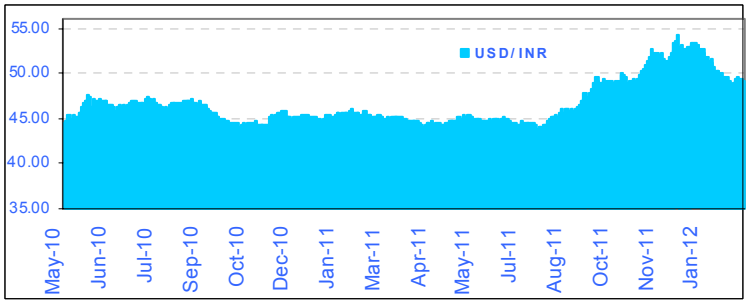
Debt Market Update contd...

Economic Calendar:

Date	Country	Event	Period	Frequency	Unit	Previous
22-02-2012	European MU	PMI Manufacturing Index Flash (level)	Feb, 2012	Monthly		48.7
22-02-2012	European MU	PMI Services Index Flash (Level)	Feb, 2012	Monthly		50.5
27-02-2012	European MU	M3 Money Supply	Jan, 2012	Monthly		
28-02-2012	European MU	EC Economic Sentiment	Feb, 2012	Monthly		
22-02-2012	India	Reserve Money (change on wk)	Wk to Feb 17	Weekly	pct	-0.4
22-02-2012	India	M3 (YoY Chg)	Wk to Feb 10	Fortnightly	pct	14.44
24-02-2012	India	WMA (ways and means advance) - to central govt	Wk to Feb 17	Weekly	Rs bln	
24-02-2012	India	FX reserve (change on wk)	Wk to Feb 17	Weekly	$ bln	-0.37
24-02-2012	India	Bank Deposit (YoY Chg)	Wk to Feb 10	Fortnightly	pct	15.7
24-02-2012	India	Bank Credit (YoY Chg)	Wk to Feb 10	Fortnightly	pct	16.4
24-02-2012	India	Bank Investment (YoY Chg)	Wk to Feb 10	Fortnightly	pct	14
24-02-2012	India	Bank Cash Deposit Ratio	Wk to Feb 10	Fortnightly		7.03
24-02-2012	India	Bank Investment Deposit Ratio	Wk to Feb 10	Fortnightly		29.3
27-02-2012	India	IIP Core (YoY Chg)	Jan	Monthly	pct	3.1
29-02-2012	India	Government finances -fiscal deficit (pct of Budget Estimate)	Apr-Jan	Monthly	pct	92.3
29-02-2012	India	CPI-Industrial Workers	Jan	Monthly	pct	6.49
29-02-2012	India	Gross Domestic Product (YoY Chg)	Oct-Dec	Quarterly	pct	6.9
20-02-2012	Japan	Merchandise Trade (Level)	Jan, 2012	Monthly	Billion	-205.1
21-02-2012	Japan	All Industry Index	Dec, 2011	Monthly		
22-02-2012	UK	BoE MPC Minutes	Feb, 2012	Monthly		
23-02-2012	UK	CBI Industrial Trends Survey (Level)	Feb, 2012	Monthly		-16
24-02-2012	UK	GDP	Q4, 2011	Quarterly		
28-02-2012	UK	CBI Distributive Trades (Level)	Feb, 2012	Monthly		-22
21-02-2012	US	Chicago Fed National Activity Index (Level)	Jan, 2012	Monthly		0.17
22-02-2012	US	MBA Purchase Applications	wk2/17, 2012	Weekly		
22-02-2012	US	ICSC-Goldman Store Sales	wk2/18, 2012	Weekly		
22-02-2012	US	Redbook	wk2/18, 2012	Weekly		
22-02-2012	US	Existing Home Sales (Existing Home Sales - Yr/Yr Change)	Jan, 2012	Yearly	Percent	3.6
23-02-2012	US	Jobless Claims	wk2/18, 2012	Weekly		
23-02-2012	US	Bloomberg Consumer Comfort Index	Feb, 2012	Monthly		
23-02-2012	US	EIA Natural Gas Report	wk2/17, 2012	Weekly		
23-02-2012	US	EIA Petroleum Status Report	wk2/17, 2012	Weekly		
24-02-2012	US	Money Supply	wk2/13, 2012	Weekly		
24-02-2012	US	Fed Balance Sheet	wk2/22, 2012	Weekly		
28-02-2012	US	ICSC-Goldman Store Sales	wk2/25, 2012	Weekly		
28-02-2012	US	S&P Case-Shiller HPI (20-city, SA - M/M)	Nov, 2011	Monthly	Percent	-0.7
28-02-2012	US	Consumer Confidence (Consumer Confidence - Level)	Feb, 2012	Monthly		61.1
28-02-2012	US	State Street Investor Confidence Index	Feb, 2012	Monthly		92.4
28-02-2012	US	Richmond Fed Manufacturing Index (level change)	Feb, 2012	Monthly		12

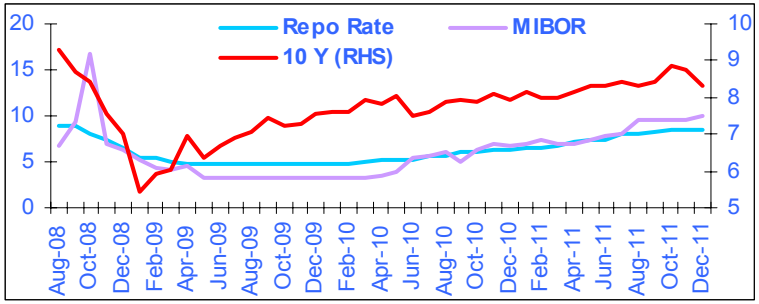
Debt Market Update contd...

US Dollar Vs Indian Rupee



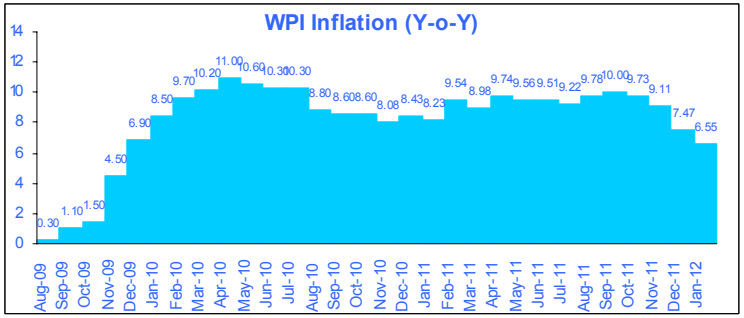
The US dollar depreciated against the rupee by 0.87% for the week ended 17th February 2012. The rupee rose early on Wednesday in anticipation of capital inflows with shares expected to start higher. Forex dealers said fresh selling of the Amercian currency by exporters on hopes of further fall in its value overseas aided the rupee's value.

Relationship among policy rates and benchmarks



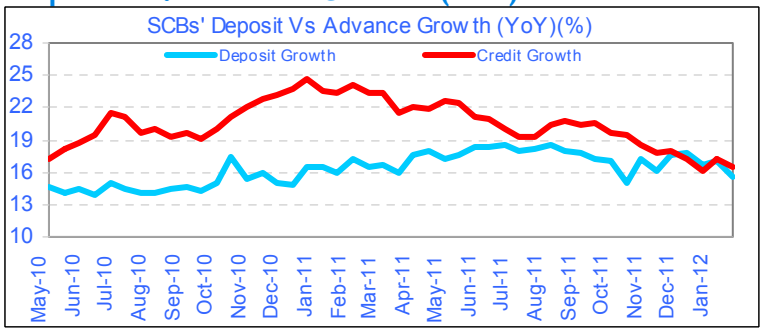
The yields of money market instruments are expected to remain at the present level due to tightness in the liquidity. On the other hand yields of long term debt instruments are expected to trend down further on the back of easing inflationary worries. Falling primary article inflation will bring down inflation expectations and will help RBI in its endeavor to ease its policy stance.

WPI Inflation



WPI inflation cooled off to 6.55% in January 2012 from 7.47% in December 2011, mainly due to a decline in inflation related to non-food manufactured products as well as primary food items, which were partly aided by the base effect. The central bank is expected to keep the Repo Rate unchanged in the immediate term, in spite of the marginal 1% growth of the Index of Industrial Production in Q3FY12.

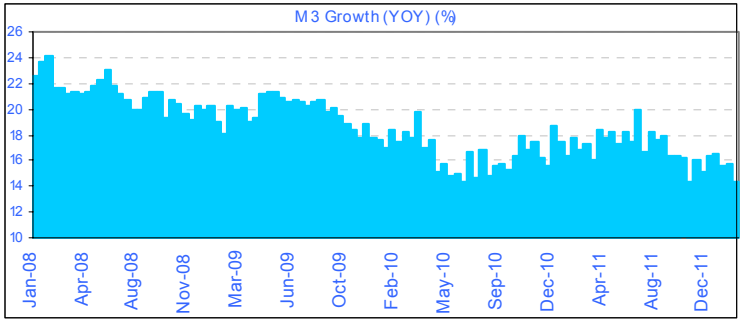
Deposit vs. Advance Growth (YoY)%



The data shows that deposits fell to Rs 59,31,747.95 crore from Rs 59,61,015.72 crore and bank credit fell from Rs 44,89,866.98 crore to Rs 44,87,967.68 crore in the fortnight ending January 27, 2012. However, bankers are hopeful of touching the 16% credit growth estimate of RBI. The central bank had earlier revised the estimate to 16% from 18% in view of the present economic scenario.

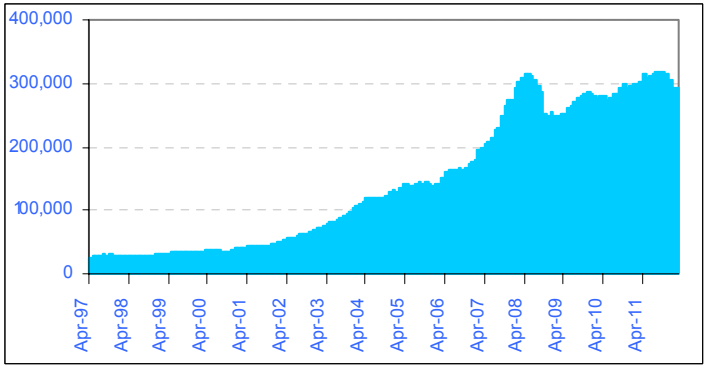
Debt Market Update contd...

Money Stock (YoY) (%)



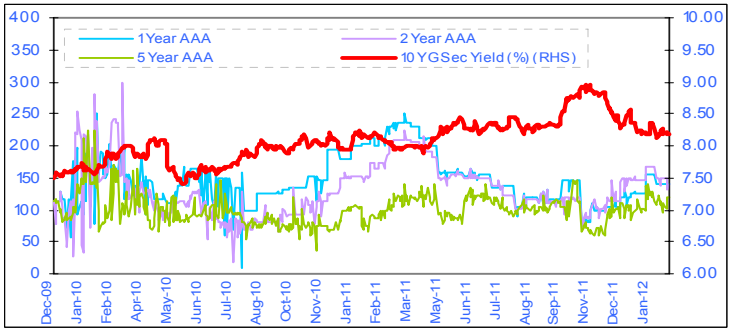
India's M3 money supply rose an annual 14.4 percent as on Jan. 27, compared with 15.8 percent rise two weeks earlier and 16.5 percent growth a year ago, the Reserve Bank of India said on Wednesday. M3 money supply GROWTH (versus year ago, in pct) Jan 27, 2012 Jan 13, 2011 Jan 27, 2011 14.4 15.8 16.5. The currency in circulation grew 12 percent year-on-year in the week to Feb. 3, compared with 19.4 percent a year ago.

Foreign Exchange Reserves (mn of USD)



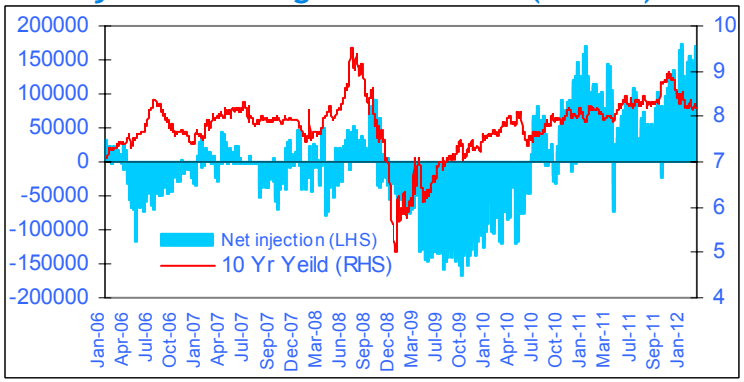
Foreign exchange reserves fell to $293.384 billion as of February 10, from $293.753 billion in the preceding week.

Corporate Spread vs. 10Y G Sec Yield



The gap between short and long maturity government bonds and corporate bonds has started to narrow. Credit spreads will remain pressured on the back of tight liquidity conditions and on the back of government bond supply in the near term.

Net injection through LAF window (Crs. Rs)



In spite of the CRR cut which infused about Rs 32,000 crore into the system, banks borrowing stood at over Rs 1 lakh crore from the LAF corridor over periods, much above the RBI's stated liquidity deficit comfort zone of Rs 60,000 crore.

Debt Market Update contd…

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