Weekly Debt Report

March 19, 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 8.25% - 8.55% band for the week.

G Sec:

- The Indian bond markets witnessed bond yields fall sharply for the week ended March 16, 2012. The G-Sec market opened the week on Monday on a bearish note tracking a better than expected industrial output growth in the month of January (6.8%) which dashed hopes of a cut in LAF Repo Rate and CRR at the upcoming Mid-Quarter Review. Bearishness remained on Tuesday ahead of the release of February WPI inflation data, the RBI's monetary policy review and the union budget announcement during the week.
- Gilt prices rose on Wednesday tracking the release of the February WPI inflation data which came at 6.95%. The significant fall in the core inflation to 5.75% in February compared to 6.67% in the previous month gave respite to the market.
- G Sec prices fell sharply on Thursday as the RBI kept all the rates unchanged at its mid policy review meeting dashing hopes of rate cuts any time soon. An apprehension over the union budget and the level of market borrowing scheduled for next fiscal were also subdued the market sentiments.
- The G-Sec yields hardened further by 7-8 bps on Friday as the Union Budget announcement for gross market borrowing came in much higher than expectations.
- Hence, the 10 Yr benchmark, 'G Sec 7.79% GS 2021' bond yields closed up by 14 basis points at 8.42% (102.38) on Friday Vs. its close of 8.28% on the previous week.

Debt Market Update contd…

Union Budget 2012-13:

- Finance Minister Mr. Pranab Mukherjee tabled the Union Budget 2012 in Parliament on March 16, 2012. The gross market borrowing under G-Sec for FY 2012-13 was placed at Rs 569,616 crore. The Fiscal Deficit for FY 2012-13 was estimated at 5.1% of GDP, against 5.9% as per revised estimated for FY 2011-12. Real GDP growth next fiscal has been projected at 7.6%.
- In the Union Budget 2013, Finance Minister doubled the limit of tax-free infrastrcture bond issues from Rs 30,000 to 60,000 crore. Under a special dispensation, the Union Budget 2012 had allowed four government owned institutions to raise tax free bonds. They were Indian Railways Finance Corporation (IRFC) and National Highways Authority of India Limited (NHAI) for Rs Rs 10,000 crore each as well as HUDCO and the Power Finance Corporation for Rs 5,000 each respectively.
- The Budget has proposed a reduction in Securities Transaction Tax (STT) from 0.125 per cent to 0.1 per cent on cash delivery transactions which will provide much needed impetus to attract small investors.
- To further encourage flow of savings in financial markets, the Budget introduced a new scheme -- Rajiv Gandhi Equity Savings Scheme -- which will allow better participation of the retail investors. The scheme would allow for income tax deduction of 50 per cent to new retail investors, with annual income of below Rs 10 lakh, putting in up to Rs 50,000 directly in equities. It will have a lock-in period of 3 years.

Mid-Quarter Review of Monetary Policy - March 2012:

- At its Mid-Quarter Monetary Policy Review which held on March 15, 2012, the RBI kept the LAF and CRR Rate unchanged. The LAF Repo Rate, Reverse Repo Rate and the rate of Marginal Standing Facility remained unchanged at 8.50%, 7.50% and 9.50% respectively. The CRR and SLR also were kept unchanged at 4.75% and 24.0% respectively.

WPI Inflation for the month of February 2012:

- The wholesale price index edged up a faster-than-expected 6.95% from a year earlier in February after a spike in vegetable prices fanned food inflation. But non-food manufactured inflation, which the central bank uses to gauge demand-driven price pressures, slowed to a 14-month low of 5.8% from 6.7% in January. The headline WPI for December 2011 was revised higher to 7.74 from 7.47%.

Debt Market Update contd…

Change in Fixed Income securities over a week:

Debt (%)	16-Mar	9-Mar	Change (bps)
Call Rate	8.75	8.35	40
CBLO	8.55	7.20	135
Repo	8.50	8.50	0
Reverse Repo	7.50	7.50	0
10 Year G sec	8.42	8.28	14
MIBOR	11.29	10.92	37
LIBOR - UK	1.07	1.04	3
LIBOR - USA	0.49	0.47	2
LIBOR - Europe	0.96	0.82	14

T-Bill:

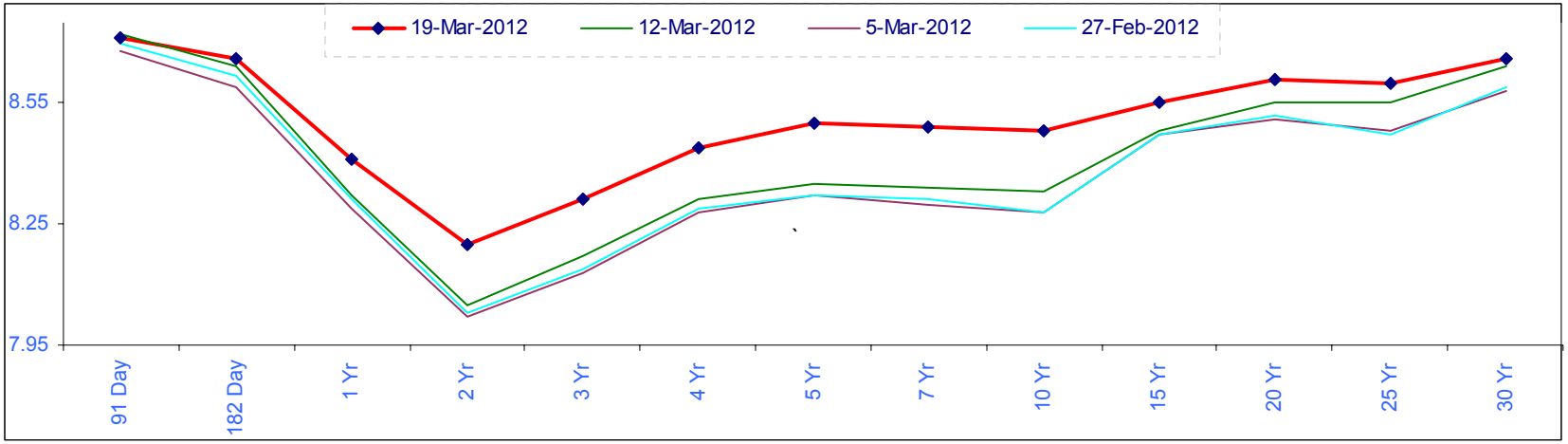
- The T-Bill auctions held on Mar 14 were fully subscribed. RBI set the cut-off price for the 91-Day T-Bill at 8.98% which was lower than the previous cut off of 9.06%.
- The 182-day T-bill auction saw cut-off come in at 8.66% which was lower than the previous cut off 8.75%).
- The central bank announced the sale of 91 Day T-Bill for the amount of Rs. 8,000 crore and 364 Day T-Bill for Rs. 4,000 crore. The auction will be conducted on Mar 21.

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. 1.38 lakh crore for last week (Rs. 1.12 lakh crore on previous week).
- The inter bank call rates hovered in the range of 8.75% levels. The CBLO rates were positioned at 8.55% level.

Debt Market Update contd…

Gilt Securities Curve Movements for last 4 weeks:



Currency:

- The USD/JPY appreciated 1.2% in the week ended 16 March 2012.
- The USD/EUR fell 0.4% in the week.
- The USD/GBP fell 1.1% in the week.

Change in CD Rates:

Maturity	16-Mar	9-Mar
3 Months	11.35	11.25
6 Months	11.00	11.10
1 Year	10.80	10.85

Debt Market Update contd…

Change in CP Rates:

Maturity	16-Mar	9-Mar
3 Months	11.65	11.70
6 Months	11.35	11.60
1 Year	11.30	11.10

Corporate Bonds :

- The 1 year AAA bond ended at 10.10% which was lower than the previous close of 10.20%. The 10-year bond traded at 9.45% which was higher than the previous close of 9.40%.

Commodity price Changes:

Commodity	16-Mar	9-Mar	Change (%)
NYMEX Crude Oil ($/bbl)	107.10	107.40	-0.28
Gold (oz/$)	1655.80	1711.00	-3.23
Silver (oz/$)	32.27	34.09	-5.34

Gold & Crude oil:

- Crude prices fell 0.28% to USD 107.10 per barrel for the week ended March 16, 2012.
- International Gold prices fell 3.23% to USD 1,655.80 per ounce for the week ended March 16, 2012.

Forthcoming Auctions:

Security	Date of Auction	Value (Rs. Crs)
91 Day T-Bill	21-Mar-12	8,000
364 Day T-Bill	21-Mar-12	4,000

Debt Market Update contd…

Global Updates:

India:

- Indian forex reserves fell by $1.03 bn to $293.95 bn as of week ended March 9.
- Government aims to raise Rs 40,000 cr through auction of spectrum, including the airwaves to be freed by cancellation of 122 licenses as per the Supreme Court order.
- South Indian Bank drops its Rs.1000cr Qualified Institutional Placement after failing to attract investment at a premium over the floor price fixed by SEBI.
- The World Bank announces a new financing arrangement for India that will increase the support to the country by $4.3 bn.
- The Bombay High Court sets aside the SEBI order against MCX-SX and asks the regulator to reconsider the bourse's application to start trading in equities and equity derivatives.

US:

- A Congressional Budget Office report says Obama's budget would produce a $977bn deficit next year, $75bn more than predicted by the White House.
- US current account trade deficit increases 15.3% to $124.1 bn in the Q4 2011, largest quarterly gap in 3 years.
- US import price index rose from revised 0.3% in January to 0.4% in February while export prices advanced 0.4% in February, after rising 0.2% in January.
- US Fed Reserve expects moderate growth over coming quarters with the unemployment rate declining gradually; also says the federal funds rate will remain unchanged at a 0-0.25%.
- US Fed Reserve said that 15 of the 19 banks tested could take a financial shock; Citigroup, Sun Trust, Ally Financial and MetLife were those who failed the stress test.
- US Business Inventories rose 0.7% in January following a revised 0.6% advance in December.

Debt Market Update contd…

UK:

- UK jobless claims rose by 7,200 to 1.61 mn in February, the highest since November 2009, from 1.60 mn in the previous month.
- Fitch affirms UK's AAA rating but lowers the country's outlook to Negative from Stable.
- UK ILO unemployment rate remained unchanged at 8.4% for the second running month in January.

Euro Zone:

- Eurozone CPI grew 2.7% on year in February, following a 2.6% rise in January.
- Eurozone annual industrial production decreases 1.2% in January, following a 1.8% drop in December.
- Eurozone trade deficit fell to 7.6 bn euro in February, from a deficit of 16.1 bn euro in January.
- Euro-Zone ZEW Survey index rose to a positive 11 in March, the first positive reading after nine consecutive months of negatives and compared with -8.1 in February.
- Fitch upgrades Greece out of "restricted default" to B- after Athens carried out the biggest debt write down in history in a bond swap with private creditors.

Asia:

- Japan's industrial output for January was revised down slightly to a 1.9% from preliminary estimate of 2% and as compared with revised 3.8% in February.
- Bank of Japan keeps its key rates in the 0-0.1% range; also says it will broaden a lending program to growth enterprises by 2 trillion yen, bringing the size of the program to 5.5 trillion yen.
- Japan's industrial output for January was revised down slightly to a 1.9% from preliminary estimate of 2% and as compared with revised 3.8% in February.
- Singapore's non-oil domestic exports (NODX) jumped 30.5% year-on-year in February, compared to a 2.4% decline in January.

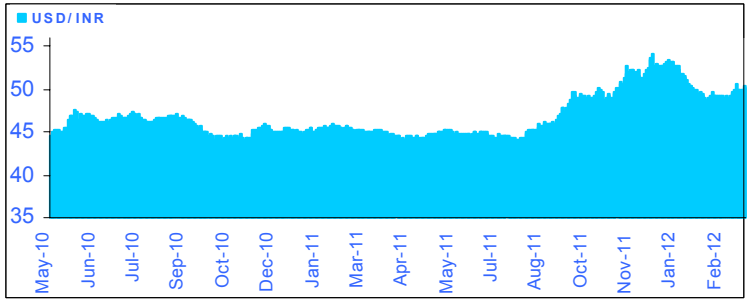
Debt Market Update contd...

Economic Calendar:

Date	Country	Event	Period	Frequency	Unit	Previous
22-03-2012	European MU	PMI Manufacturing and Services Index Flash (level)	Mar, 2012	Monthly		49
20-03-2012	India	5 State govt loan auction of Rs 26.1 bln			pct	
21-03-2012	India	Reserve Money (change on wk)	Wk to Mar 16	Weekly	pct	-2.42
21-03-2012	India	M3 (YoY Chg)	Wk to Mar 9	Fortnightly	pct	13.5
23-03-2012	India	WMA (ways and means advance) - to central govt	Wk to Mar 16	Weekly	Rs bln	
23-03-2012	India	WMA (ways and means advance) - to state govts	Wk to Mar 16	Weekly	Rs bln	
23-03-2012	India	FX reserve (change on wk)	Wk to Mar 16	Weekly	$ bln	-1.03
23-03-2012	India	Bank Deposit (YoY Chg)	Wk to Mar 9	Fortnightly	pct	14.3
23-03-2012	India	Bank Credit (YoY Chg)	Wk to Mar 9	Fortnightly	pct	15.6
23-03-2012	India	Bank Investment (YoY Chg)	Wk to Mar 9	Fortnightly	pct	17.4
26-03-2012	India	IIP Core (YoY Chg)	Feb	Monthly	pct	
21-03-2012	Japan	All Industry Index	Jan, 2012	Monthly		
22-03-2012	Japan	Merchandise Trade	Feb, 2012	Monthly		
20-03-2012	UK	CPI	Feb, 2012	Monthly		
20-03-2012	UK	CBI Industrial Trends Survey (Level)	Mar, 2012	Monthly		-3
21-03-2012	UK	BoE MPC Minutes	Mar, 2012	Monthly		
22-03-2012	UK	Retail Sales	Feb, 2012	Monthly		
19-03-2012	US	Housing Market Index (Housing Market Index)	Mar, 2012	Monthly		29
20-03-2012	US	ICSC-Goldman Store Sales	wk3/17, 2012	Weekly		
20-03-2012	US	Redbook	wk3/17, 2012	Weekly		
21-03-2012	US	MBA Purchase Applications	wk3/16, 2012	Weekly		
21-03-2012	US	EIA Petroleum Status Report	wk3/16, 2012	Weekly		
22-03-2012	US	Jobless Claims	wk3/17, 2012	Weekly		
22-03-2012	US	Bloomberg Consumer Comfort Index	Mar, 2012	Monthly		
22-03-2012	US	Leading Indicators	Feb, 2012	Monthly		
22-03-2012	US	EIA Natural Gas Report	wk3/16, 2012	Weekly		
23-03-2012	US	Money Supply	wk3/12, 2012	Weekly		
23-03-2012	US	Fed Balance Sheet	wk3/21, 2012	Weekly		
23-03-2012	US	New Home Sales (New Home Sales - Level - SAAR)	Feb, 2012	Monthly	K	321
26-03-2012	US	Chicago Fed National Activity Index (Level)	Feb, 2012	Monthly		0.22
26-03-2012	US	Pending Home Sales Index	Feb, 2012	Monthly		

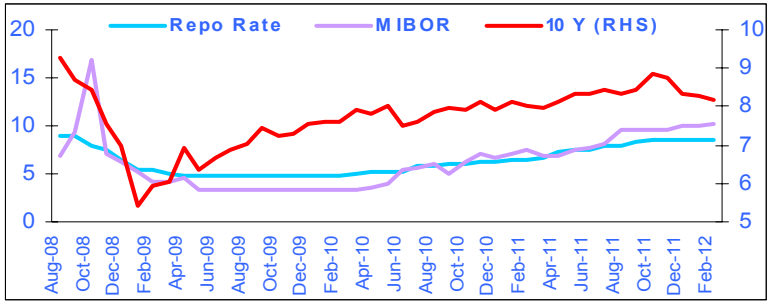
Debt Market Update contd…

US Dollar Vs Indian Rupee



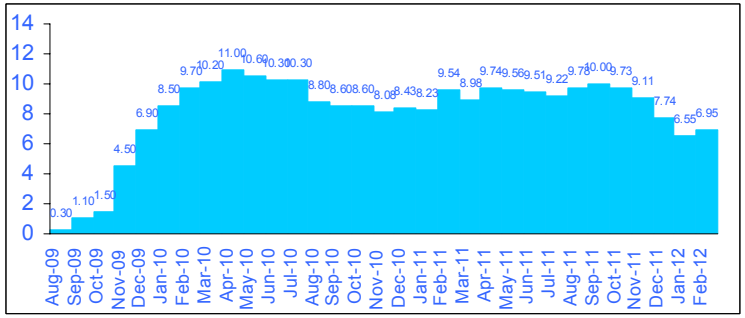
The USD/INR appreciated in the week on account of strong US economic data and poor Indian markets after the India Finance Minister failed to generate a positive stir in this year's Budget. The USD/INR appreciated 0.6% in the week. The Dollar Index, which Intercontinental Exchange Inc. uses to track the U.S. currency against those of six trading partners, fell 0.2% to 79.78.

Relationship among policy rates and benchmarks



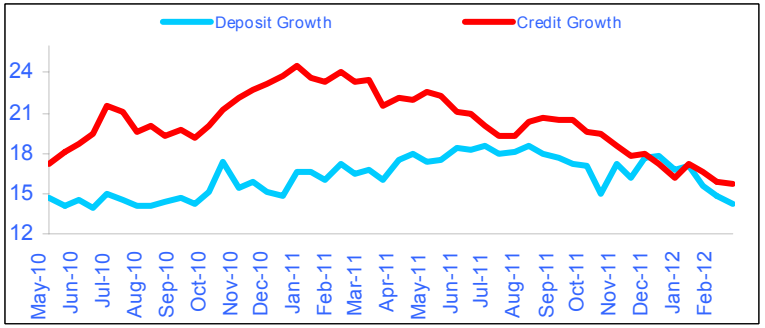
The Reserve Bank of India (RBI) in its mid quarter monetary policy review has kept CRR, repo and reverse repo rate unchanged. RBI kept the cash reserve ratio (CRR) of scheduled banks unchanged at 4.75% of their net demand and time liabilities. Meanwhile, policy repo rate under the liquidity adjustment facility (LAF) unchanged at 8.5%. Consequently, the reverse repo rate under the LAF remain unchanged at 7.5%, and the Bank Rate at 9.5%.

WPI Inflation (YoY)



WPI (Wholesale Price Index) inflation consistently surpassed the RBI"s comfort threshold of 5% in 51 out of the 70 months between April 2006 and January 2012. The annual WPI inflation rose to 6.95% during this period, from 4.7% in the preceding five years. Inflation for 2012-13 is forecast at 6.5% against an average of 9% seen in major part of fiscal 2011-12.

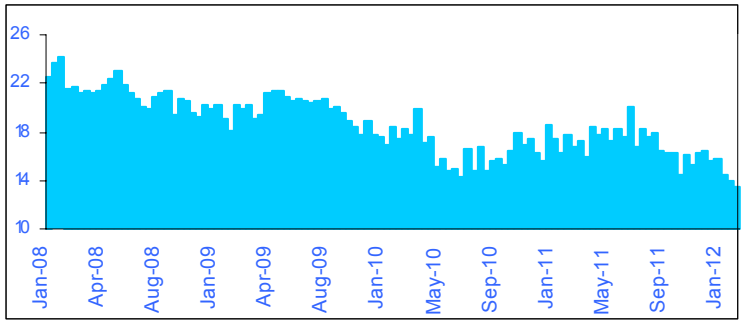
Deposit vs. Advance Growth (YoY)%



Banks' deposits stood at Rs 58,15,467 crore, showing a 14.3 per cent annual growth in deposits over February 2011. Loan and deposit growth are expected to gather pace in March, as typically business improves towards the end of a quarter. The high interest rates, economic slowdown in domestic economy and global crisis have led to dip in demand for credit from industry in the year ending March 2012

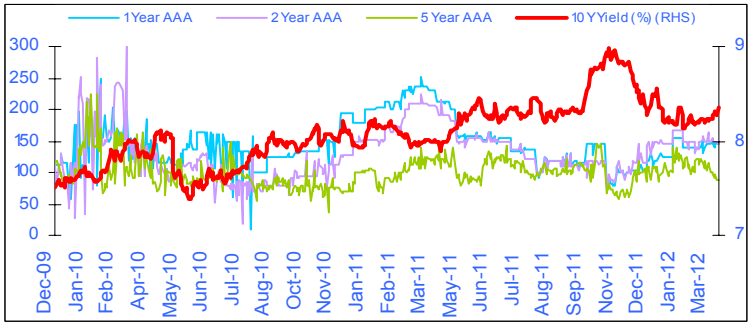
Debt Market Update contd...

Money Stock (M3) (YoY) (%)



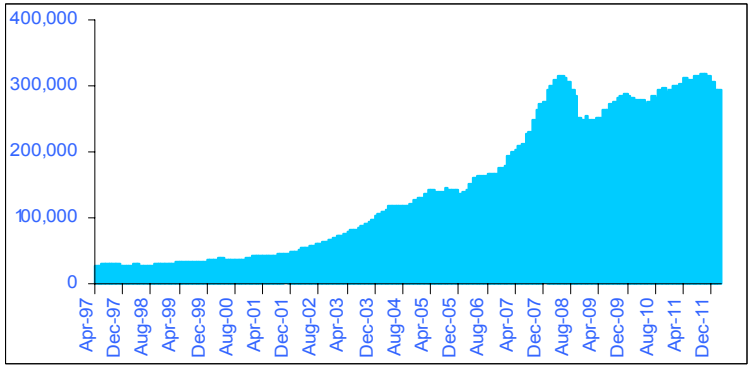
Over the last five months, The deceleration in reserve money growth to 11.7% YoY has resulted in M3 growth decelerating to 13.5% YoY as of fortnight ended 24th February, 2012 compared with 16.3% YoY in September 2011.

Corporate Spread vs. 10Y G Sec Yield



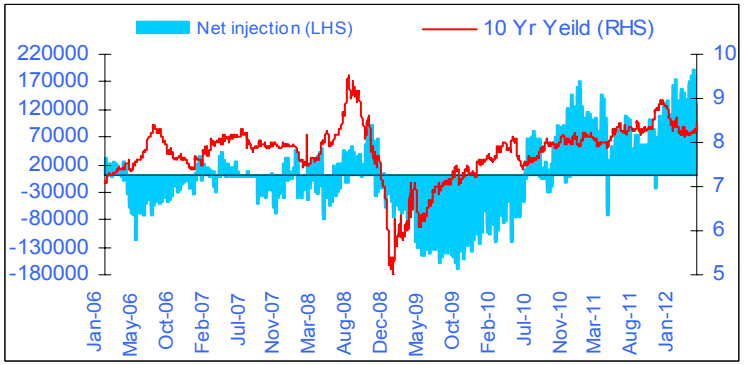
Spread bonds or bond spreads reveal the relative risks of various bonds. An investor takes higher risks when the spread is high. When referring to bond spreads, people usually compare the yields of government bonds. One can compare bond spreads between bonds of different interest rate coupons and different maturity periods.

Foreign Exchange Reserves (mn of USD)



Indian forex reserves fell by $1.03 bn to $293.95 bn as of week ended March 9.

Net injection through LAF window (Crs. Rs)



Liquidity will continue to remain tight in the next fortnight due to fiscal year end demand for money by the system.

Debt Market Update contd…

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