Weekly Debt Report

April 02, 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 8.40% - 8.65% band for the week.

G Sec:

- The Indian bond markets witnessed yields hardening sharply for the week ended March 30, 2012. The G-Sec market opened the week on cautious note ahead of the release for the first half borrowing calendar for 2012-13. The subdued activity continued on Tuesday among participants when the yields of G secs saw a rise. Post market hours, the Economic Affairs Secretary announced the borrowing calendar for the first half of the FY13 to be gross amount of Rs 3.70 lac crore, which is 65% of the full-year target. Prices of the government bonds were down on Wednesday reacting to the release on higher than expected borrowing calendar. Bond prices further fell due to the unexpected auction scheduled this week. However, absence of fresh supply for the week gave some comfort to the market. Market witnessed range-bound activity on Thursday as there was no major cues in the market. Post market hours, the RBI announced OMO purchases of gilts worth Rs 10,000 crore on March 30 which cheered the market participants on Friday. Buying support from the banks in the wake of year end requirements further improved the market.
- Hence, the 10 Yr benchmark, 'G Sec 7.79% GS 2021' bond yields closed down by 19 basis points at 8.57% (101.39) on Friday Vs. its close of 8.38% on the previous week.

OMO:

- RBI bought back securities worth Rs 4528 crore against the tendered amount of Rs 16763 crore. The notified amount stood at Rs 10000 crore.

Debt Market Update contd…

Change in Fixed Income securities over a week:

Debt (%)	30-Mar	22-Mar	Change (bps)
Call Rate	15.00	9.50	550
CBLO	10.00	8.25	175
Repo	8.50	8.50	0
Reverse Repo	7.50	7.50	0
10 Year G sec	8.57	8.38	19
MIBOR	11.09	11.32	-23
LIBOR - UK	1.02	1.07	-5
LIBOR - USA	0.46	0.49	-3
LIBOR - Europe	0.69	0.96	-27

Borrowing Calendar for H1 of 2012-13:

- The Borrowing Calendar for H1 of 2012-13 is set at Rs 370,000 crore which is roughly 65% of budgeted borrowing for 2012-13. The size of the borrowing program in H1 2012-13 is higher than the borrowing made during April - September 2011, when the actual borrowing was at Rs 250,000 crore. The net borrowing program for H1 2012-13 is markedly higher at Rs 284,926 crore, as compared to Rs 190,666 cr in H1 2011-12.

T-Bill:

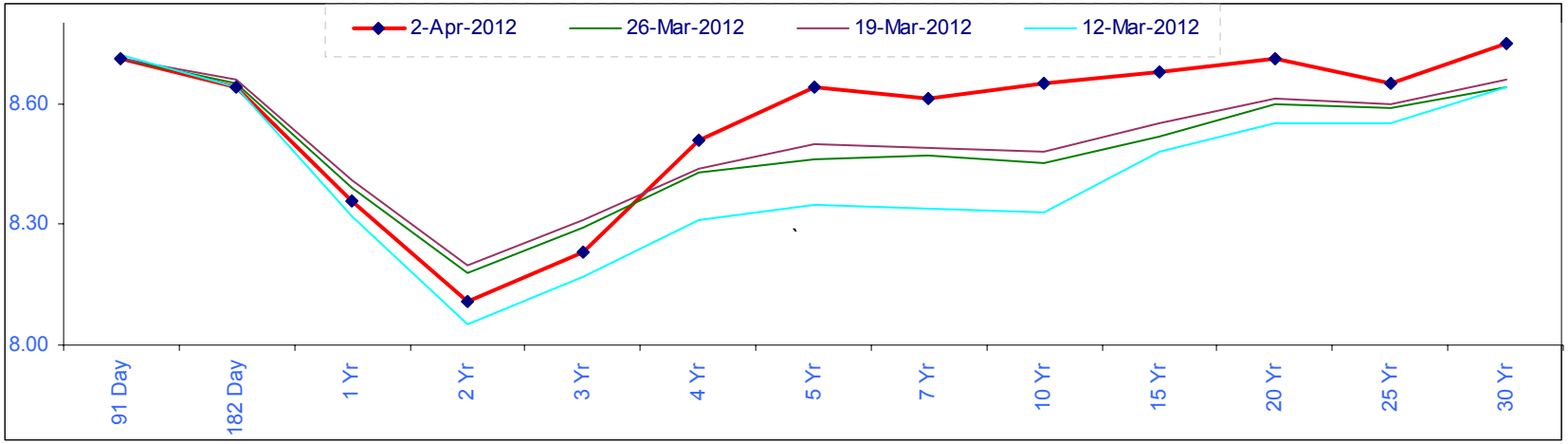
- The T-Bill auctions held on Mar 28 were fully subscribed. RBI set the cut-off price for the 91-Day T-Bill at 8.98% which was higher than the previous cut off 8.98%. The 182-day T-bill auction saw cut-off come in at 8.66% which was in line with the previous cut off. The central bank announced the sale of 91 Day T-Bill for the amount of Rs. 9,000 crore and 364 Day T-Bill for Rs. 5,000 crore. The auction will be conducted on April 04.

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. 1.79 lakh crore for last week (Rs. 1.61 lakh crore on previous week). The inter bank call rates hovered in the range of 15% levels due to year end requirement. The CBLO rates were positioned at 10% level.

Debt Market Update contd…

Gilt Securities Yields Movements for last 4 weeks:



Currency:

- The USD/INR appreciated 0.5% in the week.
- The USD/JPY appreciate 0.6% in the week.
- The USD depreciated against the Pound by 0.91%.

Change in CD Rates:

Maturity	30-Mar	23-Mar
3 Months	10.80	10.95
6 Months	10.70	11.00
1 Year	10.35	10.50

Debt Market Update contd…

Change in CP Rates:

Maturity	30-Mar	23-Mar
3 Months	11.30	11.60
6 Months	11.20	11.60
1 Year	11.00	11.20

Corporate Bonds :

- The 1 year AAA bond ended at 9.80% which was lower than the previous close of 10%. The 10-year bond traded at 9.49% which was higher than the previous close of 9.48%.

Commodity price Changes:

Commodity	30-Mar	23-Mar	Change (%)
NYMEX Crude Oil ($/bbl)	103.00	106.87	-3.62
Gold (oz/$)	1669.30	1662.40	0.42
Silver (oz/$)	32.43	31.54	2.82

Gold & Crude oil:

- Crude prices fell 3.62% to USD 103 per barrel for the week ended March 30, 2012.
- International Gold prices rose 0.42% to USD 1,669.30 per ounce for the week ended March 30, 2012.

Forthcoming Auctions:

Security	Date of Auction	Value (Rs. Crs)
91 Day T-Bill	4-Apr-12	9,000
182 Day T-Bill	4-Apr-12	5,000

Debt Market Update contd…

Global Updates:

India:

- India's forex reserves rose by $317 mn to $295.14 bn as of week ended March 23.
- India's fiscal deficit in the first eleven months of the FY12 touched Rs 4.94 lakh cr, 94% of the revised fiscal deficit target for the current year; fiscal gap rose to Rs 58638 cr in Feb 2012 from Rs 52866 cr year ago.
- Indian government's tax collection rose 12.1% on year to Rs 7.04 lakh cr during Apr-Feb period; in February, total tax collections rose 9.6% on year to Rs 54069 cr.
- Fitch says the Indian economy is projected to grow at 7.5% in 2012-13.
- FM says that the issue of high crude oil prices will have to be addressed soon, which otherwise may impact India's economy and lead to inflationary pressures.
- US says that it has asked its companies to explore business and partnership opportunities in emerging Indian cities, which hold huge economic potential.
- Government notifies hike in interest rate on Public Provident Fund to 8.8% for 2012-13 (Apr-Mar) from 8.6% in the current financial year.
- Government says Iran has agreed to receive part payment for crude oil exports in rupees through Indian banks.

Asia:

- Japan's industrial output fell 1.2% in February following a 1.9% rise in January.
- Japan's Consumer Price Index rose 0.3% in February as compared to a 0.1% rise in January.
- Japan's retail sales rose 3.5% in February from a year earlier as compared to January's 1.8% rise.
- China's purchasing managers index rose to 53.1 in March, from 51 in February.
- Singapore manufacturing output in February 2012 rose 12.1% from a year earlier, rebounding from a contraction of 9.6% in January.

Debt Market Update contd…

US:

- US personal spending rose by 0.8% in February following an upwardly revised 0.4% increase in January while personal income edged up by 0.2% in February, matching the downwardly revised increase seen in the previous month.
- US GDP increases at a 3% annual rate in Q4 2011, following 1.8% growth rate in Q3 2011.
- US Commerce Department says the real disposable income rose to a seasonally adjusted annual rate of $11.73 trillion in Q4, $10.6bn more than previously estimated.
- US initial jobless claims fell 5000 to a seasonally adjusted 359,000 in the week ended March 24.
- US durable goods order rose 2.2% in February after dropping 3.6% in January.

UK:

- UK GfK consumer confidence fell to -31 in March from -29 in February.
- UK Nationwide house prices fell 1% in March reversing the 0.4% increase in February.
- UK's economy contracted 0.3% in the fourth quarter between October and December, up from the previous estimate of a 0.2% decline.
- Bank of England's chief economist says that the UK should make progress on rebalancing its economy.

Euro Zone:

- Eurozone boosts its emergency funding for the region's heavily indebted countries to 800bn euros ($1.1 trillion) from 500bn euros earlier.
- Eurozone annual inflation fell to 2.6% in March from 2.7% in February.
- European commission says its headline measure of consumer confidence fell to - 22.2 in March from -20.9 in February.

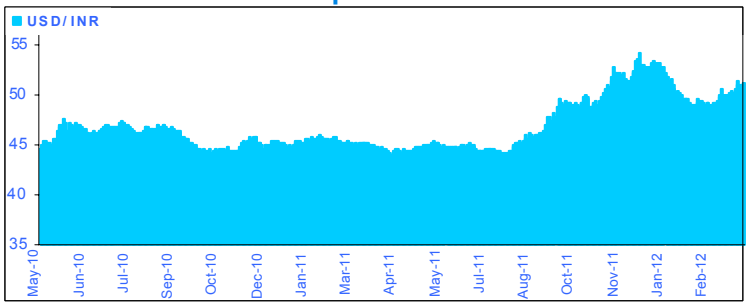
Debt Market Update contd...

Economic Calendar:

Date	Country	Event	Period	Frequency	Unit	Previous
9/4/2012	China	Merchandise Trade Balance (level)	Mar, 2012	Monthly	Billion	-31.48
9/4/2012	China	Consumer Price Index (M/M % change)	Mar, 2012	Monthly	Percent	-0.1
9/4/2012	China	Producer Price Index (Y/Y % change)	Mar, 2012	Yearly	Percent	
2/4/2012	European MU	PMI Manufacturing Index	Mar, 2012	Monthly		
2/4/2012	European MU	Unemployment Rate	Feb, 2012	Monthly		
3/4/2012	European MU	PPI	Feb, 2012	Monthly		
3/4/2012	European MU	GDP	Q4, 2011	Quarterly		
4/4/2012	European MU	PMI Services Index	Mar, 2012	Monthly		
4/4/2012	European MU	Retail Sales	Feb, 2012	Monthly		
4/4/2012	European MU	ECB Announcement (Change)	Apr, 2012	Monthly	bp	
2/4/2012	India	HSBC India manufacturing PMI	Mar	Monthly		56.6
4/4/2012	India	Reserve Money (change on wk)	Wk to Mar 30	Weekly	pct	1.7
4/4/2012	India	M3 (YoY Chg)	Wk to Mar 16	Monthly	pct	-13.08
4/4/2012	India	HSBC India Services PMI	Mar	Monthly		56.5
4/4/2012	India	HSBC India composite PMI	Mar	Monthly		57.8
5/4/2012	India	Foreign tourist arrivals (YoY Chg)	Mar	Monthly	pct	6.6
5/4/2012	India	Automobile sales data	Mar	Monthly	Million	1.53
6/4/2012	India	WMA (ways and means advance)	Wk to Mar 30	Weekly	Rs bln	
6/4/2012	India	FX reserve (change on wk)	Wk to Mar 30	Weekly	$ bln	0.32
6/4/2012	India	Bank Deposit (YoY Chg)	Wk to Mar 16	Fortnightly	pct	13.8
6/4/2012	India	Bank Credit (YoY Chg)	Wk to Mar 16	Fortnightly	pct	16.3
6/4/2012	India	Bank Investment (YoY Chg)	Wk to Mar 16	Fortnightly	pct	17.9
2/4/2012	Japan	Tankan (CAPEX)	Q1, 2012	Quarterly		
9/4/2012	Japan	Bank of Japan Announcement	Apr, 2012	Monthly		
2/4/2012	UK	CIPS/PMI Manufacturing Index	Mar, 2012	Monthly		
4/4/2012	UK	CIPS/PMI Services Index	Mar, 2012	Monthly		
5/4/2012	UK	Industrial Production	Feb, 2012	Monthly		
5/4/2012	UK	BOE Announcement (Change)	Apr, 2012	Monthly	bp	
2/4/2012	US	ISM Mfg Index (ISM Mfg Index - Level)	Mar, 2012	Monthly		52.4
3/4/2012	US	Motor Vehicle Sales (Total Vehicle Sales)	Mar, 2012	Monthly	Million	15.1
3/4/2012	US	ICSC-Goldman Store Sales	wk3/31, 2012	Weekly		
3/4/2012	US	Redbook	wk3/31, 2012	Weekly		
3/4/2012	US	Factory Orders (Factory Orders - M/M change)	Feb, 2012	Monthly	Percent	-1
3/4/2012	US	FOMC Minutes	Mar, 2012	Monthly		
4/4/2012	US	MBA Purchase Applications	wk3/30, 2012	Weekly		
4/4/2012	US	Challenger Job-Cut Report (Announced Layoffs - Level)	Mar, 2012	Monthly		51728
4/4/2012	US	ADP Employment Report (ADP employment)	Mar, 2012	Monthly		216000
4/4/2012	US	ISM Non-Mfg Index (Composite Index - Level)	Mar, 2012	Monthly		57.3
5/4/2012	US	Jobless Claims	wk3/31, 2012	Weekly		
5/4/2012	US	Bloomberg Consumer Comfort Index	Apr, 2012	Monthly		
6/4/2012	US	Money Supply	wk3/26, 2012	Weekly		
6/4/2012	US	Fed Balance Sheet	wk4/4, 2012	Weekly		
6/4/2012	US	Monster Employment Index	Mar, 2012	Monthly		

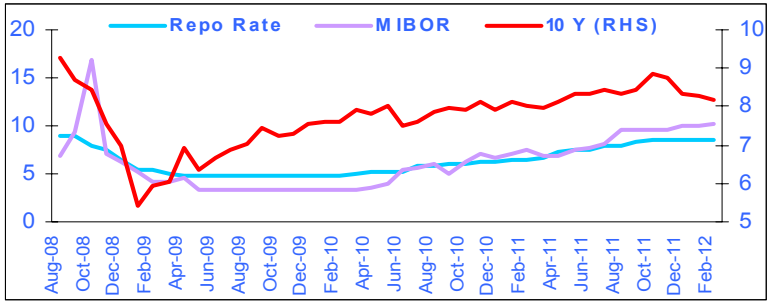
Debt Market Update contd…

US Dollar Vs Indian Rupee



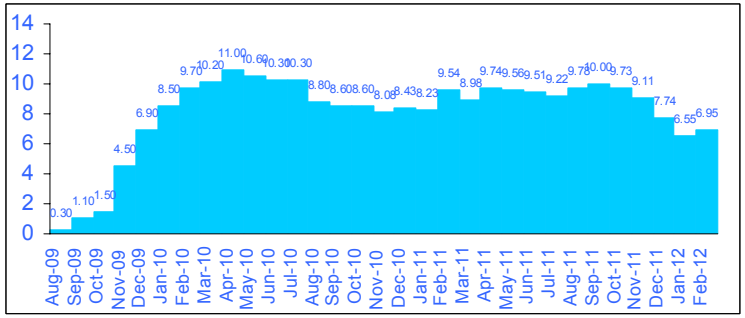
The USD/INR appreciated 0.5% in the week. Asian currencies rose this quarter, led by India's rupee and the Malaysian ringgit, as the world's fastest economic growth attracted funds to regional assets. The USD/INR weakened 4.0% this quarter, the best performance for the Rupee since mid-2009.

Relationship among policy rates and benchmarks



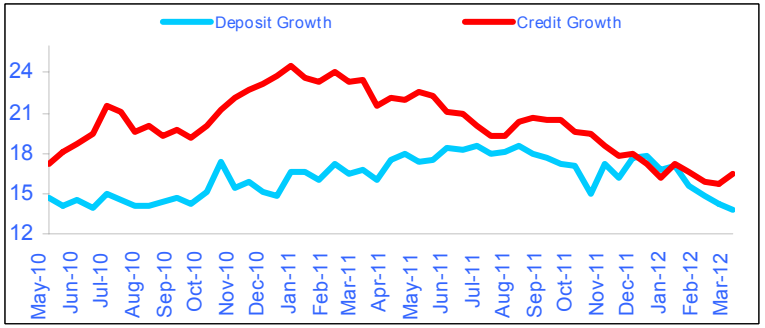
The Reserve Bank of India (RBI) in its mid quarter monetary policy review has kept CRR, repo and reverse repo rate unchanged. RBI kept the cash reserve ratio (CRR) of scheduled banks unchanged at 4.75% of their net demand and time liabilities. Meanwhile, policy repo rate under the liquidity adjustment 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% in Feb 2012. Inflation for 2012-13 is forecast at 6.5% against an average of 9% seen in major part of fiscal 2011-12.

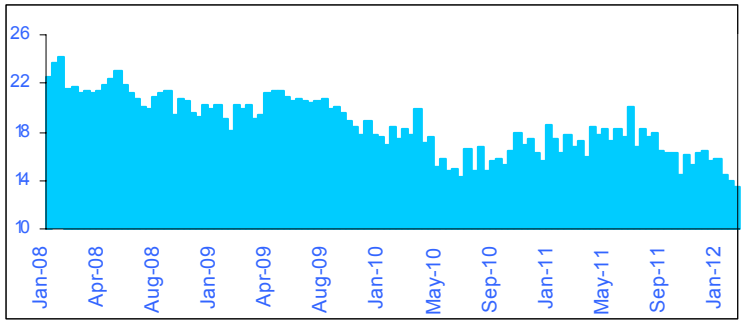
Deposit vs. Advance Growth (YoY)%



The year-on-year credit growth of Indian banks was broadly in line with the Reserve Bank of India's projection of 16.0 percent rise in the current financial year which ends on March 31. As of March 9, banks' deposit stood at 58.53 trillion rupees, while advances amounted to 44.87 trillion rupees, data released by the RBI showed. Credit grew 16.29 percent from a year earlier, while deposits were up 13.78 percent. Banks' investment in government bonds and other approved securities jumped 17.93 percent on a year-on-year basis.

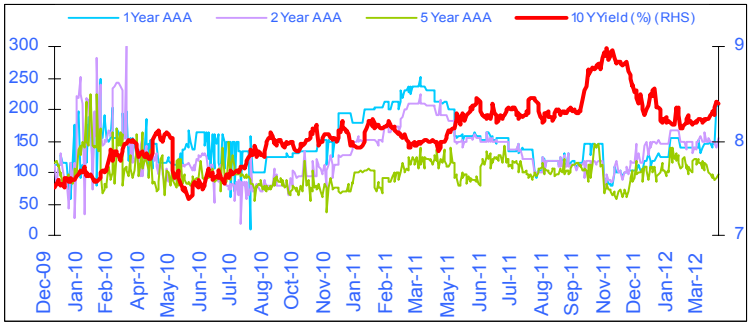
Debt Market Update contd…

Money Stock (M3) (YoY) (%)



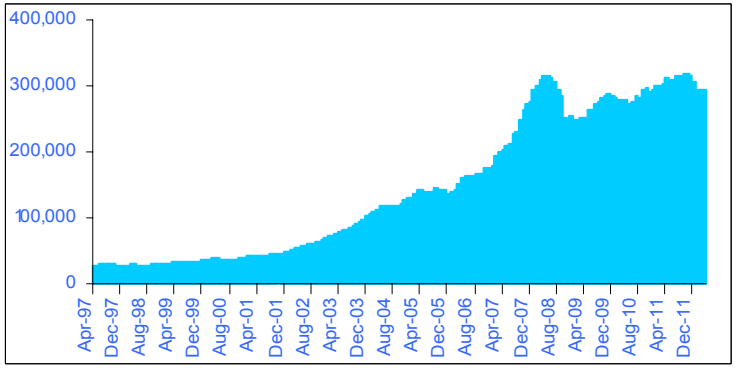
India's M3 money supply rose an annual 13.1 percent as on March 9, compared with a 13.5 percent rise two weeks earlier and 16.6 percent a year ago. The currency in circulation grew 12.2 percent. Money supply was 72,830.4 billion rupees as of March 9, compared with 72,262.7 billion rupees on Feb. 24, the central bank said. The year-on-year in the week to March 16, compared with 19.4 percent a year ago. .

Corporate Spread vs. 10Y G Sec Yield



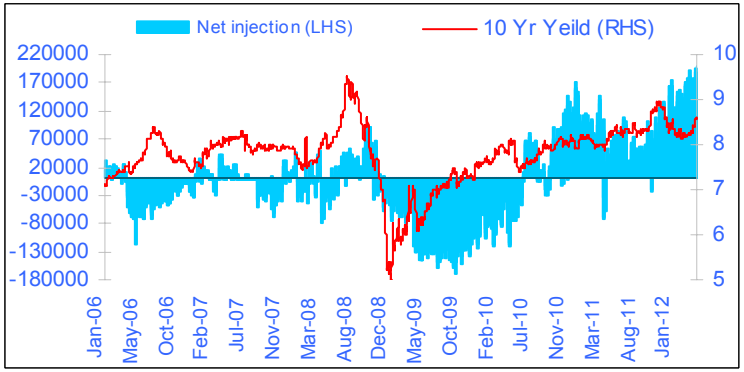
The impact of liquidity crisis is visible on short term rates as it increased on both in gilt as well as corporate bonds. The spread between AAA corporate bond and gilt widened especially on short term maturities.

Foreign Exchange Reserves (mn of USD)



India's forex reserves rose by $317 mn to $295.14 bn as of week ended March 23.

Net injection through LAF window (Crs. Rs)



Liquidity is likely to improve to some extent in April on redemptions and government spending.

Debt Market Update contd…

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