Weekly Debt Report

April 30, 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 8.45% - 8.80% band for the week.

G Sec:

- The Indian bond markets saw yields inching up for the week ended April 27, 2012. G Sec market opened the week on Monday on a bearish note due to the heavy supply of debt lined up in the weeks following. Market witnessed range-bound activity on Tuesday. However, value buying at higher side helped the prices to rise.
- The G-Sec market ended lower on Wednesday as the global rating agency, Standard & Poor's, was seen revising the credit outlook on India to negative from stable; while reaffirming BBB- rating. S&P said that the widening current account deficit, rising fiscal deficit and slowing GDP growth were the factors responsible for such a revision. The revision also reflected a one in three possibility of a downgrade if above conditions deteriorated further.
- Market observed bearish activity on Thursday ahead of the scheduled supply of Rs. 16000 crore during the week.
- The G-Sec market was trading range-bound throughout the day on Friday, but closed slightly bearish upon the release of auction results.
- Hence, the 10 Yr benchmark, 'G Sec 7.79% GS 2021' bond yields closed up by 11 basis points at 8.65% (100.91) on Friday Vs. its close of 8.54% on the previous week.

Debt Market Update contd…

Change in the values of debt benchmarks and securities during the week:

Debt (%)	27-Apr	20-Apr	Change (bps)
Call Rate	8.40	8.28	12
CBLO	8.05	8.50	-45
Repo	8.00	8.00	0
Reverse Repo	7.00	7.00	0
10 Year G sec	8.65	8.54	11
MIBOR	9.61	9.58	3
LIBOR - UK	1.01	1.02	-1
LIBOR - USA	0.47	0.47	0
LIBOR - Europe	0.64	0.66	-2

G Sec Auction:

- The cut offs yields in the G-sec auctions were as follows: 8.24% GS 2018 at Rs 98.16 (8.64%), 8.79% GS 2021 at Rs 101.00 (8.63%), 8.28% GS 2027 at Rs 95.45 (8.82%), 8.33% GS 2036 at Rs 93.82 at Rs (8.96%). The G-sec auction worth Rs 16000 crore was fully subscribed.

SDL:

- The cut offs in the ten year State Development Loan auction was as follows: Andhra Pradesh, Kerala and Punjab at 9.14%, Mizoram at 9.16% and West Bengal at 9.31%. The entire auction worth Rs 4715 crore was fully subscribed.

Corporate Bonds :

- The 1 year AAA bond ended at 9.57% which was higher than the previous close of 9.45%.
- The 10-year bond traded at 9.42% which was higher than the previous close of 9.31%.

Debt Market Update contd…

T-Bill:

- The T-Bill auctions held on Apr 25 were fully subscribed. RBI set the cut-off price for the 91-Day T-Bill at 8.39% which was higher than the previous cut off 8.31%.
- The 182-day T-bill auction saw cut-off come in at 8.38% which was lower than the previous cut off 8.57%.
- The central bank announced the sale of 91 Day T-Bill for the amount of Rs. 10,000 crore and 364 Day T-Bill for Rs. 5,000 crore. The auction will be conducted on May 02.

Call & CBLO:

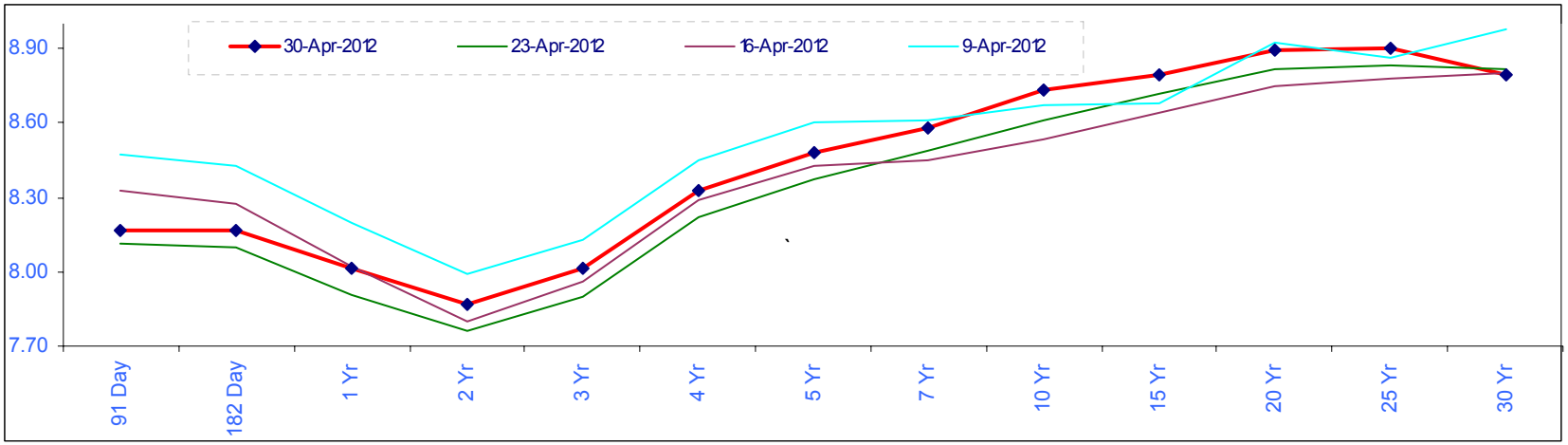
- The liquidity in the system was easy last week as compared to previous week. Bids for repo were a daily average of Rs. 1.14 lakh crore for last week (Rs. 94,590 crore on previous week).
- The inter bank call rates hovered in the range of 8.40% levels due to year end requirement. The CBLO rates were positioned at 8.05% level.

Corporate Bond Spread over week:

AAA Corporate Bond Spread over Gsec		
Security	27-Apr	20-Apr
1 Year	62	61
3 Year	89	96
5 Year	98	95
10 Year	59	58

Debt Market Update contd…

Gilt Securities Yields Movements for last 4 weeks :



Currency:

- The USD depreciated against the Euro by 0.21% for the week ended 27th April 2012.
- The USD depreciated against the Japanese yen by 1.54% for the week.
- The USD depreciated against the Pound by 0.89% for the week.

Change in CD Rates:

Maturity	27-Apr	20-Apr
3 Months	9.55	9.20
6 Months	9.70	9.50
1 Year	9.75	9.60

Debt Market Update contd…

Change in CP Rates:

Maturity	27-Apr	20-Apr
3 Months	10.00	9.65
6 Months	10.10	9.75
1 Year	10.25	9.85

Commodity price Changes:

Commodity	27-Apr	20-Apr	Change (%)
NYMEX Crude Oil ($/bbl)	104.93	103.88	1.01
Gold (oz/$)	1664.80	1642.80	1.34
Silver (oz/$)	30.84	31.79	-2.99

Gold & Crude oil:

- Crude prices rose 1.01% to USD 104.93 per barrel for the week ended April 27, 2012.
- International Gold prices rose 1.34% to USD 1,664.80 per ounce for the week.

Forthcoming Auctions:

Security	Date of Auction	Value (Rs. Crs)
91 Day T-Bill	2-May-12	10,000
364 Day T-Bill	2-May-12	5,000

Debt Market Update contd…

Global Updates:

India:

- According to SEBI, mutual fund industry's investor accounts in March fell 183,261 or 0.4% on month to 46.45 mn as investors predominantly exited equity schemes.
- S&P revises the outlook on India's long-term rating to negative from stable while the transfer and convertibility assessment for India is unchanged at 'BBB+'.
- Cabinet gave its nod to The Banking Laws (Amendment) Bill, 2011, that envisages raising the cap on voting right in private banks to 26% for a single entity from 10% currently.
- Oil ministry seeks a tax cut of Rs.6 per litre on petrol to avoid a sharp rise in its retail price.
- Labour Minister says interest rate on Employees Provident Fund will be raised to 8.6% for the current fiscal.
- RBI allows Urban Co-operative Banks to provide housing loans up to Rs.25 lakh under priority sector lending schemes.
- A government official says that the government may consider releasing an index for capturing service sector inflation by January 2013.

Asia:

- Japan's core consumer price index rose 0.2% in March compared to a year ago.
- Japan's industrial production rose 1% in March following a 1.6% decline in February.
- China's HSBC's purchasing managers index came in at 49.1 in April, from 48.3 last month.
- Singapore's inflation rate rose to 5.2% on-year in March, from 4.6% the previous month.
- Plane maker Embraer signs a deal with China's ICBC Financial Leasing Co. Ltd. under which the latter will provide up to $2.5bn in financing for planes over five years.

Debt Market Update contd…

US:

- US pending home sales index rose by 4.1% in March following a revised 0.4% increase in February.
- US jobless claims fell by 1000 to a seasonally adjusted 388000 in the week ended April 21.
- US Federal Reserve Chairman says the central bank will not hesitate to launch another round of bond purchases if the economy weakens.
- US durable goods orders fell 4.2% in March, compared with a revised 1.9% increase in February.
- US Consumer Confidence Index fell to 69.2 in April as compared to a downwardly revised 69.5 in March.

UK:

- UK Office for National Statistics says the country's GDP contracted by 0.2% in the first quarter, following a 0.3% fall in the last quarter of 2011.
- UK's public sector borrowing in March came in at 18.2bn pounds, up from last year's 17.95bn pounds; the borrowing totalled 126bn pounds for the financial year, the 12 months through March.
- UK's Chancellor of Exchequer says Britain will pledge $15bn to expand the resources of the IMF.

Euro Zone:

- Eurozone Purchasing Manager Index composite fell for the third month in a row to its five-month low of 47.4 in April, down from 49.1 in March.
- Eurozone's government deficit to GDP ratio decreased from 6.2% in 2010 to 4.1% in 2011.
- S&P reduces Spain's long-term sovereign credit rating to BBB+ from A.
- German business confidence index rose slightly to a 9-month high of 109.9 in April from 109.8 in March.
- G20 world economies pledge $430bn in new funding for the IMF to boost its lending power to protect the global economy from the euro-zone debt crisis.

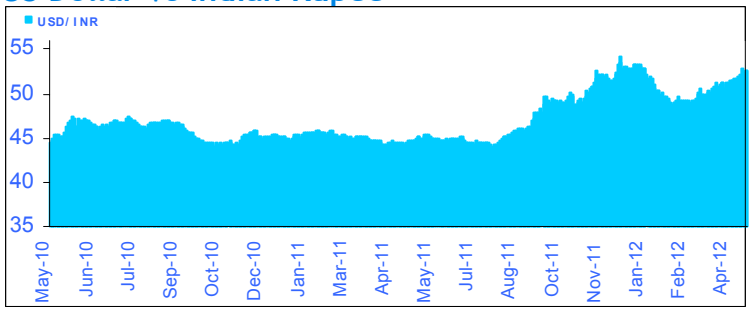
Debt Market Update contd…

Economic Calendar:

Date	Country	Event	Period	Frequency	Unit	Previous
1/5/2012	China	PMI Manufacturing Index (Level)	Apr, 2012	Monthly		48.3
30-04-2012	European MU	M3 Money Supply	Mar, 2012	Monthly		
30-04-2012	European MU	HICP Flash	Apr, 2012	Monthly		
1/5/2012	European MU	PMI Manufacturing Index	Apr, 2012	Monthly		
2/5/2012	European MU	Unemployment Rate	Mar, 2012	Monthly		
3/5/2012	European MU	PMI Services Index	Apr, 2012	Monthly		
3/5/2012	European MU	PPI	Mar, 2012	Monthly		
3/5/2012	European MU	ECB Announcement (Change)	May, 2012	Monthly	bp	
4/5/2012	European MU	PMI Services Index (Level)	Apr, 2012	Monthly		49.2
4/5/2012	European MU	Retail Sales	Mar, 2012	Monthly		
30-04-2012	India	CPI-Industrial Workers	Mar	Monthly	pct	7.57
30-04-2012	India	IIP Core (YoY Chg)	Mar	Monthly	pct	6.8
30-04-2012	India	Government finances -fiscal deficit	Apr-Mar	Monthly	pct	94.6
2/5/2012	India	Reserve Money (change on wk)	Wk to Apr 27	Weekly	pct	2.04
2/5/2012	India	M3 (YoY Chg)	Wk to Apr 20	Fortnightly	pct	13.68
2/5/2012	India	HSBC India manufacturing PMI	Apr	Monthly		54.7
3/5/2012	India	HSBC India Services PMI	Apr	Monthly		52.3
3/5/2012	India	HSBC India composite PMI	Apr	Monthly		53.6
4/5/2012	India	FX reserve (change on wk)	Wk to Apr 27	Weekly	$ bln	
4/5/2012	India	Bank Deposit (YoY Chg)	Wk to Apr 20	Fortnightly	pct	14.3
4/5/2012	India	Bank Credit (YoY Chg)	Wk to Apr 20	Fortnightly	pct	18.7
7/5/2012	India	Automobile sales data	Apr	Monthly	Million	1.61
7/5/2012	Japan	BoJ MPB Minutes	Jan, 2012	Monthly		
1/5/2012	UK	CIPS/PMI Manufacturing Index	Apr, 2012	Monthly		
2/5/2012	UK	M4 Money Supply	Mar, 2012	Monthly		
3/5/2012	UK	CIPS/PMI Services Index	Apr, 2012	Monthly		
30-04-2012	US	Chicago PMI (Business Barometer Index - Level)	Apr, 2012	Monthly		62.2
1/5/2012	US	Farm Prices	Apr, 2012	Monthly		
1/5/2012	US	ICSC-Goldman Store Sales	wk4/28, 2012	Weekly		
1/5/2012	US	Redbook	wk4/28, 2012	Weekly		
1/5/2012	US	ISM Mfg Index (ISM Mfg Index - Level)	Apr, 2012	Monthly		53.4
2/5/2012	US	MBA Purchase Applications	wk4/27, 2012	Weekly		
2/5/2012	US	Challenger Job-Cut Report (Announced Layoffs - Level)	Apr, 2012	Monthly		37880
2/5/2012	US	ADP Employment Report (ADP employment)	Apr, 2012	Monthly		209000
2/5/2012	US	Factory Orders (Factory Orders - M/M change)	Mar, 2012	Monthly	Percent	1.3
2/5/2012	US	EIA Petroleum Status Report	wk4/27, 2012	Weekly		
3/5/2012	US	Chain Store Sales	Apr, 2012	Monthly		
3/5/2012	US	Jobless Claims	wk4/28, 2012	Weekly		
3/5/2012	US	Bloomberg Consumer Comfort Index	Apr, 2012	Monthly		
3/5/2012	US	ISM Non-Mfg Index (Composite Index - Level)	Apr, 2012	Monthly		56
3/5/2012	US	EIA Natural Gas Report	wk4/27, 2012	Weekly		
4/5/2012	US	Money Supply	wk4/23, 2012	Weekly		
4/5/2012	US	Fed Balance Sheet	wk5/2, 2012	Weekly		
4/5/2012	US	Monster Employment Index	Apr, 2012	Monthly		

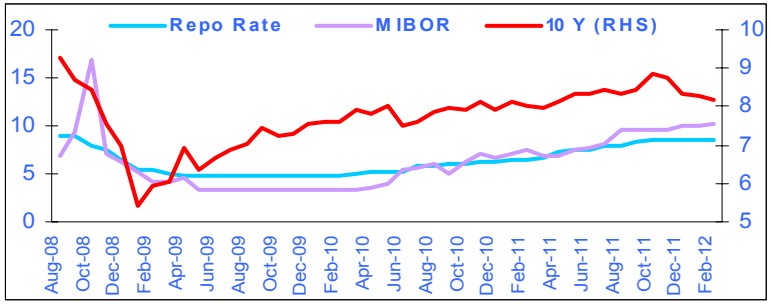
Debt Market Update contd…

US Dollar Vs Indian Rupee



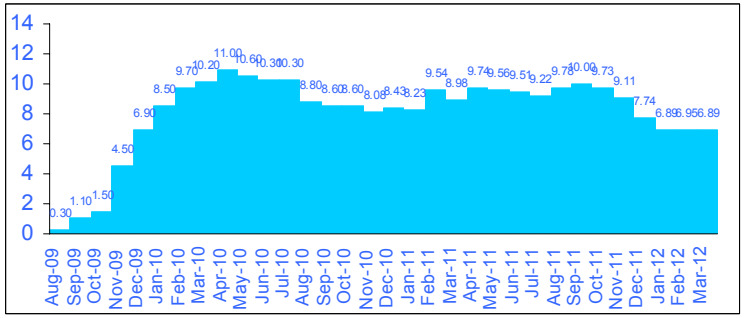
The US dollar appreciated against the rupee by 1.31% for the week ended 27th April 2012. India's rupee weakened the most in more than three weeks on concern Europe's debt crisis will hurt economic growth in emerging markets. The currency fell to the lowest level in more than three months after a survey of companies in China showed manufacturing in Asia's biggest economy may shrink for a sixth month in April, the longest period of contraction since the global financial crisis.

Relationship among policy rates and benchmarks



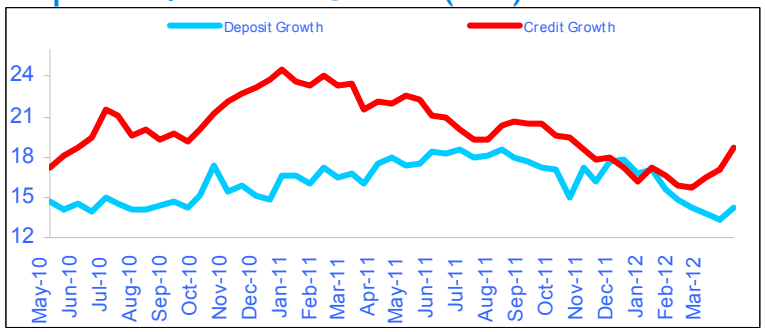
The RBI cut rates on Tuesday (19th April 2012) by an unexpectedly sharp 50 basis points to boost the sagging economy, but warned there was limited scope for more cuts, with inflation likely to remain elevated and growth on track to pick up, albeit modestly.

WPI Inflation (YoY)



The WPI inflation eased to 6.89% in March 2012 from 6.95% in February 2012, as moderating inflation related to non food manufactured products and fuel & power items. Factors likely to exert pressure on inflation include a revision in electricity tariffs announced in several States; some revision in domestic prices of various fuel items and coal; and higher rates of excise duty.

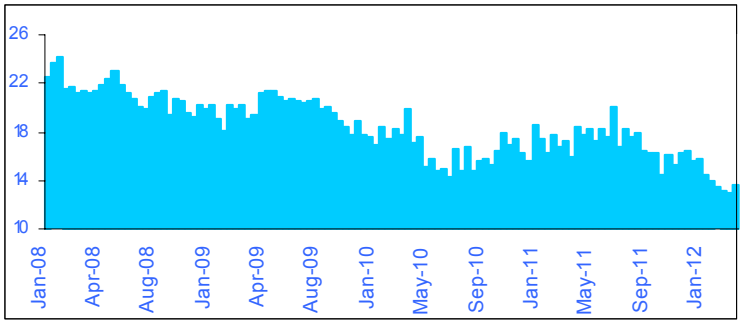
Deposit vs. Advance Growth (YoY)%



Indian banks' deposits grew 3.2% in the two weeks to April 6, while advances grew at a slower 1.8%, data from the Reserve Bank of India showed. As of April 6, banks' deposits stood at Rs 60,95,000 crore, while credit was Rs 46,94,000 crore, the central bank said in a statement. On a year-on-year basis, deposits grew at 14.3% and credit at 18.7%.

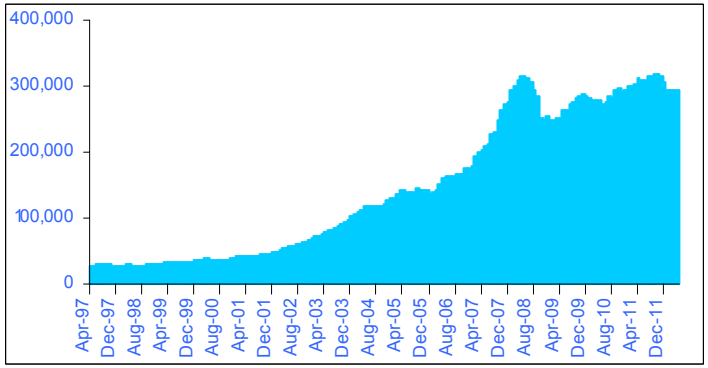
Debt Market Update contd…

Money Stock (M3) (YoY) (%)



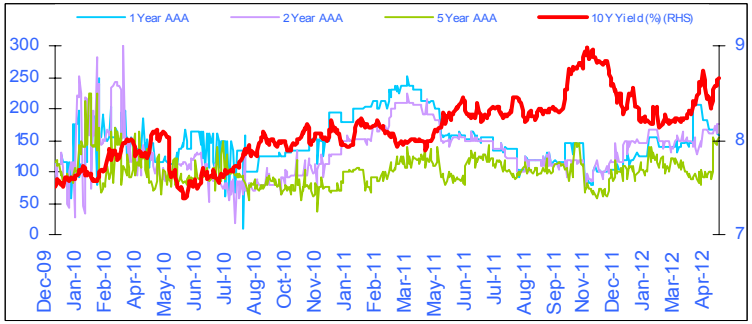
India's M3 money supply rose an annual 13.7 percent as on April 6, compared with a 13 percent rise two weeks ago and a 17.2 percent growth a year earlier. Money supply was 75,478.2 billion rupees as of April 6 compared with 73,475.3 billion rupees on March 23. The RBI said year-on-year reserve money growth was 4.4 percent in the week to April 13, compared with 19.8 percent a year earlier .

Foreign Exchange Reserves (mn of USD)



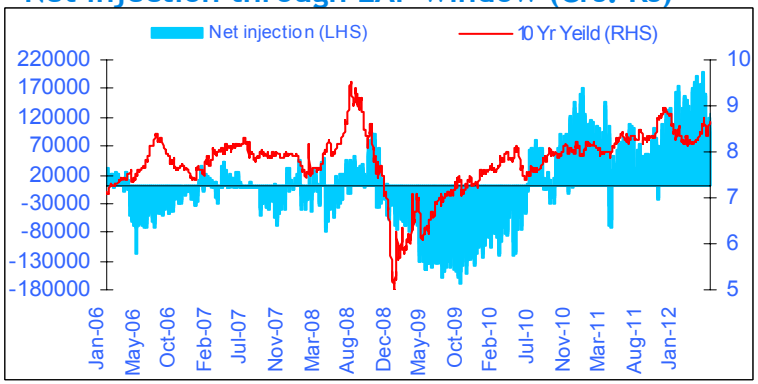
Indian forex reserves rose by $213.8 mn to $1,462 bn as of week ended April 20.

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 narrowed across maturities.

Net injection through LAF window (Crs. Rs)



With the downgrade in credit rating to negative, Indian companies are expected to be hit hard with a possible fall in External Commercial Borrowings, which may result in posing further stress in the liquidity in the system.

Debt Market Update contd…

Analyst: Dhuraivel Gunasekaran.

HDFC Securities Limited, I Think Techno Campus, Bulding –B, ”Alpha”, Office Floor 8, Near Kanjurmarg Station,
Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone (022) 30753400 Fax: (022) 30753435

Disclaimer: This document has been prepared by HDFC Securities Limited and is meant for sole use by the recipient and not for circulation. This document is not to be reported or copied or made available to others. It should not be considered to be taken as an offer to sell or a solicitation to buy any security. The information contained herein is from sources believed reliable. We do not represent that it is accurate or complete and it should not be relied upon as such. We may have from time to time positions or options on, and buy and sell securities referred to herein. We may from time to time solicit from, or perform investment banking, or other services for, any company mentioned in this document. This report is intended for non-Institutional Clients.