Weekly Debt Report

May 14, 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% - 8.75% band for the week.

G Sec:

- The Indian bond markets witnessed moderation in the yields for the week that ended on May 11, 2012. The G-Sec market opened week on a firm note tracking softening of oil prices. However, the gains reversed due to apprehensions over auction announcement of G-sec papers for the week. OMO announcement by the RBI on Tuesday for the gilts worth Rs. 12,000 crore supported the market. Yields of G Secs ended slightly lower on Wednesday due to profit booking ahead of G-sec auction to be held on Friday. Range-bound activity was witnessed in the market on Thursday ahead of the weekly gilt auction that was scheduled on Friday. However, profit booking at higher level dampened the situation. G Secs prices ended marginally down on Friday after as the central bank purchased Rs 9757 crore worth of bonds as against the notified amount of Rs 12,000 crore. Prices fell further as participants trimmed their positions ahead of the April inflation data due to be released on May 14.

- Hence, the 10 Yr benchmark, 'G Sec 7.79% GS 2021' bond yields closed down by 6 basis points at 8.56% (101.44) on Friday Vs. its close of 8.62% on the previous week.

G Sec Auction:

- The cut off yields in the G-sec auction were as follows: 8.24% GS 2018 at 8.56%, 8.79% GS 2021 at 8.57%, 8.28% GS 2027 at 8.87%, 8.33% GS 2036 at 8.95.

Debt Market Update contd…

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

Debt (%)	11-May	4-May	Change (bps)
Call Rate	8.35	7.60	75
CBLO	8.00	7.90	10
Repo	8.00	8.00	0
Reverse Repo	7.00	7.00	0
10 Year G sec	8.56	8.62	-6
MIBOR	9.91	9.65	26
LIBOR - UK	1.02	1.02	0
LIBOR - USA	0.47	0.47	0
LIBOR - Europe	0.66	0.66	0

T-Bill:

- The T-Bill auctions held on May 09 were fully subscribed. RBI set the cut-off price for the 91-Day T-Bill at 8.44% which was in line the previous cut off. The 182-day T-bill auction saw cut-off come in at 8.42% which was higher than the previous cut off 8.38%. 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 May 09.

Call & CBLO:

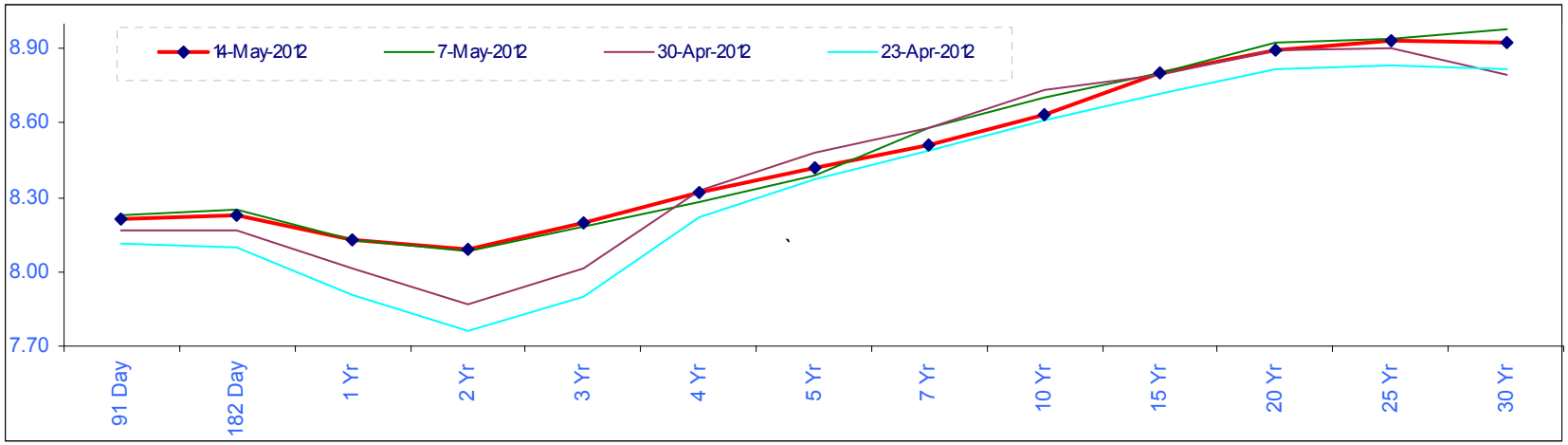
- The liquidity in the system was hardened last week as compared to previous week. Bids for repo were a daily average of Rs. 1.09 lakh crore for last week (Rs. 1 lakh crore on previous week).
- The inter bank call rates hovered in the range of 8.35% levels. The CBLO rates were positioned at 8% level.

Corporate Bonds :

- The 1 year AAA bond ended at 9.75% which was higher than the previous close of 9.60%. The 10-year bond traded at 9.38% which was lower than the previous close of 9.41%.

Debt Market Update contd…

Gilt Securities Yields Movements in last 4 weeks :



Currency:

- The USD appreciated against the Euro by 1.27% for the week ended 11th May 2012.
- The USD appreciated against the Japanese yen by 0.11% for the week.
- The USD appreciated against the Pound by 0.50%.

Change in CD Rates:

Maturity	11-May	4-May
3 Months	9.83	9.70
6 Months	10.10	9.88
1 Year	10.00	9.80

Debt Market Update contd…

Change in CP Rates:

Maturity	11-May	4-May
3 Months	10.25	10.18
6 Months	10.30	10.35
1 Year	10.35	10.40

Commodity price Changes:

Commodity	11-May	4-May	Change (%)
NYMEX Crude Oil ($/bbl)	96.13	98.49	-2.40
Gold (oz/$)	1584.00	1645.20	-3.72
Silver (oz/$)	28.58	29.90	-4.41

Gold & Crude oil:

- Crude prices fell 2.40% to USD 96.13 per barrel for the week ended May 11, 2012.
- International Gold prices fell 3.72% to USD 1,584 per ounce for the week.

Forthcoming Auctions:

Security	Date of Auction	Value (Rs. Crs)
91 Day T-Bill	16-May-12	10,000
364 Day T-Bill	16-May-12	5,000

Debt Market Update contd…

Global Updates:

India:

- India's forex reserves fell by $2.18bn to $293.17bn as of week ended May 4.
- India's industrial output shrank by 3.5% in March from year earlier following an annual growth of 4.1% in February.
- RBI Deputy Governor says that current inflation levels in the country remain above the RBI's comfort level, but its fall below 7% shows positive direction.
- Finance Ministry withdraws its proposal to bring life insurance companies under the Minimum Alternative Tax regime.
- IRDA asks life insurers to stop selling highest net asset value-guaranteed products.
- United Nation report says that India is projected to see a faster growth of 7.5% in FY13 on the back of higher savings and investment rates, even as most of the Asia-Pacific economies are likely to expand at a slower pace.
- India's merchandise exports grew 3.2% in April to $24.5bn while import growth fell 3.8% to $37.9bn.

Asia:

- People's Bank of China cuts the bank reserve ratio requirement by a half percentage point thereby bringing the rate down to 20% for most major banks.
- China's industrial production rose by 9.3% in April, the slowest since May 2009, down from 11.9% growth seen in March.
- China's Producer Price Index fell 0.7% in April from a year earlier.
- China's retail sales expanded 14.1% year on year to hit 1.56 trillion yuan in April.
- Japan's current conditions index fell to 50.9 in April from 51.8 in March.
- Japan's leading indicator of economic activity improves to 96.6 in March from 96 in February.

Debt Market Update contd…

US:

- US producer price index dropped 0.2% month on month in April following 1.75 fall in March.
- University of Michigan's preliminary May reading on the overall index on consumer sentiment rose to 77.8 from 76.4 in April.
- US trade deficit was $51.8 bn in March 2012 while February's gap was revised to $45.4 bn from $46 bn.
- US government posts a budget surplus of $59.1bn in April, compared with a deficit of $40.4bn in the same period last year.
- US initial jobless benefits in the week ending May 5 fell by 1,000 to a seasonally adjusted 367,000.
- US wholesales inventories rose 0.3% to $480.44 bn, following an unrevised 0.9% jump the previous month.

UK:

- UK producer price index rose 3.3% in April, compared with a rise of 3.7% last month.
- UK GDP grew 0.1% in the three months ending April, after declining 0.2% in the three months ending March according to National Institute of Economic and Social Research's (NIESR) latest GDP estimate.
- UK British Retail Consortium's monthly retail sales monitor fell 3.3% yoy in April after rising 1.3% in March.

Euro Zone:

- European Commission sees a gradual recovery to begin in the second half of the 2012 and gather momentum in 2013.
- European Central Bank's (ECB) monthly report showed that unemployment in the Eurozone will increase to 11% in 2012, in comparison with the previous forecast of 10.6%; also raised inflation outlook sharply by 2.3%, versus the February projection of 1.9%.
- The European Financial Stability Facility announces that 4.2bn euros will be disbursed to Greece on May 10 with another 1bn euro to come next month depending on Athens' needs.

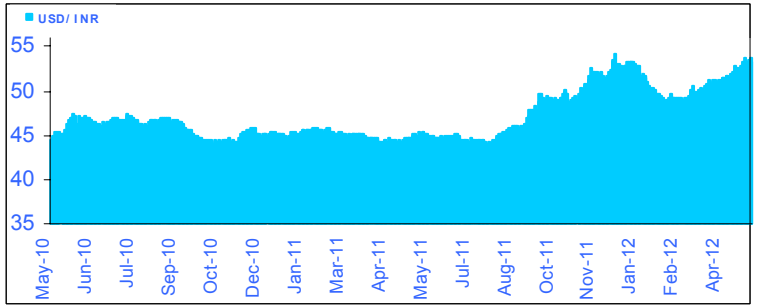
Debt Market Update contd…

Economic Calendar:

Date	Country	Event	Period	Frequency	Unit	Previous
14-05-2012	European MU	Industrial Production	Mar, 2012	Monthly		
15-05-2012	European MU	GDP Flash	Q1, 2012	Quarterly		
16-05-2012	European MU	HICP	Apr, 2012	Monthly		
16-05-2012	European MU	Merchandise Trade	Mar, 2012	Monthly		
16-05-2012	European MU	HICP (Year over Year)	Apr, 2012	Yearly	Percent	2.7
14-05-2012	India	WPI Inflation (YoY Chg) New Series (Base 2004-05)	Apr	Monthly	pct	6.89
16-05-2012	India	Reserve Money (change on wk)	Wk to May 11	Weekly	pct	-1.8
16-05-2012	India	M3 (YoY Chg)	Wk to May 4	Fortnightly	pct	13
18-05-2012	India	FX reserve (change on wk)	Wk to May 11	Weekly	$ bln	-2.19
18-05-2012	India	Bank Deposit (YoY Chg)	Wk to May 4	Fortnightly	pct	13
18-05-2012	India	Bank Credit (YoY Chg)	Wk to May 4	Fortnightly	pct	17.5
18-05-2012	India	Bank Investment (YoY Chg)	Wk to May 4	Fortnightly	pct	15.6
21-05-2012	India	GSM mobile subscriber	Apr	Monthly	Million	698.42
14-05-2012	Japan	CGPI (PPI)	Apr, 2012	Monthly		
16-05-2012	Japan	Tertiary Index	Mar, 2012	Monthly		
16-05-2012	Japan	Tertiary Index (Year over Year)	Mar, 2012	Yearly	Percent	-0.2
17-05-2012	Japan	GDP	Q1, 2012	Quarterly		
21-05-2012	Japan	All Industry Index	Mar, 2012	Monthly		
15-05-2012	UK	Merchandise Trade (Level)	Mar, 2012	Monthly	Billion	-8.8
16-05-2012	UK	Labour Market Report	Apr, 2012	Monthly		
16-05-2012	UK	BoE Inflation Report	Q2, 2012	Quarterly		
15-05-2012	US	ICSC-Goldman Store Sales	wk5/12, 2012	Weekly		
15-05-2012	US	Consumer Price Index (CPI - M/M change)	Apr, 2012	Monthly	Percent	0.3
15-05-2012	US	Retail Sales (Less Autos & Gas - M/M Change)	Apr, 2012	Monthly	Percent	0.7
15-05-2012	US	Empire State Mfg Survey	May, 2012	Monthly		6.56
15-05-2012	US	Consumer Price Index (CPI - Y/Y change)	Apr, 2012	Yearly	Percent	2.6
15-05-2012	US	Redbook	wk5/12, 2012	Weekly		
15-05-2012	US	Treasury International Capital	Mar, 2012	Monthly	Billion	10.1
15-05-2012	US	Housing Market Index (Housing Market Index)	May, 2012	Monthly		25
16-05-2012	US	MBA Purchase Applications	wk5/11, 2012	Weekly		
16-05-2012	US	Industrial Production (Production - M/M change)	Apr, 2012	Monthly	Percent	
16-05-2012	US	Industrial Production (Manufacturing - M/M)	Apr, 2012	Monthly	Percent	-0.2
16-05-2012	US	EIA Petroleum Status Report	wk5/11, 2012	Weekly		
16-05-2012	US	FOMC Minutes	Apr, 2012	Monthly		
17-05-2012	US	Jobless Claims	wk5/12, 2012	Weekly		
17-05-2012	US	Bloomberg Consumer Comfort Index	May, 2012	Monthly		
17-05-2012	US	Leading Indicators	Apr, 2012	Monthly		
17-05-2012	US	Philadelphia Fed Survey	May, 2012	Monthly		8.5
17-05-2012	US	EIA Natural Gas Report	wk5/11, 2012	Weekly		
18-05-2012	US	Fed Balance Sheet	wk5/16, 2012	Weekly		
18-05-2012	US	Money Supply	wk5/7, 2012	Weekly		
21-05-2012	US	Chicago Fed National Activity Index	Apr, 2012	Monthly		

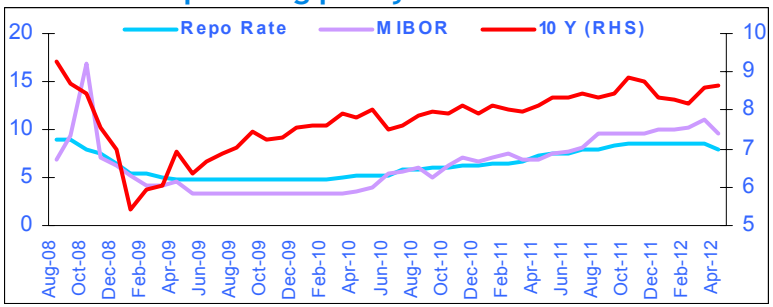
Debt Market Update contd…

US Dollar Vs Indian Rupee



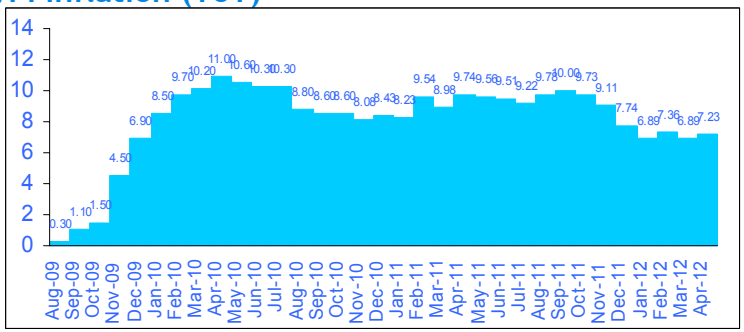
The US dollar depreciated against the rupee by 0.15% for the week ended 11th May 2012. The rupee posted its biggest percentage gain against the dollar in six weeks on Monday after the country postponed controversial rules on foreign taxation by a year, helping soothe worries about flows. The rupee recovered against the US dollar after the Reserve Bank tightened norms for utilisation of the foreign currency fixed deposit funds to check outflow of forex.

Relationship among policy rates and benchmarks



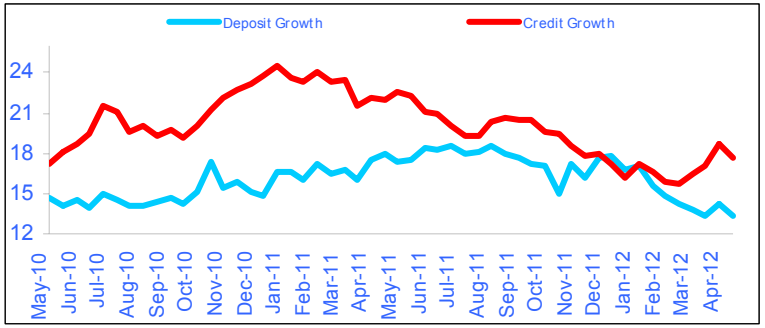
The current core inflation level of 5% coupled with a slow industrial growth may continue to provide comfort for the RBI to reduce interest rates further.

WPI Inflation (YoY)



WPI inflation for the month of April 2012 came at 7.23% (y-o-y). The current rise in inflation was due to increase in prices across the board, but in varying magnitudes. The Primary Articles inflation for April 2012 was placed at 9.7%, a tad higher than 9.6% seen in March 2012. The y-o-y core inflation currently remains below 5% mark.

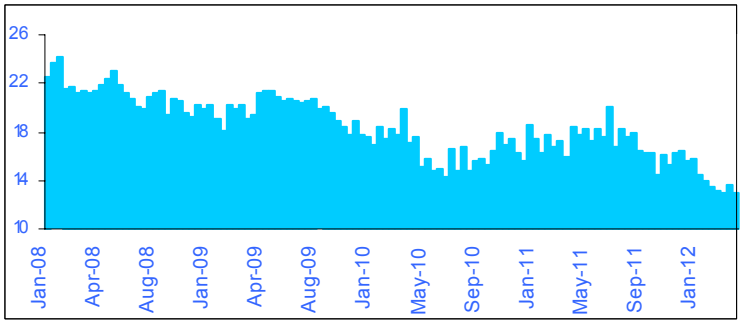
Deposit vs. Advance Growth (YoY)%



On YoY, bank deposit growth (13.3%) as on 20th Apr 2012 was lower than deposit growth (14.3%) reported by RBI as on 6th April 2012. Due to window dressing, banks managed to achieve deposit growth of 17% for FY12 (as projected by RBI) by raising Rs.2 lakh cr in last six days of March. Now, with impact of window dressing waning off, deposits declined by Rs.62,000 cr as compared to last fortnight.

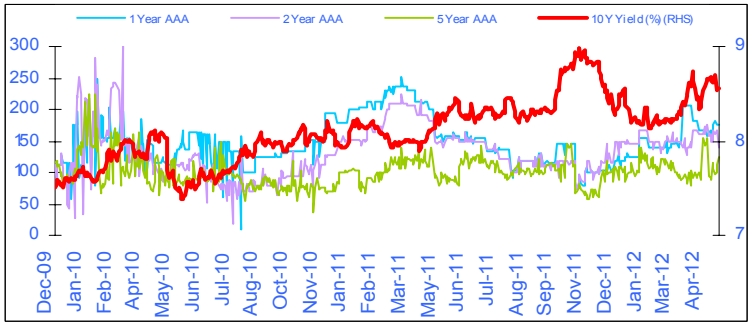
Debt Market Update contd…

Money Stock (M3) (YoY) (%)



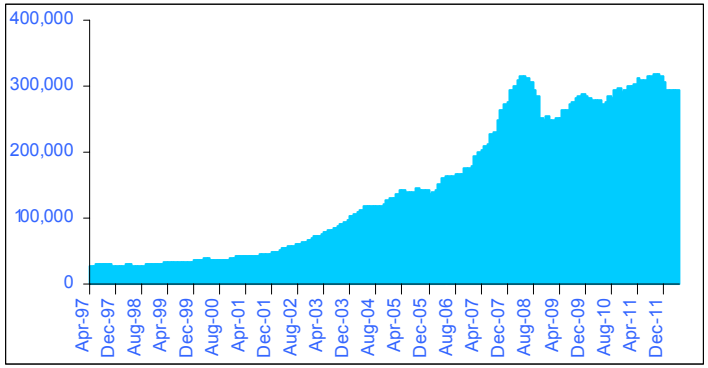
India's M3 money supply rose an annual 13 percent as on April 20, compared with a 13.7 percent rise two weeks ago and a 17.7 percent growth a year earlier. The RBI said year-on-year reserve money growth was 6.8 percent in the week to April 27, compared with 16.5 percent a year earlier. It also said currency in circulation grew 12.7 percent year-on-year in the week to April 27, compared with 18.1 percent a year ago.

Corporate Spread vs. 10Y G Sec Yield



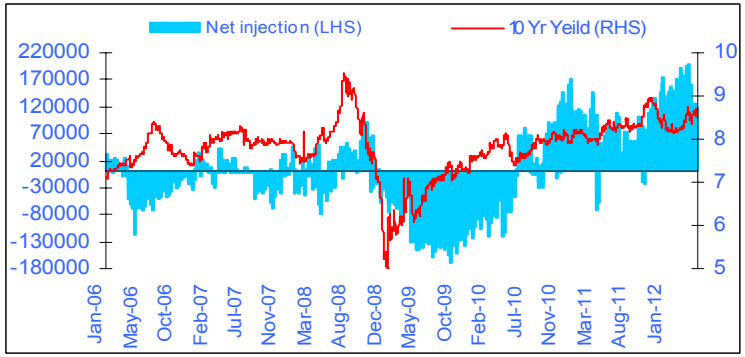
The impact of liquidity crisis is visible on short term rates as it increased on both in gilt as well as corporate bonds. The spread between AAA corporate bond and gilt narrowed across maturities (except for 5 year AAA where it widened). The narrowing corporate spreads will benefit long duration funds.

Foreign Exchange Reserves (mn of USD)



India's forex reserves fell by $2.18bn to $293.17bn as of week ended May 4.

Net injection through LAF window (Crs. Rs)



Continuous flow of government bond supply and weakening currency will impact the liquidity in the system. Liquidity is expected to be tight this week given Rupee volatility and due to fresh demand for funds in the beginning of the reporting fortnight

Debt Market Update contd…

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