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 18, 2012. The G-Sec market opened week on a positive note midst expectations of possible announcement for OMO operation during the week. Post market hours, the RBI announced the purchase of gilts via OMO for Rs. 12000 crore on 18-May-12. Market ended higher on Tuesday ahead of the OMO purchase on Friday. G Sec market opened on Wednesday on a bearish note with apprehension over forthcoming auction for the week. The benchmark security 'G Sec 7.79% GS 2021' fell further on concerns that the bond may turn illiquid. Gilts ended higher on Thursday as the sentiment improved on worsening outlook on the global economy. Though the higher than expected cut off yield which came in for week's auction cheering the market, an apprehension on uncertainty over future OMO purchase checked the market sentiment. Hence, the 10 Yr benchmark, 'G Sec 7.79% GS 2021' bond yields closed down by 3 basis points at 8.53% (101.69) on Friday Vs. its close of 8.56% on the previous week.

G Sec Auction & OMO Purchase:

- The cut off yields in the auction came in as follows: 8.19% GS 2020 at 8.44%, 9.15% GS 2024 at 8.53%, 8.97% GS 2030 at 8.82%, and 8.83% GS 2041 at 8.92%.
- The RBI bought securities worth Rs. 11128 crore against the offered amount of Rs. 21584 crore. The result was as follows: 8.24% GS 2018 worth Rs. 2763 crore at Rs. 99.00 (8.46%), 8.79% GS 2021 worth Rs. 6284 crore at Rs 101.88 (8.50%), 8.28% GS 2027 worth Rs. 2081 crore at Rs. 96.01 (8.76%).

Debt Market Update contd…

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

Debt (%)	18-May	11-May	Change (bps)
Call Rate	8.20	8.35	-15
CBLO	7.62	8.00	-38
Repo	8.00	8.00	0
Reverse Repo	7.00	7.00	0
10 Year G sec	8.53	8.56	-3
MIBOR	9.77	9.91	-14
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 16 were fully subscribed. RBI set the cut-off price for the 91-Day T-Bill at 8.39% which was lower than previous cut off of 8.44%. The 364-day T-bill auction saw cut-off come in at 8.29% which was lower than the previous cut off of 8.31%. The central bank announced the sale of 91 Day T-Bill for the amount of Rs. 9,000 crore and 182 Day T-Bill for Rs. 5,000 crore. The auction will be conducted on May 23.

Call & CBLO:

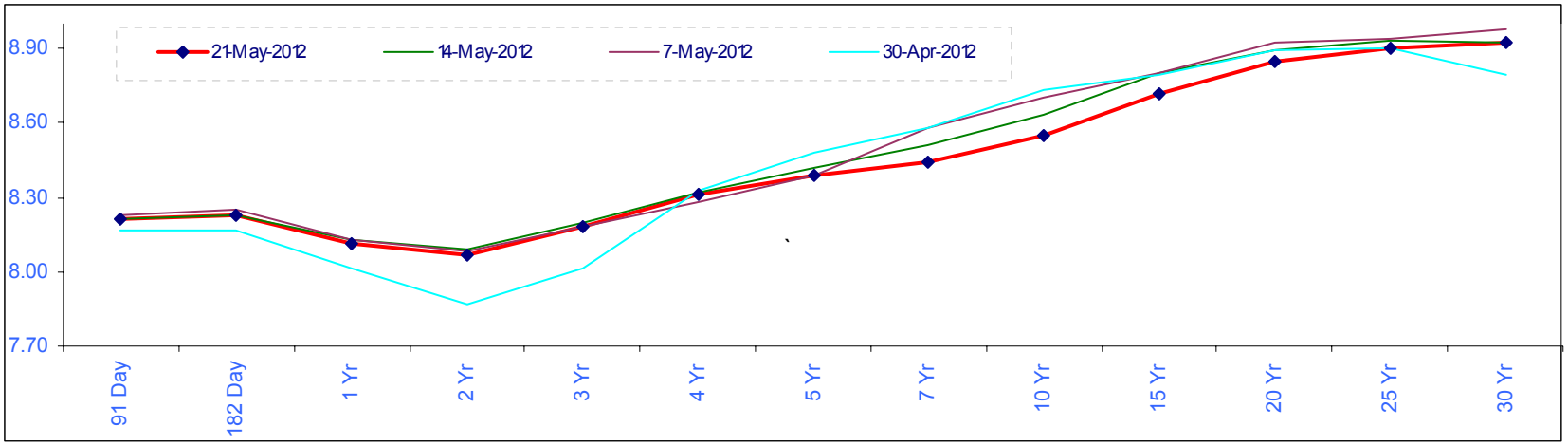
- The liquidity in the system was easy last week as compared to previous week. Bids for repo were a daily average of Rs. 94,274 crore for last week (Rs. 1.09 lakh crore on previous week).
- The inter bank call rates hovered in the range of 8.20% levels. The CBLO rates were positioned at 7.62% level.

Corporate Bonds :

- The 1 year AAA bond ended at 9.75% which was higher than the previous close of 9.72%. The 10-year bond traded at 9.38% which was lower than the previous close of 9.40%.

Debt Market Update contd…

Gilt Securities Yields Movements in last 4 weeks :



Currency:

- The USD appreciated against the Euro by 1.10% for the week ended 18th May 2012.
- The USD depreciated against the Japanese yen by 1.15% for the week ended 18th May 2012.
- The USD appreciated against the Pound by 1.58% for the week.

Change in CD Rates:

Maturity	18-May	11-May
3 Months	9.85	9.83
6 Months	9.90	10.10
1 Year	10.00	10.00

Debt Market Update contd…

Change in CP Rates:

Maturity	18-May	11-May
3 Months	10.25	10.25
6 Months	10.35	10.30
1 Year	10.50	10.35

Commodity price Changes:

Commodity	18-May	11-May	Change (%)
NYMEX Crude Oil ($/bbl)	91.48	96.13	-4.84
Gold (oz/$)	1591.90	1584.00	0.50
Silver (oz/$)	28.48	28.58	-0.35

Gold & Crude oil:

- Crude prices fell 4.84% to USD 91.48 per barrel for the week ended May 18, 2012.
- International Gold prices rose 0.50% to USD 1,591.9 per ounce for the week.

Forthcoming Auctions:

Security	Date of Auction	Value (Rs. Crs)
91 Day T-Bill	23-May-12	9,000
182 Day T-Bill	23-May-12	5,000

Debt Market Update contd…

Global Updates:

India:

- India's forex reserves fell by $1.37bn to $291.8bn as of week ended May 11.
- India's indirect tax collections rose by 10.4% to Rs.33,045crore in April.
- India's annual inflation rate based on the new Consumer Price Index (Combined) shot up to double digits for the first time to 10.36% in April.
- The World Gold Council in its Gold Demand Trends report says global demand for gold fell 5% in Jan-Mar to 1,097.6 tn due to a drop in consumption in India.
- MSCI India index adds Bank of Baroda, Cairn India and Godrej Consumer Products to its India index and removes Suzlon Energy.
- India decides to cut crude oil import from Iran by over 11% this fiscal to 15.5 mn tons.
- Government is likely to table the Direct Taxes Code Bill in the monsoon session of Parliament.

Asia:

- Japan's government lifts its assessment of personal consumption and exports as salaries are slowly rising and exports to the US and Asia increase.
- Japan's industrial output rose 1.3% in March, following a 1.6% fall in February.
- Japan grew 1% in the January-March quarter as against a revised flat growth in Q4 2011; at an annual rate the economy grew 4.1% in Q1.
- Singapore's GDP rose 1.6% in the Q1 from a year earlier, down from 3.6% in the previous quarter.
- Singapore's non-oil domestic exports (NODX) rose 8.3% year-on-year in April, compared to a 4.3% decline in March.

Debt Market Update contd…

US:

- US leading economic indicators slip 0.1% in April following 0.35 rise in March.
- US initial jobless claims were unchanged at an upwardly revised 370,000 in the week ending May 12.
- US Federal Reserve Bank of Philadelphia's general economic index fell to minus 5.8 this month, the lowest reading since September, from 8.5 in the previous month.
- US housing starts rose by 2.6% to 717,000 in April following revised 2.6% decline in March; building permits, a gauge of future construction, fell last month from a 3 1/2 year high to a seasonally adjusted annual rate of 715,000 in April.
- Facebook raises $16bn through its IPO; shares end flat on debut.

UK:

- Bank of England downgrades UK growth forecast to 0.8% for 2013 from earlier projection of 1%
- Bank of England says the inflation in the UK will stay above 2% in the next 2 years.
- Britain's unemployment rate dropped to 8.2% in the Q1 2013, down from 8.4% in Q4 2011.
- UK's jobless claims fell 13,700 from a month earlier to 1.59 min in April.

Euro Zone:

- Eurozone consumer price inflation held steady at 2.6% in April, unchanged from the previous month.
- Eurozone registers a trade surplus of 8.6 bn euro as compared with 2.3 bn euro in February 2012.
- Moody's downgrades the ratings of 16 Spanish banks because of the country's worsening financial situation.
- Fitch cuts Greece's rating by one notch from B- to CCC citing risk of euro exit.
- Spain revises its 2011 budget deficit to 8.9% of GDP, more than the 8.5% initially stated.

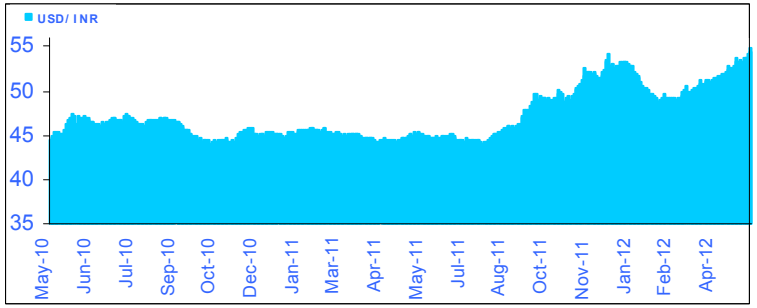
Debt Market Update contd...

Economic Calendar:

Date	Country	Event	Period	Frequency	Unit	Previous
21-05-2012	Japan	All Industry Index	Mar, 2012	Monthly		
22-05-2012	Japan	Bank of Japan Announcement	May, 2012	Monthly		
23-05-2012	Japan	Merchandise Trade	Apr, 2012	Monthly		
25-05-2012	Japan	CPI	Apr, 2012	Monthly		
28-05-2012	Japan	BoJ MPB Minutes	Jan, 2012	Monthly		
24-05-2012	European MU	PMI Services Index Flash (Level)	May, 2012	Monthly		47.9
21-05-2012	India	GSM mobile subscriber	Apr	Monthly	Million	698.42
23-05-2012	India	Reserve Money (change on wk)	Wk to May 18	Weekly	pct	3.13
25-05-2012	India	IIP Core (YoY Chg)	Apr	Monthly	pct	2
25-05-2012	India	WMA (ways and means advance) - to central govt	Wk to May 18	Weekly	Rs bln	39.81
25-05-2012	India	FX reserve (change on wk)	Wk to May 18	Weekly	$ bln	-1.37
22-05-2012	UK	CPI	Apr, 2012	Monthly		
23-05-2012	UK	Retail Sales (Month over Month)	Apr, 2012	Monthly	Percent	1.8
23-05-2012	UK	BoE MPC Minutes	May, 2012	Monthly		
23-05-2012	UK	CBI Industrial Trends Survey (Level)	May, 2012	Monthly		-8
24-05-2012	UK	Retail Sales	Apr, 2012	Monthly		
24-05-2012	UK	GDP	Q1, 2012	Quarterly		
21-05-2012	US	Chicago Fed National Activity Index	Apr, 2012	Monthly		
22-05-2012	US	ICSC-Goldman Store Sales	wk5/19, 2012	Weekly		
22-05-2012	US	Redbook	wk5/19, 2012	Weekly		
22-05-2012	US	Existing Home Sales (Existing Home Sales - M/M Change)	Apr, 2012	Monthly	Percent	-2.6
22-05-2012	US	Richmond Fed Manufacturing Index (level change)	May, 2012	Monthly		14
23-05-2012	US	MBA Purchase Applications	wk5/18, 2012	Weekly		
23-05-2012	US	New Home Sales (New Home Sales - Level - SAAR)	Apr, 2012	Monthly	K	328
23-05-2012	US	FHFA House Price Index (M/M change)	Mar, 2012	Monthly	Percent	0.3
23-05-2012	US	EIA Petroleum Status Report	wk5/18, 2012	Weekly		
24-05-2012	US	Jobless Claims	wk5/19, 2012	Weekly		
24-05-2012	US	Bloomberg Consumer Comfort Index	May, 2012	Monthly		
24-05-2012	US	EIA Natural Gas Report	wk5/18, 2012	Weekly		
25-05-2012	US	Money Supply	wk5/14, 2012	Weekly		
25-05-2012	US	Money Supply (M2 Weekly Change)	wk5/14, 2012	Weekly	Billion	-1.7
25-05-2012	US	Fed Balance Sheet	wk5/23, 2012	Weekly		

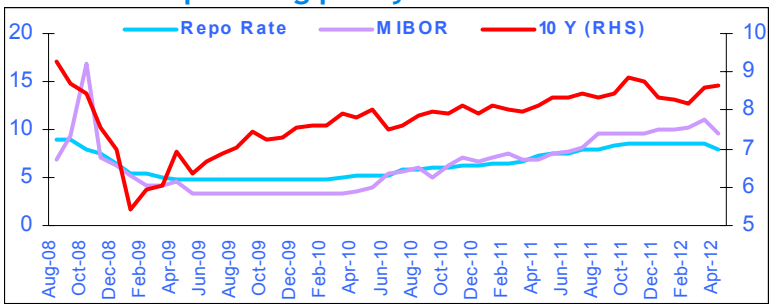
Debt Market Update contd…

US Dollar Vs Indian Rupee



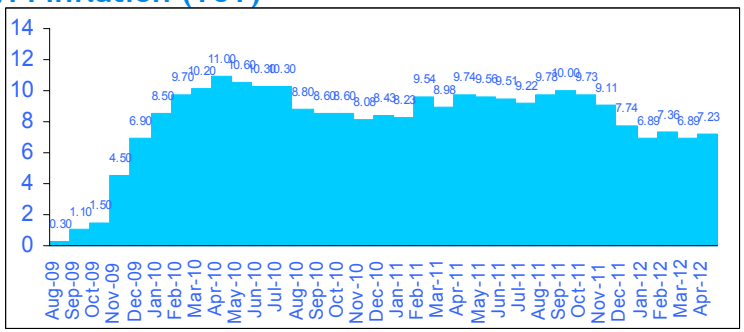
The US dollar appreciated against the rupee by 2.30% for the week ended 18th May 2012 as risk aversion made a strong comeback with Asian stocks showing deep cuts and euro falling to a four-month low. Forex dealers said intense dollar demand from banks and importers, mainly oil refiners, in view of higher dollar overseas affected the rupee value against the dollar, despite RBI steps last week to stem the fall of the local unit.

Relationship among policy rates and benchmarks



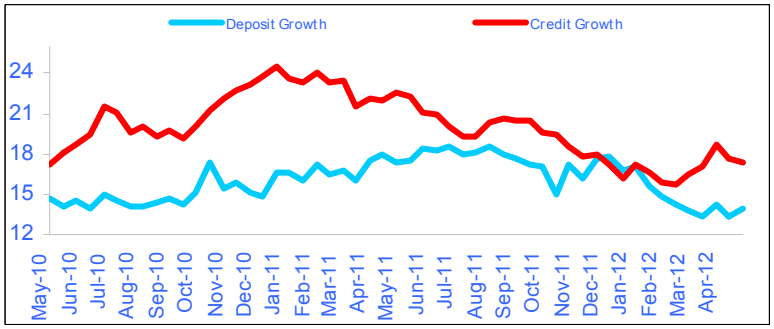
The current core inflation level of 5% coupled with a slow industrial growth may continue to provide comfort for the RBI to reduce interest rates further.

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.

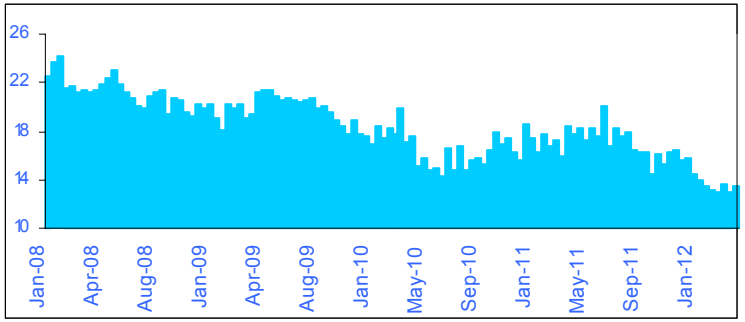
Deposit vs. Advance Growth (YoY)%



Bank deposits mobilization grew by 14.0% YoY, while credit (loan) grew by 17.3% YoY as on 4th May 2012. RBI revised the projections for credit growth at 17%, and deposit growth at 16% for FY13 as against 16% and 17% respectively for FY12. The deposit growth of banks as on May 4, 2012 remains below the RBI`s expectations for FY13, while credit growth better than RBI`s expectations for FY13.

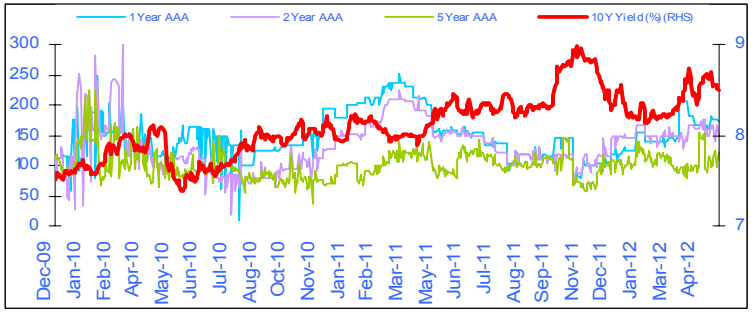
Debt Market Update contd…

Money Stock (M3) (YoY) (%)



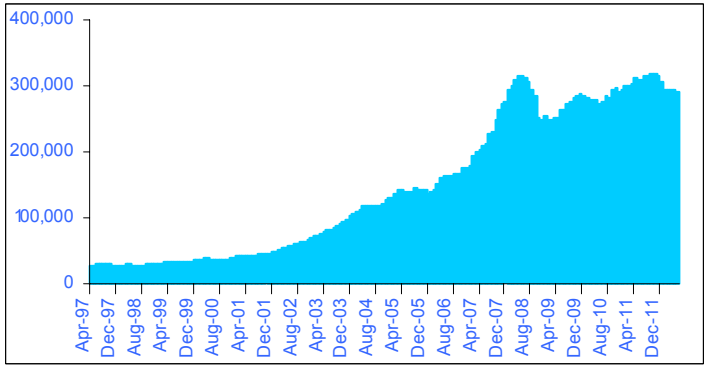
Money Supply for fortnight ended 04th May 2012, rose 13.4% on yoy basis almost maintaining the average at same level during last 3 months.

Corporate Spread vs. 10Y G Sec Yield



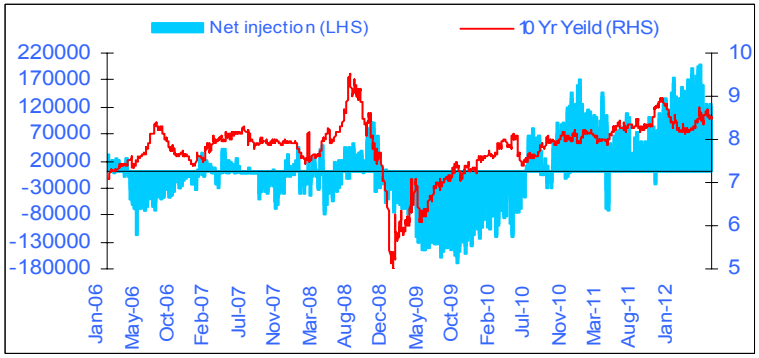
The impact of liquidity crisis is visible on short term rates as it increased on both in gilt as well as corporate bonds. The spread between AAA corporate bond and gilt narrowed across maturities. The narrowing corporate spreads will benefit long duration funds.

Foreign Exchange Reserves (mn of USD)



India's forex reserves fell by $1.37bn to $291.8bn as of week ended May 11.

Net injection through LAF window (Crs. Rs)



Liquidity eased this week on the back of RBI buying bonds. Liquidity is expected to be tight this week given the beginning of a fresh reporting fortnight.

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

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