# Weekly Debt Report

## May 28, 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 8.35% - 8.70% band for the week.

## G Sec:

- The Indian bond markets witnessed inching down in the yields for the week ended May 25, 2012. The G-Sec market opened the week on a cautious note speculation over announcement for auction of new 10-year security. An uncertainty over announcement of OMO for the week also affected the sentiment. On Tuesday, post market hours, the RBI announced OMO purchase of Rs 12,000 crore of the 8.19%, 2020 bond, 9.15%, 2024 bond, 8.26%, 2027 bond, and 8.97%, 2030 bond scheduled on May 25. The announcement of OMO by the RBI supported the prices of bonds to rise on Wednesday. However, profit booking at some higher level checked the gains. G Sec prices rose on Thursday as a steep rise in petrol prices is expected to augur well for government's fiscal discipline plan. However, gains in bond prices were capped as participant's trimmed their positions ahead of weekly auction. Prices of the gilts ended lower on Friday as higher cutoffs came at RBI's open market operation purchase auction. Hence, the 10 Yr benchmark, 'G Sec 7.79% GS 2021' bond yields closed down by 2 basis points at 8.51% (101.79) on Friday Vs. its close of 8.53% on the previous week.

## G Sec Auction & OMO Purchase:

- The cut off yields in the auction came in as follows: 8.24% GS 2018 at 8.47%, 8.79% GS 2021 at 8.52%, 8.28% GS 2027 at 8.78%, 8.33% GS 2036 at 8.90%.
- The RBI bought securities worth Rs. 11,194 crore. The result was as follows: 8.19% GS 2020 worth Rs 4,384 crore at Rs 98.84 (8.40%), 9.15% GS 2024 worth Rs 4,979 crore at Rs 104.73 (8.53%), 8.26% GS 2027 worth Rs 27.55 crore at Rs 96.00 (8.74%), 8.97% GS 2030 worth Rs 1,803 crore at Rs 101.95 (8.76%).

# Debt Market Update contd…

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

| Debt (%) | 25-May | 18-May | Change (bps) |
|---|---|---|---|
| Call Rate | 8.25 | 8.20 | 5 |
| CBLO | 7.96 | 7.62 | 34 |
| Repo | 8.00 | 8.00 | 0 |
| Reverse Repo | 7.00 | 7.00 | 0 |
| 10 Year G sec | 8.51 | 8.53 | -2 |
| MIBOR | 9.81 | 9.77 | 4 |
| 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 23 were fully subscribed. RBI set the cut-off price for the 91-Day T-Bill at 8.39% which was in line with the previous cut off. The 182-day T-bill auction saw cut-off come in at 8.42% which was also in line with the previous cut off. 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 30.

## Call & CBLO:

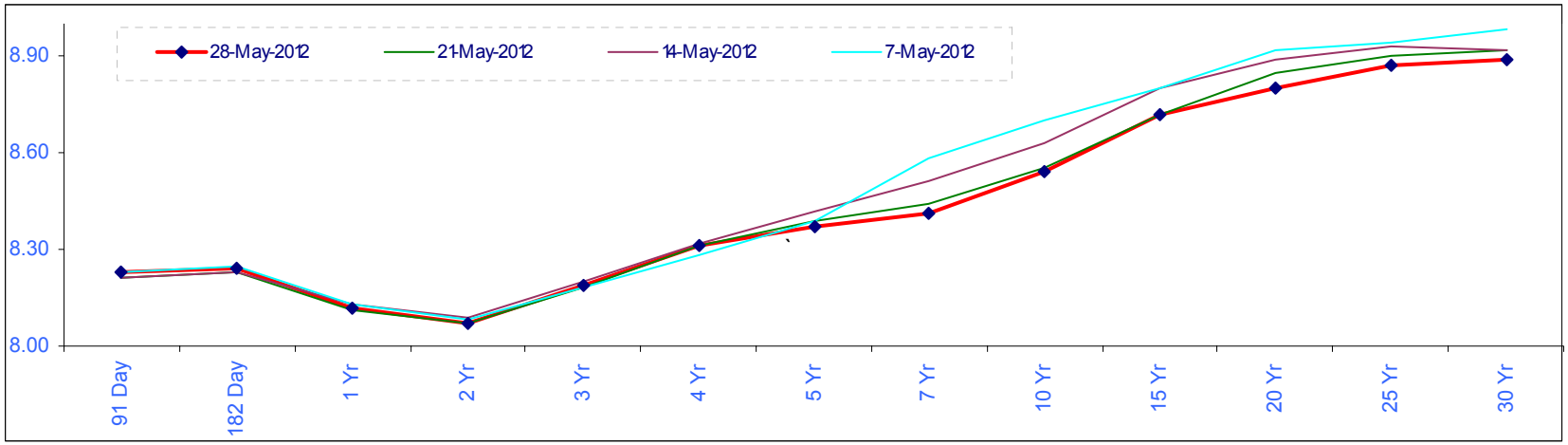
- The liquidity in the system hardened last week as compared to previous week. Bids for repo were a daily average of Rs. 1 lakh crore for last week (Rs. 94,274 crore in previous week).
- The inter bank call rates hovered in the range of 8.25% levels. The CBLO rates were positioned at 7.96% level.

## Corporate Bonds :

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

# Debt Market Update contd…

## Gilt Securities Yields Movements in last 4 weeks :




## Currency:

- The USD appreciated against the Euro by 2.11% for the week ended 25th May 2012.
- The USD appreciated against the Japanese yen by 0.84% for the week.
- The USD appreciated against the Pound by 1.06%.

## Change in CD Rates:

| Maturity | 25-May | 18-May |
|---|---|---|
| 3 Months | 9.67 | 9.85 |
| 6 Months | 9.98 | 9.90 |
| 1 Year | 10.01 | 10.00 |

# Debt Market Update contd…

## Change in CP Rates:

| Maturity | 25-May | 18-May |
|---|---|---|
| 3 Months | 10.15 | 10.25 |
| 6 Months | 10.35 | 10.35 |
| 1 Year | 10.50 | 10.50 |

## Commodity price Changes:

| Commodity | 25-May | 18-May | Change (%) |
|---|---|---|---|
| NYMEX Crude Oil ($/bbl) | 90.86 | 91.48 | -0.68 |
| Gold (oz/$) | 1568.90 | 1591.90 | -1.44 |
| Silver (oz/$) | 28.24 | 28.48 | -0.84 |

## Gold & Crude oil:

- Crude prices fell 0.68% to USD 90.86 per barrel for the week ended May 25, 2012.
- International Gold prices fell 0.84% to USD 1,568.90 per ounce for the week.

## Forthcoming Auctions:

| Security | Date of Auction | Value (Rs. Crs) |
|---|---|---|
| 91 Day T-Bill | 30-May-12 | 10,000 |
| 364 Day T-Bill | 30-May-12 | 5,000 |

# Debt Market Update contd…

## Global Updates:

### India:

- India's forex reserves fell by $1.8bn to $290bn in the week ended May 18.
- India and Netherlands sign a pact to amend the double taxation avoidance convention thereby allowing exchange of banking information.
- State-run oil firms announce the biggest-ever hike of about Rs.7.5 per litre in petrol prices.
- Government raises the interest rate on Special Deposit Scheme for nongovernment provident funds to 8.8% with effect from Apr 1.
- Government raises the interest rate on General Provident Fund to 8.8% with effect from Apr 1 in line with interest rate on Public Provident Fund.
- IRDA says commission paid by insurers to agents selling policies with limited paying tenure should be 10-25% of the first-year premium.

### Asia:

- Bank of Japan's monthly report cited improvements in business and private investment, even as economic activity has remained more or less flat.
- Bank of Japan keeps the size of its asset buying program unchanged at 40 trillion yen and maintains its policy rate at a range of 0-0.1%.
- Japan's national consumer price index rose 0.2% from a year earlier in April, identical to its gain for March.
- China's HSBC Purchasing Managers' Index fell to 48.7 in May from April's final reading of 49.3.
- Singapore's consumer price index rose 5.4% in April from a year earlier, up from 5.2% in March.
- Taiwan's contract chip maker, UMC to invest $8bn in a 12-inch wafer plant in Taiwan.

# Debt Market Update contd…

## US:

- EU leaders say the US and Japan must tackle their tax issues and China must relax restrictions on the yuan, as they share responsibility with Europe for restoring global economic health.
- University of Michigan's final reading on the overall index on consumer sentiment rose to 79.3 from 76.4 in April, the best reading since October 2007.
- OECD raises its forecast for US growth this year to 2.4%, and to 2.6% for 2013.
- US existing home sales rose 3.4% to an annual rate of 4.62mn in April from a downwardly revised 4.47mn in March.

## UK:

- Britain's economy contracted by 0.3% in the first quarter from the previous three month period as against the 0.2% drop reported initially.
- UK retail sales fell 2.3% in April, the biggest monthly fall since January 2010 partly an offset from March where unseasonably warm weather saw a large 2.0% rise.
- Minutes from the Bank of England's Monetary Policy Committee (MPC) meeting on May 9-10 showed that all nine members voted to keep the key lending rate at 0.50%; also the MPC voted 8-1 to maintain the size of the bank's asset purchasing programme at £325bn.

## Euro Zone:

- Bankia asks the Spanish government for 19bn euros in financial support.
- Euro-Zone Composite Purchasing Manager Index fell to 45.9 in May from April's figure of 46.7.
- Euro zone's current account swung to a surplus of 9.1bn euros in March from a slightly revised deficit of 1.2bn euros in February.
- Greece's Financial Stability Fund approves the release of 18bn euros to four Greek banks.

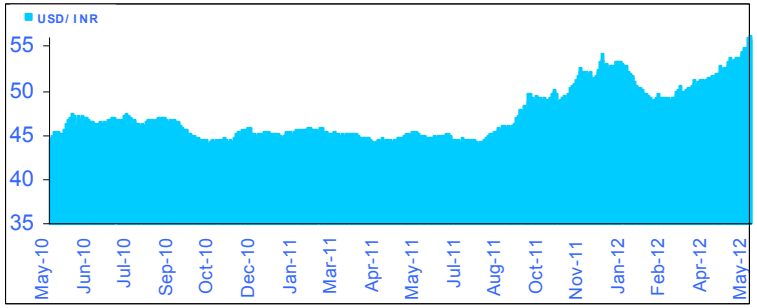
# Debt Market Update contd…

## Economic Calendar:

| Date | Country | Event | Period | Frequency | Unit | Previous |
|---|---|---|---|---|---|---|
| 30-05-2012 | European MU | M3 Money Supply | Apr, 2012 | Monthly | | |
| 30-05-2012 | European MU | EC Economic Sentiment | May, 2012 | Monthly | | |
| 31-05-2012 | European MU | HICP Flash | May, 2012 | Monthly | | |
| 1/6/2012 | European MU | PMI Manufacturing Index | May, 2012 | Monthly | | |
| 1/6/2012 | European MU | Unemployment Rate | Apr, 2012 | Monthly | | |
| 4/6/2012 | European MU | PPI | Apr, 2012 | Monthly | | |
| 28-05-2012 | India | IIP Core (YoY Chg) | Apr | Monthly | pct | 2 |
| 30-05-2012 | India | M3 (YoY Chg) | Wk to May 18 | Fortnightly | pct | 13.4 |
| 31-05-2012 | India | CPI-Industrial Workers | Apr | Monthly | pct | 8.65 |
| 31-05-2012 | India | Government finances -fiscal deficit | Apr | Monthly | pct | |
| 31-05-2012 | India | Gross Domestic Product (YoY Chg) | Jan-Mar | Quarterly | pct | 6.1 |
| 1/6/2012 | India | Foreign merchandise trade Exports (YoY Chg) | Apr | Monthly | pct | -5.71 |
| 1/6/2012 | India | Power generation | May | Monthly | bn kwh | 74.73 |
| 1/6/2012 | India | HSBC India manufacturing PMI | May | Monthly | | 54.9 |
| 1/6/2012 | India | FX reserve (change on wk) | Wk to May 25 | Weekly | $ bln | -1.8 |
| 1/6/2012 | India | Bank Deposit (YoY Chg) | Wk to May 18 | Fortnightly | pct | 13.9 |
| 1/6/2012 | India | Bank Credit (YoY Chg) | Wk to May 18 | Fortnightly | pct | 17.3 |
| 28-05-2012 | Japan | BoJ MPB Minutes | Jan, 2012 | Monthly | | |
| 29-05-2012 | Japan | Unemployment Rate | Apr, 2012 | Monthly | | |
| 29-05-2012 | Japan | Retail Sales (Year over Year) | Apr, 2012 | Yearly | Percent | 10.3 |
| 31-05-2012 | Japan | Industrial Production | Apr, 2012 | Monthly | | |
| 29-05-2012 | UK | CBI Distributive Trades (Level) | May, 2012 | Monthly | | -6 |
| 30-05-2012 | UK | M4 Money Supply | Apr, 2012 | Monthly | | |
| 1/6/2012 | UK | CIPS/PMI Manufacturing Index | May, 2012 | Monthly | | |
| 29-05-2012 | US | S&P Case-Shiller HPI | Mar, 2012 | Monthly | | |
| 29-05-2012 | US | Consumer Confidence (Consumer Confidence - Level) | May, 2012 | Monthly | | 69.2 |
| 29-05-2012 | US | State Street Investor Confidence Index | May, 2012 | Monthly | | 87.7 |
| 30-05-2012 | US | MBA Purchase Applications | wk5/25, 2012 | Weekly | | |
| 30-05-2012 | US | Challenger Job-Cut Report (Announced Layoffs - Level) | May, 2012 | Monthly | | 40559 |
| 30-05-2012 | US | ICSC-Goldman Store Sales | wk5/26, 2012 | Weekly | | |
| 30-05-2012 | US | Redbook | wk5/26, 2012 | Weekly | | |
| 30-05-2012 | US | Pending Home Sales Index | Apr, 2012 | Monthly | | |
| 31-05-2012 | US | Chain Store Sales | May, 2012 | Monthly | | |
| 31-05-2012 | US | ADP Employment Report | May, 2012 | Monthly | | |
| 31-05-2012 | US | Jobless Claims | wk5/26, 2012 | Weekly | | |
| 31-05-2012 | US | GDP (Real GDP - Q/Q change - SAAR) | Q1:2012 | Quarterly | Percent | 2.2 |
| 31-05-2012 | US | GDP (GDP price index - Q/Q change - SAAR) | Q1:2012 | Quarterly | Percent | 1.5 |
| 31-05-2012 | US | Chicago PMI (Business Barometer Index - Level) | May, 2012 | Monthly | | 56.2 |
| 31-05-2012 | US | Bloomberg Consumer Comfort Index | May, 2012 | Monthly | | |
| 31-05-2012 | US | EIA Natural Gas Report | wk5/25, 2012 | Weekly | | |
| 31-05-2012 | US | EIA Petroleum Status Report | wk5/25, 2012 | Weekly | | |
| 1/6/2012 | US | Money Supply | wk5/21, 2012 | Weekly | | |
| 1/6/2012 | US | Fed Balance Sheet | wk5/30, 2012 | Weekly | | |
| 1/6/2012 | US | Monster Employment Index | May, 2012 | Monthly | | |
| 1/6/2012 | US | Motor Vehicle Sales (Domestic Vehicle Sales) | May, 2012 | Monthly | Million | 10.9 |
| 1/6/2012 | US | Motor Vehicle Sales (Total Vehicle Sales) | May, 2012 | Monthly | Million | 14.4 |
| 1/6/2012 | US | Personal Income and Outlays | Apr, 2012 | Monthly | Percent | 0.4 |

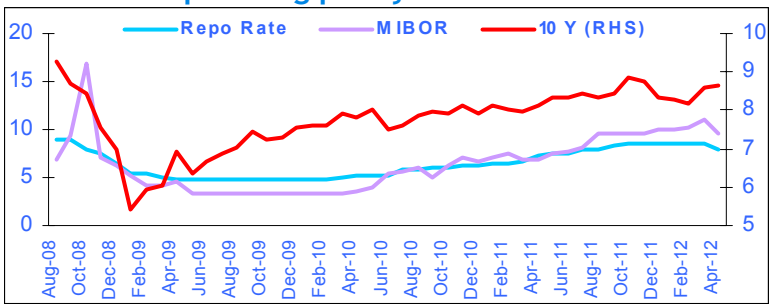
# Debt Market Update contd…

## US Dollar Vs Indian Rupee



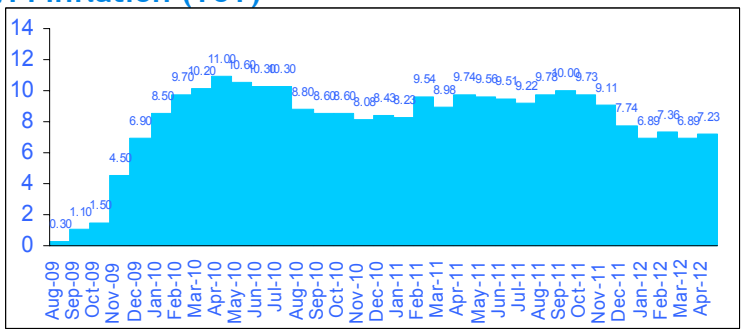

The US dollar appreciated against the rupee by 1.55% for the week ended 25th May 2012. Continuation of uncertainty in the eurozone economic crisis and global risk aversion dragged rupee down, as investors preferred a safe dollar compared to any other assets. US currency also strengthened after rating company Fitch downgraded Japan's sovereign credit rating, citing rising public debt.

## Relationship among policy rates and benchmarks



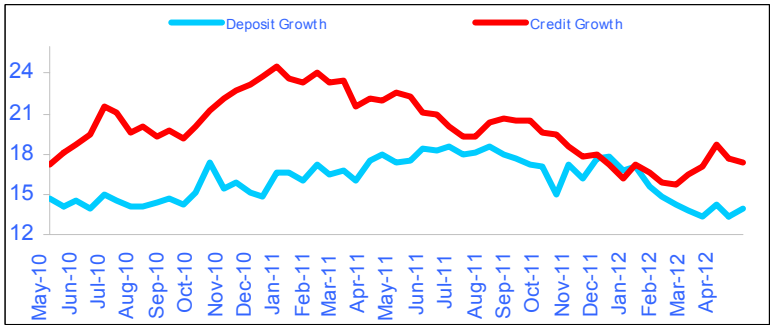

The current core inflation level of 5% coupled with a slow industrial growth may continue to provide comfort for the RBI to reduce interest rates further.

## 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.

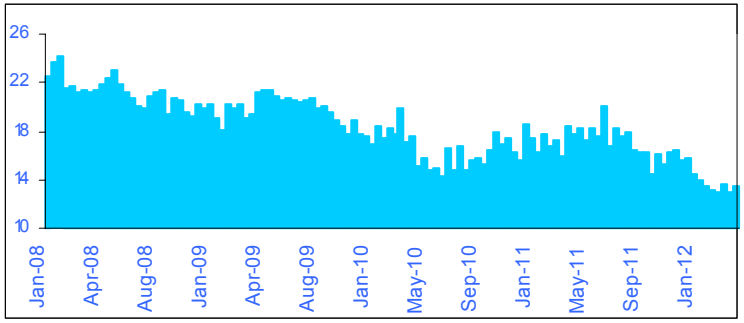
## Deposit vs. Advance Growth (YoY)%




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.

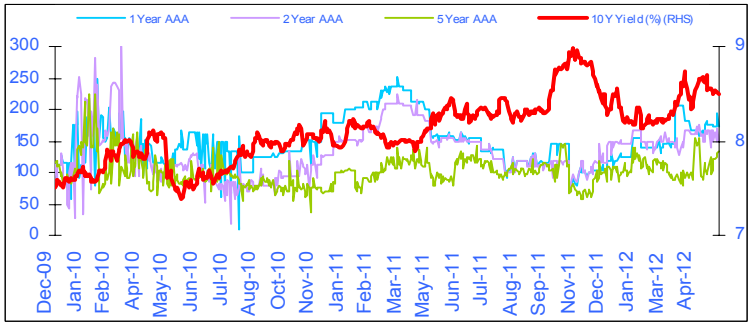
# Debt Market Update contd...

## Money Stock (M3) (YoY) (%)



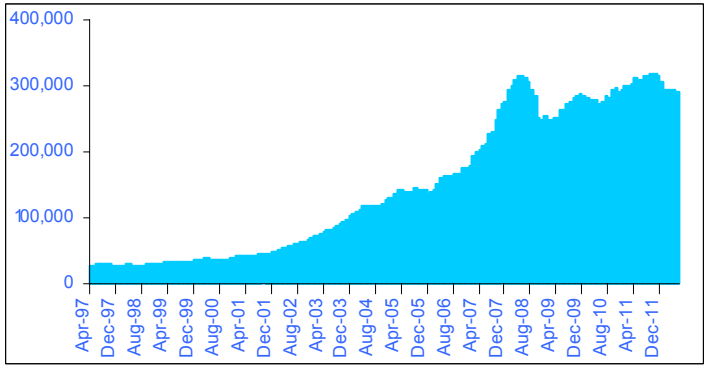

Money Supply for fortnight ended 04th May 2012, rose 13.4% on yoy basis almost maintaining the average at same level during last 3 months.

## Corporate Spread vs. 10Y G Sec Yield



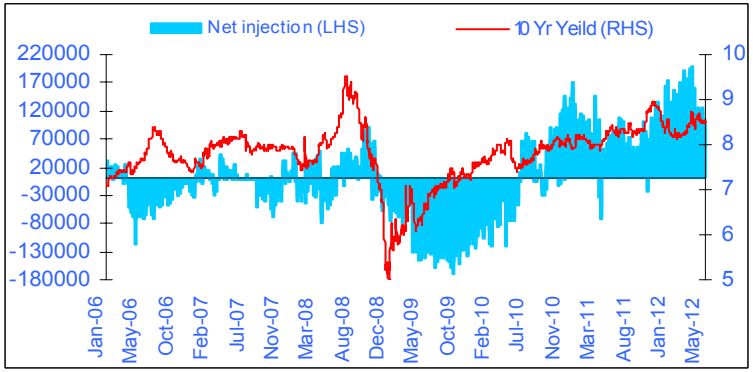

The impact of liquidity crisis is visible on short term rates as it increased on both in gilt as well as corporate bonds. The spread between AAA corporate bond and gilt narrowed across maturities. The narrowing corporate spreads will benefit long duration funds.

## Foreign Exchange Reserves (mn of USD)




India's forex reserves fell by $1.8bn to $290bn in the week ended May 18.

## 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 reporting fortnight.

# Debt Market Update contd…

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