Weekly Debt Report

June 18, 2012

Debt Market Update

Strategy recommended:

While yields on papers more than 1 year could remain flat or soften a bit 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.

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 moderation in the yields for the week ended June 15, 2012. The G-Sec market opened the week on Monday on a firm note on absence of any scheduled G-sec auction for the week. However, S&P's comments on India's investment-grade credit rating negatively impacted the sentiments. S&P warned India could become the first BRIC nation to lose its investment-grade credit rating. The release of IIP number, which came below market expectation boosted the prices of the gilts on Tuesday. Further, scheduled OMO purchases for the day also gave respite to the market. Expectation on further rate cut by the RBI due to weak economic data improved the sentiment on Wednesday. Market ended flat on Thursday as the WPI inflation numbers for the month of May came in line with the market expectation. However, the market was disappointed a little by the sharp revision of 80 basis points in the Mar-12 WPI to 7.69%. Market sentiment turned cautious on Friday ahead of the release of the mid quarter policy review by RBI on Monday. Hence, the new 10 Yr benchmark, 'G Sec 8.15% GS 2022' bond yields closed down by 11 basis points at 8.05% (100.66) on Friday Vs. its close of 8.16% on the previous week.

WPI Inflation:

- Inflation based on the wholesale price index (WPI) accelerated to 7.55% in May 2012 from a year earlier as prices of manufactured products and fuel increased, government data showed Thursday (12 June 2012). Inflation was at 7.23% in April 2012. The government also raised WPI inflation reading for March 2012 to 7.69% from 6.89% reported earlier. Core inflation, or non-food manufacturing inflation, was below 5% in May 2012, far lower than the headline reading. Inflation in India has moderated from 10% in September 2011.

Debt Market Update contd…

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

Debt (%)	15-Jun	8-Jun	Change (bps)
Call Rate	8.00	8.21	-21
CBLO	7.09	8.00	-91
Repo	8.00	8.00	0
Reverse Repo	7.00	7.00	0
10 Year G sec	8.05	8.16	-11
MIBOR	9.64	9.63	1
LIBOR - UK	1.00	1.00	0
LIBOR - USA	0.47	0.47	0
LIBOR - Europe	0.60	0.60	0

T-Bill:

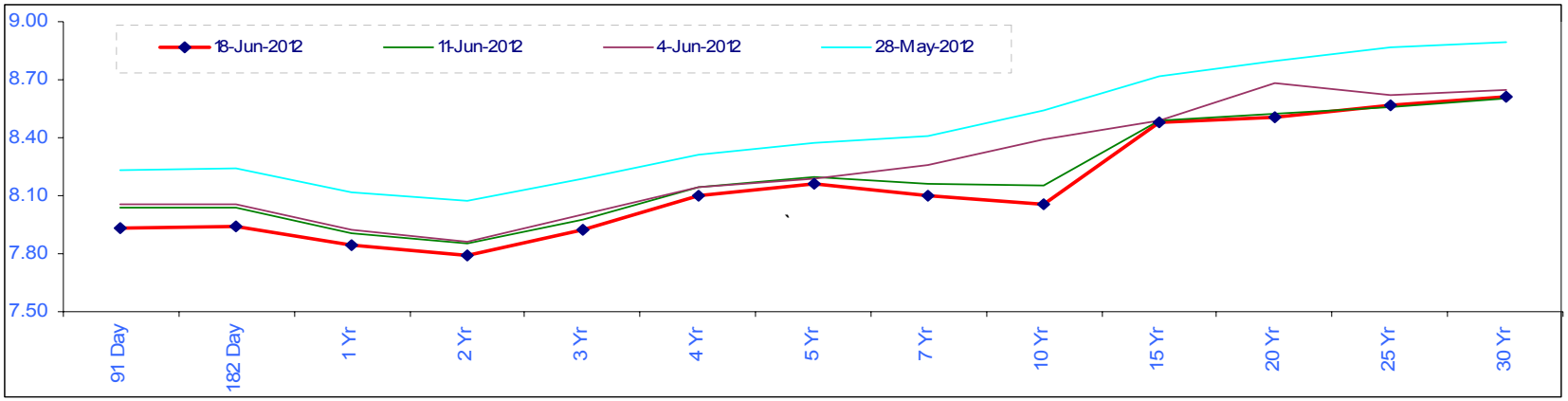
- The T-Bill auctions held on June 13 were fully subscribed. RBI set the cut-off price for the 91-Day T-Bill at 8.14% which was lower than the previous cut off of 8.27%. The 364-day T-bill auction saw cut-off come in at 7.83% which was lower than the previous cut off of 8.28%.
- The central bank announced 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 June 20.

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. 79,832 crore for last week (Rs. 89,714 crore in previous week).
- The inter bank call rates hovered in the range of 8% levels. The CBLO rates were positioned at 7.09% level.

Debt Market Update contd…

Gilt Securities Yields Movements in last 4 weeks :



Currency:

- The USD depreciated against the Euro by 0.7% for the week ended 15th June 2012. The USD appreciated against the Japanese yen by 1.89%. The US dollar depreciated against the rupee by 1.0%.

Change in CD Rates:

Maturity	15-Jun	8-Jun
3 Months	9.10	9.27
6 Months	9.45	9.60
1 Year	9.53	9.70

Corporate Bonds :

- The 1 year AAA bond ended at 9.40% which was lower than the previous close of 9.60%. The 10-year bond traded at 9.28% which was lower than the previous close of 9.31%.

Debt Market Update contd…

Change in CP Rates:

Maturity	15-Jun	8-Jun
3 Months	9.45	9.70
6 Months	9.80	9.95
1 Year	10.00	10.10

Commodity price Changes:

Commodity	15-Jun	8-Jun	Change (%)
NYMEX Crude Oil ($/bbl)	84.03	84.10	-0.08
Gold (oz/$)	1628.10	1521.40	7.01
Silver (oz/$)	28.88	29.28	-1.37

Gold & Crude oil:

- Crude prices fell marginally 0.08% to USD 84.03 per barrel for the week ended June 15, 2012.
- International Gold prices rose 7% to USD 1,628.10 per ounce for the week.

Forthcoming Auctions:

Security	Date of Auction	Value (Rs. Crs)
91 Day T-Bill	20-Jun-12	9,000
182 Day T-Bill	20-Jun-12	5,000

Debt Market Update contd…

Global Updates:

India:

- India's forex reserves fell by $1.5bn to $287bn in the week ended June 08.
- Government rules out raising the 49% FDI cap in the Indian aviation sector.
- NSE to cut the Securities Transaction Tax on delivery-based transactions to 0.1%, with effect from July 1.
- India's exports declined by 4.16% to $25.68 bn in May while imports dropped by a sharper pace of 7.36% to $41.9 bn.
- Finance Minister exudes confidence that inflation will remain between 6.5-7.5% throughout the fiscal year 2012-13.
- India and Brazil set a bilateral trade target of $15 bn by 2015.
- Government's corporate tax collection for the April-May period stood at Rs.24329 cr, against Rs.25035 cr in the year-ago period.

Asia:

- Bank of Japan left its benchmark interest rate unchanged in a range 0-0.1%.
- Japan's industrial output fell by 0.2% (revised) in April as compared with initial reading of 0.2% rise and following 1.3% increase in March.
- Japan's core machinery orders rose 5.7% in April from the previous month.
- China's export growth rose 15.3% in May compared to last year, up from April's 4.9%, while imports climbed 12.1% year on year compared with the previous month's increase of 0.3%, resulting in a global trade surplus of $18.7bn, compared with $18.42bn in April.
- China's consumer prices rose 3% in May, down from April's 3.4% rate.

Debt Market Update contd…

US:

- US Treasury International Capital (TIC) report shows that net long-term TIC flows have registered $25.6bn in April as compared with revised $36.0 bn in March.
- US industrial production fell by 0.1% in May following revised 1% gain in April; capacity utilization also declined, easing to 79.0% in May from 79.2% in the previous month.
- US current-account deficit widened to $137.3 bn in Q1 2012, 16% increase from a revised $118.7 bn in the prior quarter.
- US weekly jobless claims rose by 6,000 to a seasonally adjusted level of 386,000 as of week ended June 9.

UK:

- UK's Finance Minister announces plans for a 100bn pounds support programme for the British economy.
- UK industrial production fell 1% in April, following a 2.6% drop in March.

Euro Zone:

- Eurozone trade surplus fell to 5.2 bn euro in April from 7.5 bn euro in March.
- European Central Bank (ECB) in its monthly report said that downside risks to the economic outlook have increased.
- Egan-Jones Ratings lowers France's credit rating to BBB+ from A- and assigns a negative outlook on view that the new government's proposed policies could weaken the country's finances and that French banks could need help.
- Fitch cuts the credit ratings of 18 Spanish banks citing the potential of loans at some lenders to deteriorate.
- Moody's cuts ratings on two Cypriot banks to reflect the increased risk of a Greek exit from the euro area.
- Eurozone industrial production fell 0.8% month-to-month in April, after a 0.1% reduction in March.

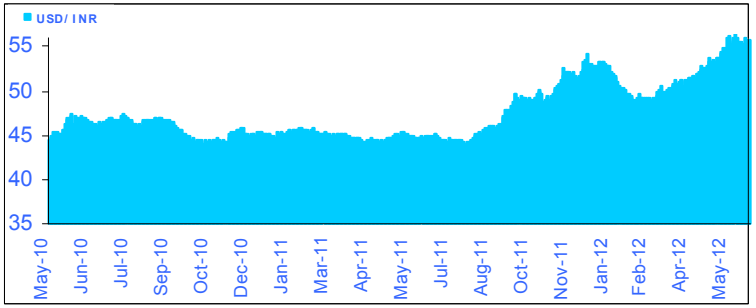
Debt Market Update contd...

Economic Calendar:

Date	Country	Event	Period	Frequency	Unit	Previous
21-06-2012	European MU	PMI Manufacturing Index Flash (level)	Jun, 2012	Monthly		45
21-06-2012	European MU	PMI Services Index Flash (Level)	Jun, 2012	Monthly		46.5
18-06-2012	India	Mid-Quarter Review of Monetary Policy	2012-13			
18-06-2012	India	CPI Inflation - Rural (YoY Chg)	May	Monthly	pct	9.67
18-06-2012	India	CPI Inflation - Urban (YoY Chg)	May	Monthly	pct	11.1
18-06-2012	India	CPI Inflation - Combined (YoY Chg)	May	Monthly	pct	10.26
20-06-2012	India	Reserve Money (change on wk)	Wk to Jun 15	Weekly	pct	2.46
20-06-2012	India	CPI - Agricultural Labourers(YoY Chg)	May	Monthly	pct	7.84
20-06-2012	India	CPI - Rural Labourers (YoY Chg)	May	Monthly	pct	8.01
22-06-2012	India	WMA (ways and means advance) - to central govt	Wk to Jun 15	Weekly	Rs bln	
22-06-2012	India	WMA (ways and means advance) - to state govts	Wk to Jun 15	Weekly	Rs bln	2.13
22-06-2012	India	FX reserve (change on wk)	Wk to Jun 15	Weekly	$ bln	1.52
25-06-2012	India	IIP Core (YoY Chg)	May	Monthly	pct	
20-06-2012	Japan	BoJ MPB Minutes	Jan, 2012	Monthly		
20-06-2012	Japan	Merchandise Trade	May, 2012	Monthly		
20-06-2012	Japan	All Industry Index	Apr, 2012	Monthly		
19-06-2012	UK	CPI	May, 2012	Monthly		
20-06-2012	UK	BoE MPC Minutes	Jun, 2012	Monthly		
20-06-2012	UK	Labour Market Report	May, 2012	Monthly		
21-06-2012	UK	Retail Sales	May, 2012	Monthly		
21-06-2012	UK	CBI Industrial Trends Survey (Level)	Jun, 2012	Monthly		-17
18-06-2012	US	Housing Market Index (Housing Market Index)	Jun, 2012	Monthly		29
19-06-2012	US	ICSC-Goldman Store Sales	wk6/16, 2012	Weekly		
19-06-2012	US	Redbook	wk6/16, 2012	Weekly		
20-06-2012	US	MBA Purchase Applications	wk6/15, 2012	Weekly		
20-06-2012	US	EIA Petroleum Status Report	wk6/15, 2012	Weekly		
20-06-2012	US	FOMC Meeting Announcement	May, 2012	Monthly	Percent	
21-06-2012	US	Jobless Claims	wk6/16, 2012	Weekly		
21-06-2012	US	Bloomberg Consumer Comfort Index	Jun, 2012	Monthly		
21-06-2012	US	FHFA House Price Index (M/M change)	Apr, 2012	Monthly	Percent	1.8
21-06-2012	US	Philadelphia Fed Survey	Jun, 2012	Monthly		-5.8
21-06-2012	US	Leading Indicators	May, 2012	Monthly		
21-06-2012	US	FHFA House Price Index (Y/Y change)	Apr, 2012	Yearly	Percent	2.7
21-06-2012	US	EIA Natural Gas Report	wk6/15, 2012	Weekly		
22-06-2012	US	Money Supply	wk6/11, 2012	Weekly		
22-06-2012	US	Fed Balance Sheet	wk6/20, 2012	Weekly		
25-06-2012	US	Chicago Fed National Activity Index (Level)	May, 2012	Monthly		0.11
25-06-2012	US	Chicago Fed National Activity Index	May, 2012	Monthly		
25-06-2012	US	New Home Sales (New Home Sales - Level - SAAR)	May, 2012	Monthly	K	343

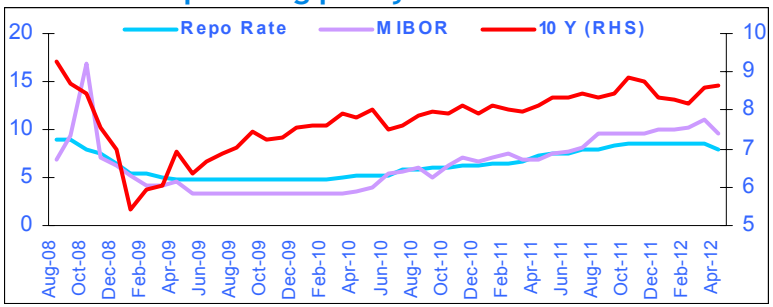
Debt Market Update contd…

US Dollar Vs Indian Rupee



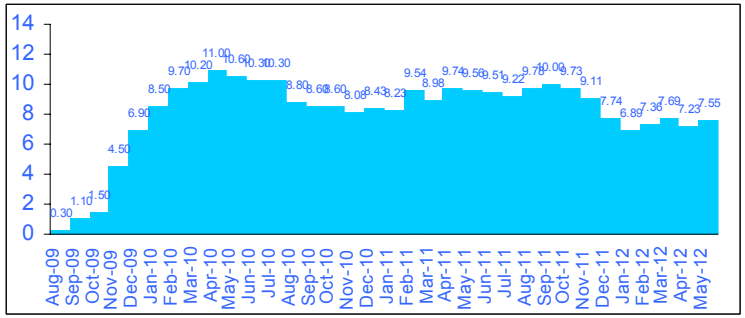
The USD/INR appreciated 0.7% this week. The Rupee fell, tracking higher domestic stocks and a rally in global risk assets. Poor IIP data, high inflation and low expectations of a rate cut by the RBI led to a poor Rupee.

Relationship among policy rates and benchmarks



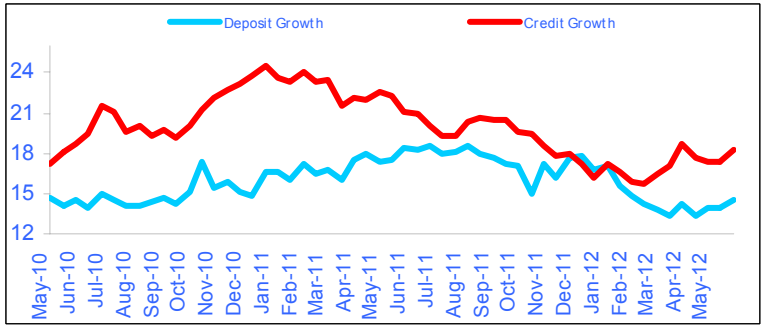
The current core inflation level of 5% coupled with a slow industrial growth may continue to provide comfort for the RBI to reduce interest rates further.

WPI Inflation (YoY)



The WPI Inflation came in at 7.55% levels for the month of May 2012 against 7.23% in April 2012. Inflation at 7.55% is still above RBI's comfort zone though markets are talking about core inflation, which is below 5% levels.

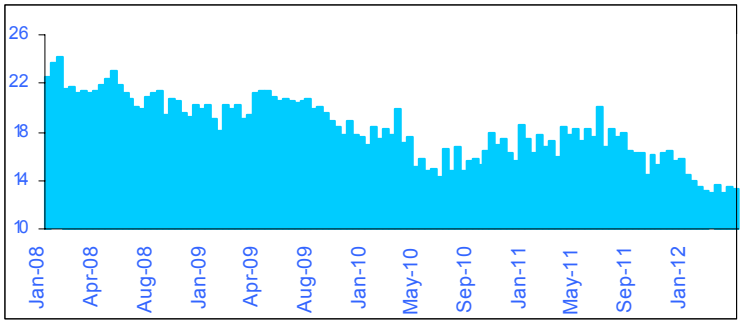
Deposit vs. Advance Growth (YoY)%



After trending around 15-16% level for the last five months, non-food credit grew at 17.6% y-o-y in the fortnight ended June 1, taking the outstanding credit to Rs.46,00,142 crore, Reserve Bank of India (RBI) data showed. The deposit growth has been pegged at 16%. With likelihood of further rate cuts, credit growth is likely to pick up going forward.

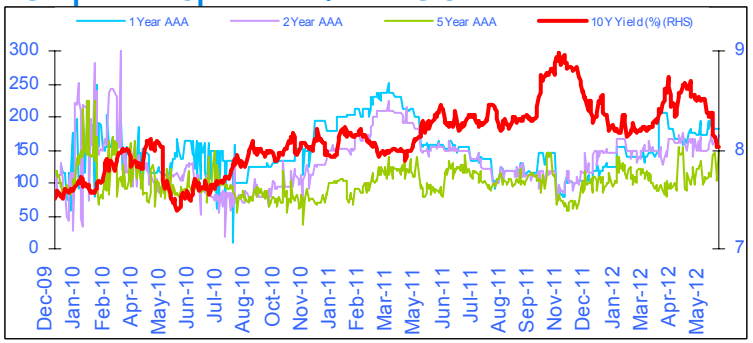
Debt Market Update contd…

Money Stock (M3) (YoY) (%)



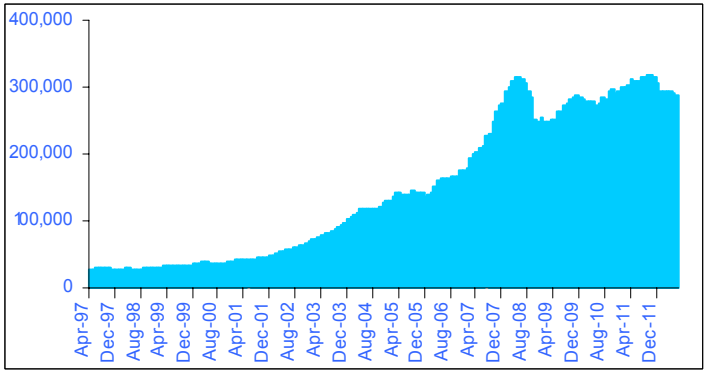
India's M3 money supply rose an annual 13.7 percent as on June 1, compared with a 13.3 percent rise two weeks ago and a 17.3 percent growth a year earlier. Money supply was 76,284.2 billion rupees as of June 1 compared with 75,568.3 billion rupees on May 18, the central bank said.

Corporate Spread vs. 10Y G Sec Yield



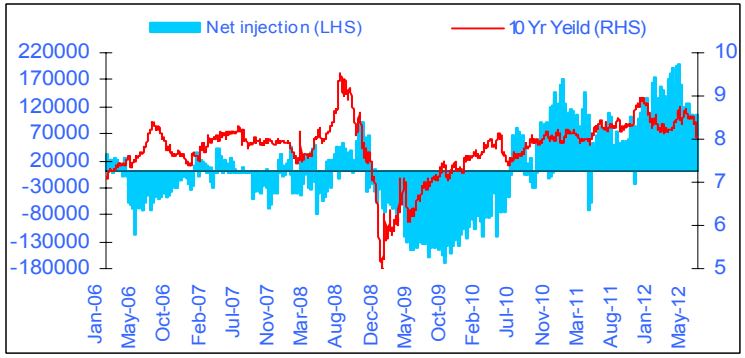
The impact of liquidity crisis is visible on short term rates as it increased on both in gilt as well as corporate bonds. The spread between AAA corporate bond and gilt narrowed across maturities. The narrowing corporate spreads will benefit long duration funds.

Foreign Exchange Reserves (mn of USD)



India's forex reserves fell by $1.5bn to $287bn in the week ended June 08.

Net injection through LAF window (Crs. Rs)



OMO purchase the RBI has boosted market sentiment last week. The central bank has bought over Rs 67,000 crores of governments bonds in this FY helping infuse liquidity into the system. Liquidity is likely to ease further on the back of government spending and more bond purchases by the RBI

Debt Market Update contd…

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