Weekly Debt Report

June 25, 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 7.85% - 8.15% band for the week.

G Sec:

- The Indian bond markets witnessed the yields inching up for the week ended June 22, 2012. The G-Sec market opened the week on Monday on a cautious note ahead of the release of the mid quarter policy review by RBI. The market witnessed correction during the day as the RBI maintained status quo by leaving the rates unchanged. The yields of the gilt securities fell on Tuesday on the expectations of possible OMO auction for the week. The G-Sec market opened Wednesday on a positive note seeing previous day's announcement for OMO purchases for the week. However, the market witnessed range-bound activity during the day. G Sec prices rose on Thursday due to short-covering ahead of the RBI's purchase auction of bonds worth Rs 12,000 crore. Softening global commodity prices also improved the market sentiment. Gilt prices fell on Friday as participants trimmed positions after the government's Rs 15,000 crore weekly auction. However, fall in global crude oil prices kept the sentiment positive for bonds. Hence, the new 10 Yr benchmark, 'G Sec 8.15% GS 2022' bond yields closed up by 3 basis points at 8.08% (100.45) on Friday Vs. its close of 8.05% on the previous week.

Mid-quarter policy review:

- At its mid-quarter policy review, the RBI kept the policy rates unchanged leaving Repo rate at 8% and CRR at 4.75%. The bond market responded negatively for the RBI's stance as the participants were expecting at least 25bps cut in policy rate given the core inflation of below 5% and sharp deterioration in growth. The RBI said that it will continue with open market operations to infuse liquidity as and when required.

Debt Market Update contd…

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

Debt (%)	22-Jun	15-Jun	Change (bps)
Call Rate	8.25	8.00	25
CBLO	8.14	7.09	105
Repo	8.00	8.00	0
Reverse Repo	7.00	7.00	0
10 Year G sec	8.08	8.05	3
MIBOR	9.49	9.64	-15
LIBOR - UK	1.00	1.00	0
LIBOR - USA	0.47	0.47	0
LIBOR - Europe	0.60	0.60	0

OMO operation:

- The RBI bought back securities worth Rs 11,287 crore against the offered amount of Rs 22984 crore and notified amount of Rs 12000 crore. The result is as follows. 8.24% GS 2018 worth Rs 1869 crore, 8.79% GS 2021 worth Rs 5845 crore, 8.97% GS 2030 worth Rs 3403 crore and 8.28% GS 2032 worth Rs 171 crore.

T-Bill:

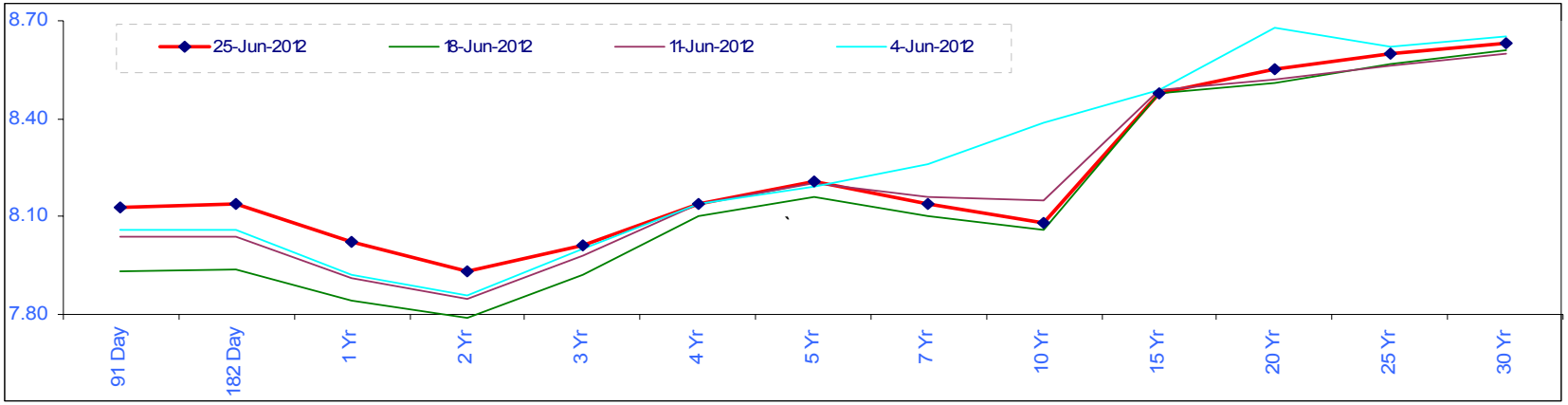
- The T-Bill auctions held on June 20 were fully subscribed. RBI set the cut-off price for the 91-Day T-Bill at 8.31% which was higher than the previous cut off of 8.14%. The 182-day T-bill auction saw cut-off come in at 7.31% which was higher than the previous cut off of 8.16%. The central bank announced 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 June 27.

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. 1.15 lakh crore for last week (Rs. 79,832 crore in previous week). The inter bank call rates hovered in the range of 8.25% levels. The CBLO rates were positioned at 8.14% level.

Debt Market Update contd…

Gilt Securities Yields Movements in last 4 weeks :



Currency:

- The USD/EUR appreciated 0.7% in the week ended 22nd June 2012. The USD/JPY appreciated 2.2% in the week. The USD/INR appreciated 2.2% in the week.

Change in CD Rates:

Maturity	22-Jun	15-Jun
3 Months	9.20	9.10
6 Months	9.50	9.45
1 Year	9.64	9.53

Corporate Bonds :

- The 1 year AAA bond ended at 9.50% which was higher than the previous close of 9.40%. The 10-year bond traded at 9.34% which was higher than the previous close of 9.28%.

Debt Market Update contd…

Change in CP Rates:

Maturity	22-Jun	15-Jun
3 Months	9.50	9.45
6 Months	9.75	9.80
1 Year	10.00	10.00

Commodity price Changes:

Commodity	22-Jun	15-Jun	Change (%)
NYMEX Crude Oil ($/bbl)	80.00	84.03	-4.80
Gold (oz/$)	1566.00	1628.10	-3.81
Silver (oz/$)	26.81	28.66	-6.45

Gold & Crude oil:

- Crude prices fell marginally 4.80% to USD 80 per barrel for the week ended June 22, 2012.
- International Gold prices fell 3.80% to USD 1,566 per ounce for the week.

Forthcoming Auctions:

Security	Date of Auction	Value (Rs. Crs)
91 Day T-Bill	27-Jun-12	10,000
364 Day T-Bill	27-Jun-12	5,000

Debt Market Update contd…

Global Updates:

India:

- India's forex reserves rose by $2.01 bn to $289.40 bn as of week ended June 15.
- CMIE says the continuing depreciation of the rupee is expected to fuel inflation and push the headline number to 7.3% for FY13.
- Government says that volatility in forex could be curbed if the RBI's move to make state-owned oil marketing companies buy half of their dollar needs from a single public-sector bank is implemented.
- RBI says banks must report forex derivative deals on CCIL platform.
- CRISIL Research says that India's economic growth rate could slip to 5.8% in the FY13 if the ongoing crisis in Greece and Spain deepens.
- SEBI plans to talk to fund managers of mutual fund schemes that have been underperforming their respective benchmarks for a long time.
- SEBI says that mutual funds can come out with pension schemes and it is in touch with finance ministry to sort out the taxation issues.

Asia:

- China HSBC PMI for the manufacturing sector fell to a seven-month low of 48.1 in June from 48.4 in May.
- Bank of Japan raises its assessment on exports and output but warns of risks to the economy from slowing Chinese growth and fallout from Europe's sovereign debt crisis.
- Russia to set aside up to $40bn for this year and next to protect the economy from contagion in the event the euro zone crisis deepens; also decides to contribute $10bn to the IMF as part of efforts to boost the fund's firepower.
- Brazil, Russia, India, China and South Africa (BRICS) bloc pledge to contribute $75 bn to the IMF's bailout fund for the debt-wracked Eurozone.

Debt Market Update contd…

US:

- US Leading Indicator (MoM) increase to 0.3% in May from -0.1% in April.
- US initial jobless claims fell by 2000 to 387000 as of week ended June 16.
- US existing-home sales decreased 1.5% (MoM) to a seasonally adjusted annual rate of 4.55 mn, following 3.4% rise in April.
- US housing starts dropped 4.8% to a seasonally adjusted annual rate of 708,000 units in May while new permits for building homes jumped 7.9% to a 780,000-unit pace in the month.
- US NAHB Housing Market Index rose to 29 in June from 28 in May.

UK:

- UK Retail Sales rose 2.4% (YoY) in May as compared with fall of 1.1% in April.
- UK consumer prices index (CPI) measure fell to 2.8% in May from 3% in April.
- British factory orders unexpectedly improved in June, indicating that Britain's economy may avoid a longer slump.

Euro Zone:

- Euro-zone composite PMI remain unchanged at 46 in June; manufacturing PMI declined to 44.8 in June, from 45.1 in May while services PMI ticked up to 46.8 in June from 46.7 in May.
- Euro-zone's current account surplus dropped to 4.6 bn euros in April from 10.3 bn euros the previous month.
- New Greek government plans to revise the terms of its bailout from the European Union and the IMF without jeopardizing membership of the euro zone.
- Leaders of Germany, France, Italy and Spain to push for a $163bn growth package.
- German business confidence index fell to 105.3, the lowest since March 2010, from 106.9 a month ago.

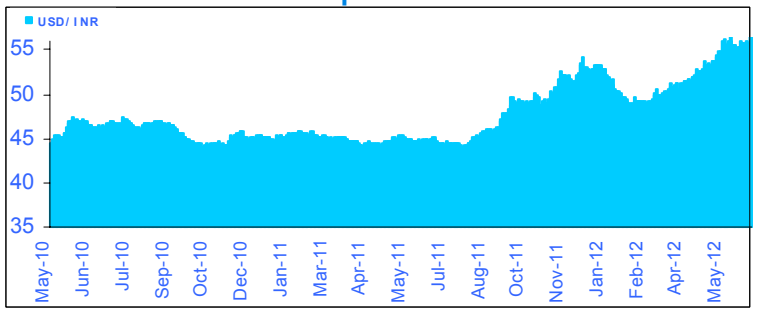
Debt Market Update contd…

Economic Calendar:

Date	Country	Event	Period	Frequency	Previous
2/7/2012	China	PMI Manufacturing Index (Level)	Jun, 2012	Monthly	48.4
28-06-2012	European MU	EC Economic Sentiment	Jun, 2012	Monthly	
29-06-2012	European MU	M3 Money Supply	May, 2012	Monthly	
29-06-2012	European MU	HICP Flash	Jun, 2012	Monthly	
2/7/2012	European MU	PMI Manufacturing Index	Jun, 2012	Monthly	
2/7/2012	European MU	Unemployment Rate	May, 2012	Monthly	
25-06-2012	India	IIP Core (YoY Chg)	May	Monthly	
27-06-2012	India	Reserve Money (change on wk)	Wk to Jun 22	Weekly	-0.32
27-06-2012	India	M3 (YoY Chg)	Wk to Jun 15	Fortnightly	13.68
29-06-2012	India	CPI-Industrial Workers	May	Monthly	10.22
29-06-2012	India	Government finances -fiscal deficit	May	Monthly	13.1
29-06-2012	India	BOP Current account balance	Jan-Mar	Quarterly	-19.6
29-06-2012	India	FX reserve (change on wk)	Wk to Jun 22	Weekly	2.02
29-06-2012	India	Bank Deposit (YoY Chg)	Wk to Jun 15	Fortnightly	14.4
29-06-2012	India	Bank Credit (YoY Chg)	Wk to Jun 15	Fortnightly	18.3
2/7/2012	India	Power generation	Jun	Monthly	78.95
2/7/2012	India	HSBC India manufacturing PMI	Jun	Monthly	54.8
28-06-2012	Japan	Retail Sales (Year over Year)	May, 2012	Yearly	5.8
29-06-2012	Japan	CPI	May, 2012	Monthly	
29-06-2012	Japan	Unemployment Rate	May, 2012	Monthly	
29-06-2012	Japan	Household Spending (Month over Month)	May, 2012	Monthly	
29-06-2012	Japan	CPI (CPI-Y/Y)	May, 2012	Yearly	0.4
29-06-2012	Japan	Industrial Production	May, 2012	Monthly	
2/7/2012	Japan	Tankan	Q2, 2012	Quarterly	
27-06-2012	UK	CBI Distributive Trades (Level)	Jun, 2012	Monthly	21
28-06-2012	UK	GDP	Q1, 2012	Quarterly	
2/7/2012	UK	CIPS/PMI Manufacturing Index	Jun, 2012	Monthly	
25-06-2012	US	Chicago Fed National Activity Index	May, 2012	Monthly	
26-06-2012	US	ICSC-Goldman Store Sales	wk6/23, 2012	Weekly	
26-06-2012	US	Redbook	wk6/23, 2012	Weekly	
26-06-2012	US	S&P Case-Shiller HPI	Apr, 2012	Monthly	
26-06-2012	US	S&P Case-Shiller HPI (20-city, NSA - M/M)	Apr, 2012	Monthly	
27-06-2012	US	MBA Purchase Applications	wk6/22, 2012	Weekly	
27-06-2012	US	Pending Home Sales Index	May, 2012	Monthly	
27-06-2012	US	EIA Petroleum Status Report	wk6/22, 2012	Weekly	
28-06-2012	US	Jobless Claims	wk6/23, 2012	Weekly	
28-06-2012	US	Bloomberg Consumer Comfort Index	Jun, 2012	Monthly	
28-06-2012	US	EIA Natural Gas Report	wk6/22, 2012	Weekly	
29-06-2012	US	Money Supply	wk6/18, 2012	Weekly	
29-06-2012	US	Fed Balance Sheet	wk6/27, 2012	Weekly	
29-06-2012	US	Personal Income and Outlays	May, 2012	Monthly	0.2

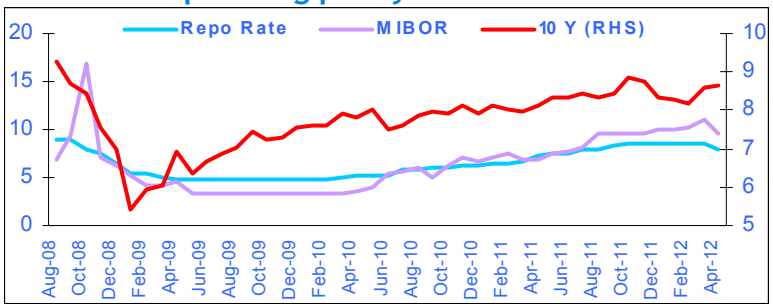
Debt Market Update contd…

US Dollar Vs Indian Rupee



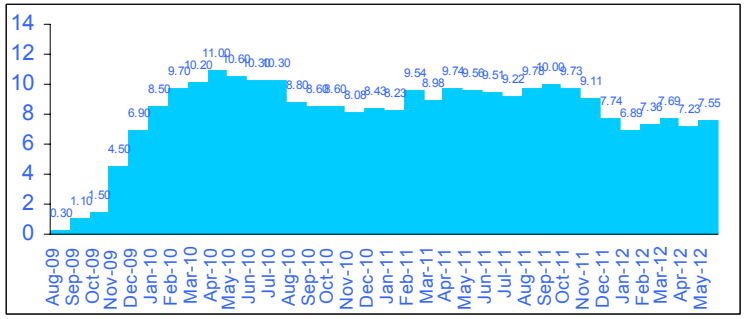
India's rupee plunged the most in nine months to a record low on concern slower economic growth will reduce capital inflows. The currency declined after global funds started withdrawing funds from the country. The USD/INR appreciated 2.2% in the week.

Relationship among policy rates and benchmarks



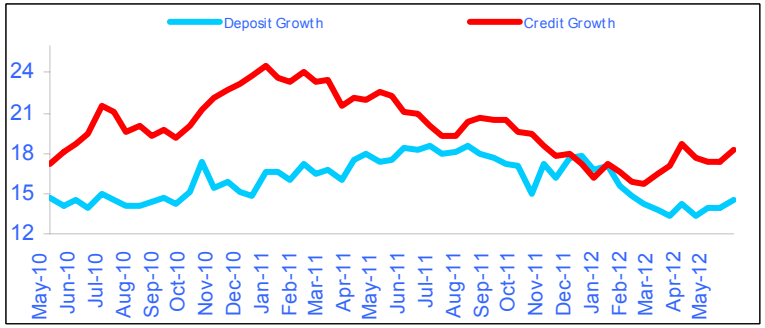
The current core inflation level of 5% coupled with slow industrial growth may continue to provide comfort for the RBI to reduce interest rates further.

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.

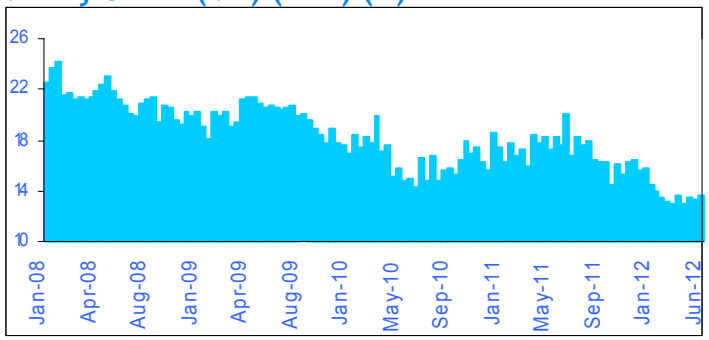
Deposit vs. Advance Growth (YoY)%



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.

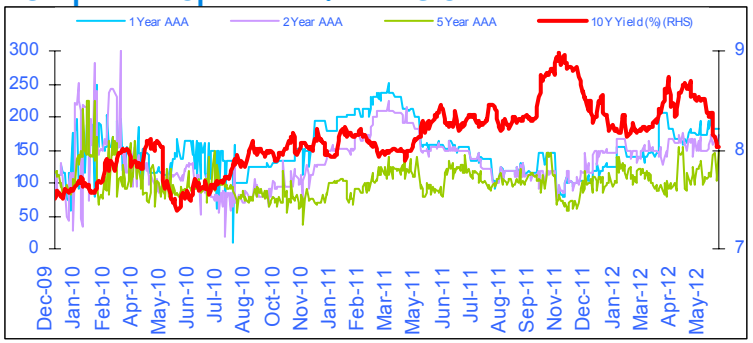
Debt Market Update contd...

Money Stock (M3) (YoY) (%)



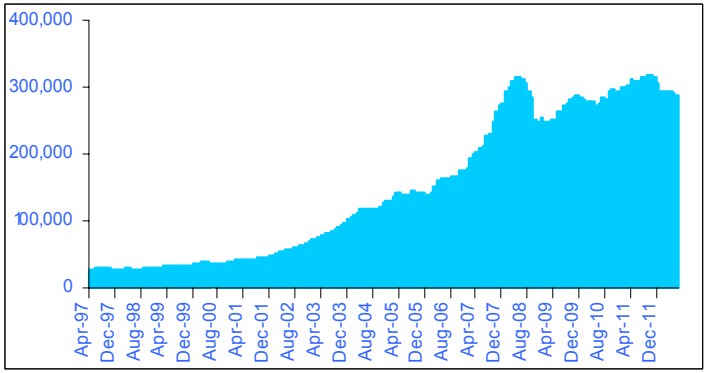
India's M3 money supply rose an annual 13.7 percent as on June 1, compared with a 13.3 percent rise two weeks ago and a 17.3 percent growth a year earlier. Money supply was 76,284.2 billion rupees as of June 1 compared with 75,568.3 billion rupees on May 18, the central bank said.

Corporate Spread vs. 10Y G Sec Yield



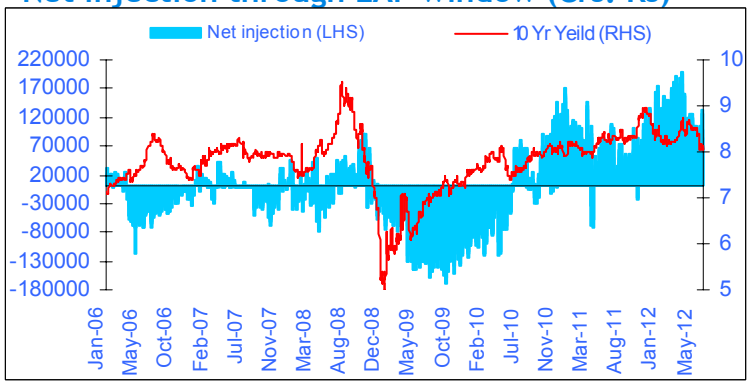
Government bond yields are likely to ease more in the July review as the possibility of policy rate cut by the Reserve Bank of India has increased. This could widen the spreads of corporate bond yields over G-Sec yields.

Foreign Exchange Reserves (mn of USD)



India's forex reserves rose by $2.01 bn to $289.40 bn as of week ended June 15.

Net injection through LAF window (Crs. Rs)



At its mid-quarter policy review, the RBI said that it will continue with open market operations to infuse liquidity as and when required. RBI held an Rs 12,000 crore OMO last week where it bought bonds worth Rs 11,300 crore. The total bond purchases by the RBI for fiscal 2012-13 is around Rs 78,000 crore.

Debt Market Update contd…

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