Weekly Debt Report

July 02, 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 8.00% - 8.25% band for the week.

G Sec:

- The Indian bond markets witnessed yields inching up for the week ended June 29, 2012. The G-Sec market opened the week on Monday on a firm note. But the prices of the gilts ended slightly lower despite the Government's announcement of an increased FII investment limit in government debt to USD 20 billion. The RBI hiked the FII investment limit for government securities by $5 bn to $20 bn but the additional investment has been allowed only in securities with a residual maturity of 3 years. The market traded on Tuesday on an apprehensive note seeing announcement of securities for auction scheduled for the week. The prices of the gilts ended lower on Wednesday due to subdued sentiment among participants as also absence of announcement for OMO Purchases for the week. The market witnessed range-bound activity on Thursday as there was no major triggers. However, absence of OMO announcement for the week weighed the market sentiments. G Sec market ended lower on Friday due to increased global risk appetite and bearish cut-offs which came at the weekly auction.
- Hence, the new 10 Yr benchmark, 'G Sec 8.15% GS 2022' bond yields closed up by 10 basis points at 8.18% (99.81) on Friday Vs. its close of 8.08% on the previous week.

Weekly Gilt Auction:

- The cut off yields in the weekly action came in as follows: 8.15% GS 2022 at Rs 99.85 (8.17%), 8.97% GS 2030 at Rs 103.75 (8.56%) and 8.33% GS 2036 at Rs 97.20 (8.61%). The auction worth Rs 15000 crore was fully subscribed.

Debt Market Update contd…

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

Debt (%)	29-Jun	22-Jun	Change (bps)
Call Rate	8.22	8.25	-3
CBLO	6.40	8.14	-174
Repo	8.00	8.00	0
Reverse Repo	7.00	7.00	0
10 Year G sec	8.18	8.08	10
MIBOR	8.41	9.49	-108
LIBOR - UK	1.00	1.00	0
LIBOR - USA	0.47	0.47	0
LIBOR - Europe	0.60	0.60	0

T-Bill:

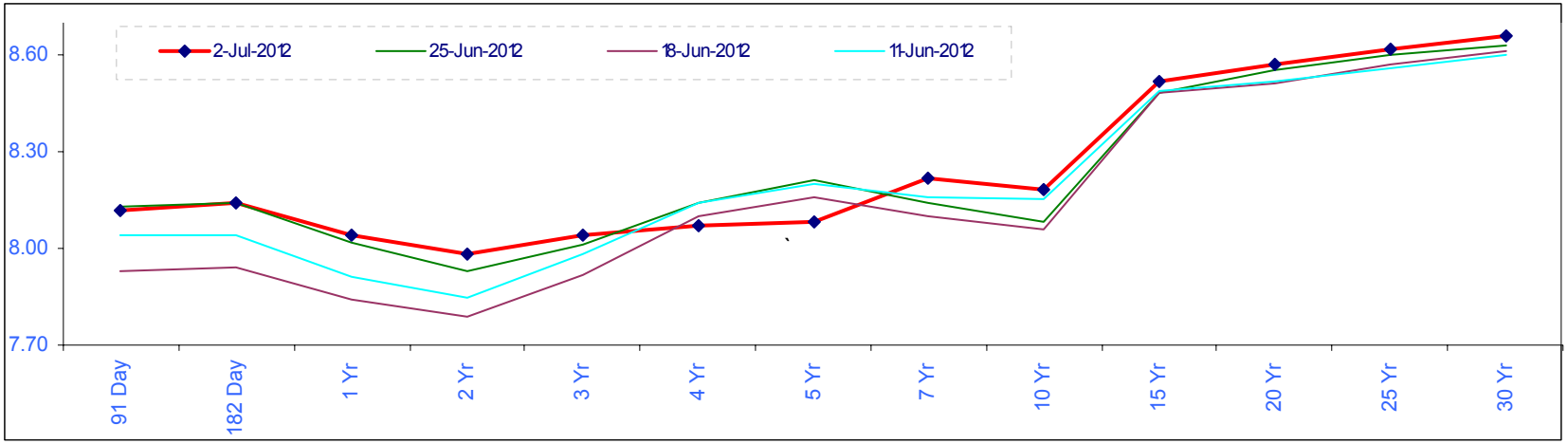
- The T-Bill auctions held on June 27 were fully subscribed. RBI set the cut-off price for the 91-Day T-Bill at 8.31% which was in line with the previous cut off. The 364-day T-bill auction saw cut-off come in at 8.12% which was higher than the previous cut off of 7.83%.
- The central bank announced the sale of 91 Day T-Bill for the amount of Rs. 7,000 crore and 182 Day T-Bill for Rs. 5,000 crore. The auction will be conducted on July 04.

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. 87,192 crore for last week (Rs. 1.15 Lakh crore in previous week).
- The inter bank call rates hovered in the range of 8.22% levels. The CBLO rates were positioned at 6.40% level.

Debt Market Update contd…

Gilt Securities Yields Movements in last 4 weeks :



Currency:

- The USD/Euro fell 0.6% in the week ended 29 June 2012. The USD/JPY fell 0.8% in the week. The USD/INR depreciated 1.2% in the week.

Change in CD Rates:

Maturity	29-Jun	22-Jun
3 Months	9.00	9.20
6 Months	9.35	9.50
1 Year	9.53	9.64

Corporate Bonds :

- The 1 year AAA bond ended at 9.40% which was lower than the previous close of 9.50%. The 10-year bond traded at 9.34% which was slightly lower than the previous close of 9.35%.

Debt Market Update contd…

Change in CP Rates:

Maturity	29-Jun	22-Jun
3 Months	9.25	9.50
6 Months	9.70	9.75
1 Year	10.00	10.00

Commodity price Changes:

Commodity	29-Jun	22-Jun	Change (%)
NYMEX Crude Oil ($/bbl)	84.96	80.00	6.20
Gold (oz/$)	1604.20	1566.00	2.44
Silver (oz/$)	27.08	26.81	1.01

Gold & Crude oil:

- Crude prices rose 6.20% to USD 84.96 per barrel for the week ended June 29, 2012.
- International Gold prices fell 2.44% to USD 1,604 per ounce for the week.

Forthcoming Auctions:

Security	Date of Auction	Value (Rs. Crs)
91 Day T-Bill	4-Jul-12	7,000
182 Day T-Bill	4-Jul-12	5,000

Debt Market Update contd…

Global Updates:

India:

- India's forex reserves fell by $768 mn to $289.63 bn as of week ended June 22.
- The RBI hiked the FII investment limit for government securities by $5 bn to $20 bn but the additional investment has been allowed only in securities with a residual maturity of 3 years.
- India fiscal deficit rose to Rs 1.42 lakh cr in April-May 2012 as compared with Rs 1.31 lakh cr in same period year ago.
- India's annual inflation rate based on CPI for Industrial Workers was 10.16% in May following 10.22% in April.
- RBI Deputy Governor says that the large foreign currency convertible bond redemptions of Indian companies lined up this year are not a "big issue" for the system as of now.
- RBI Deputy Governor says that the central bank will consider further reduction in policy rates only when there is a clear decline in inflation levels.
- RBI will release the first quarter review of its monetary policy for 2012-13 (Apr- Mar) on July 31.

Asia:

- China's purchasing managers' index fell to 50.2 in June, from 50.4 in May.
- Chinese Premier offers a $10bn credit line to Latin America for infrastructure projects.
- China's leading economic indicator increased 1.1% (MoM) in May following a 0.9% increase in April.
- Japan's core consumer prices fell 0.1% in May from a year earlier.
- Japan's tankan confidence index came in at -1 in June, better than the -4 result in March.
- Japan's Markit/JMMA Manufacturing Purchasing Managers Index fell to a seasonally adjusted 49.9 in June from 50.7 in May.

Debt Market Update contd…

US:

- US personal income increased by $25.4 bn or 0.2% in May and personal spending was unchanged from the prior month in May.
- University of Michigan consumer sentiment index fell to 73.2 in June from 79.3 in May.
- US consumer spending increased at a 2.5% rate in Q1 2012, rather than the previously reported 2.7% pace.
- US initial jobless claims fell by 6000 to 386000 for the week ended June 23.
- US durable goods orders increased 1.1% in May after a revised 0.2% decrease the prior month.
- US crude oil inventories fell 0.1mn barrels to 387.2mn barrels for the week ended June 22.

UK:

- Bank of England Governor urged UK banks to boost their cash buffers to ensure continuous lending.
- UK GDP Q1 2012 reading remained unrevised at 0.3% contraction which means the British economy has formally entered a technical recession after recording 0.3% contraction in Q3 2011.
- UK current account deficit surged to 11.18bn pounds in the first quarter from a revised 7.23bn pounds in the previous quarter.

Euro Zone:

- European leaders agree to make use of Eurozone's bailout funds to recapitalize the region's banks directly once an effective single supervisory mechanism is established; also approved a 120 bn euro package to boost growth in the region's most vulnerable economies.
- Eurozone annual inflation remained unchanged at 2.4% in June.
- Euro-zone economic confidence index fell to 89.9, the lowest in 32 month, from 90.5 in May.
- Egan-Jones credit ratings agency downgrades Germany by one notch from AA- to A+ and issues a negative watch for the country's sovereign debt amid Europe's lingering debt crisis.

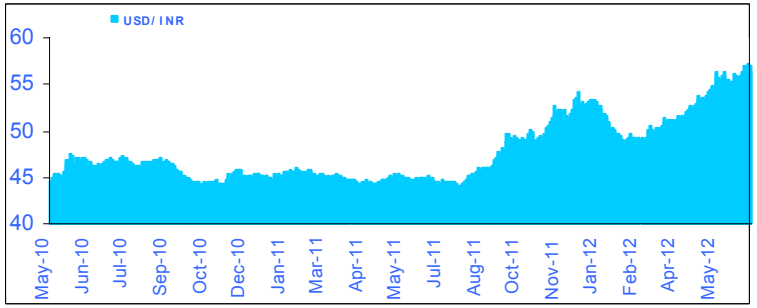
Debt Market Update contd…

Economic Calendar:

Date	Country	Event	Period	Frequency	Unit	Previous
2/7/2012	China	PMI Manufacturing Index (Level)	Jun, 2012	Monthly		48.4
9/7/2012	China	Merchandise Trade Balance (level)	Jun, 2012	Monthly	Billion	18.7
9/7/2012	China	Consumer Price Index (M/M % change)	Jun, 2012	Monthly	Percent	-0.3
9/7/2012	China	Producer Price Index (M/M % Change)	Jun, 2012	Monthly	Percent	-0.4
2/7/2012	European MU	PMI Manufacturing Index	Jun, 2012	Monthly		
2/7/2012	European MU	Unemployment Rate	May, 2012	Monthly		
3/7/2012	European MU	PPI (Year over Year)	May, 2012	Yearly	Percent	2.6
4/7/2012	European MU	PMI Services Index (Level)	Jun, 2012	Monthly		46.7
4/7/2012	European MU	Retail Sales	May, 2012	Monthly		
4/7/2012	European MU	GDP	Q4, 2012	Quarterly		
4/7/2012	European MU	Retail Sales (Year over Year)	May, 2012	Yearly	Percent	-2.5
5/7/2012	European MU	ECB Announcement (Change)	Jul, 2012	Monthly	bp	
2/7/2012	India	Foreign merchandise trade Exports (YoY Chg)	May	Monthly	pct	3.23
2/7/2012	India	Foreign merchandise trade Imports (YoY Chg)	May	Monthly	pct	3.83
2/7/2012	India	Power generation	Jun	Monthly	bln kwh	78.95
2/7/2012	India	HSBC India manufacturing PMI	Jun	Monthly		54.8
4/7/2012	India	Reserve Money (change on wk)	Wk to Jun 29	Weekly	pct	-0.06
4/7/2012	India	HSBC India composite PMI	Jun	Monthly		55.3
9/7/2012	India	Automobile sales data	Jun	Monthly	pct	10.52
9/7/2012	India	OECD composite leading indicator for India	May	Monthly		98
2/7/2012	Japan	Tankan	Q2, 2012	Quarterly		
2/7/2012	UK	CIPS/PMI Manufacturing Index	Jun, 2012	Monthly		
3/7/2012	UK	M4 Money Supply	May, 2012	Monthly		
4/7/2012	UK	CIPS/PMI Services Index	Jun, 2012	Monthly		
5/7/2012	UK	BOE Announcement (Change)	Jul, 2012	Monthly	bp	
5/7/2012	UK	BOE Announcement (Asset Purch Level Chg)	Jul, 2012	Monthly	Billion	
6/7/2012	UK	Producer Price Index	Jun, 2012	Monthly		
2/7/2012	US	ISM Mfg Index (ISM Mfg Index - Level)	Jun, 2012	Monthly		53.5
3/7/2012	US	Motor Vehicle Sales (Total Vehicle Sales)	Jun, 2012	Monthly	Million	13.8
3/7/2012	US	ICSC-Goldman Store Sales	wk6/30, 2012	Weekly		
3/7/2012	US	Redbook	wk6/30, 2012	Weekly		
3/7/2012	US	Factory Orders (Factory Orders - M/M change)	May, 2012	Monthly	Percent	-0.6
5/7/2012	US	Chain Store Sales	Jun, 2012	Monthly		
5/7/2012	US	MBA Purchase Applications	wk6/29, 2012	Weekly		
5/7/2012	US	Challenger Job-Cut Report (Announced Layoffs - Level)	Jun, 2012	Monthly		61887
5/7/2012	US	ADP Employment Report (ADP employment)	Jun, 2012	Monthly		133000
5/7/2012	US	Jobless Claims	wk6/30, 2012	Weekly		
5/7/2012	US	Bloomberg Consumer Comfort Index	Jul, 2012	Monthly		
5/7/2012	US	ISM Non-Mfg Index (Composite Index - Level)	Jun, 2012	Monthly		53.7
5/7/2012	US	EIA Natural Gas Report	wk6/29, 2012	Weekly		
5/7/2012	US	EIA Petroleum Status Report	wk6/29, 2012	Weekly		
6/7/2012	US	Money Supply	wk6/25, 2012	Weekly		
6/7/2012	US	Fed Balance Sheet	wk7/4, 2012	Weekly		
6/7/2012	US	Monster Employment Index	Jun, 2012	Monthly		

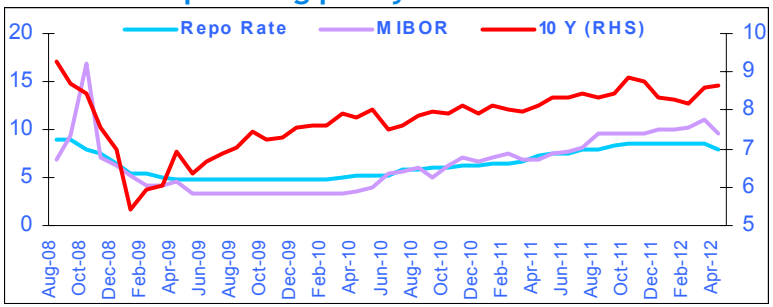
Debt Market Update contd…

US Dollar Vs Indian Rupee



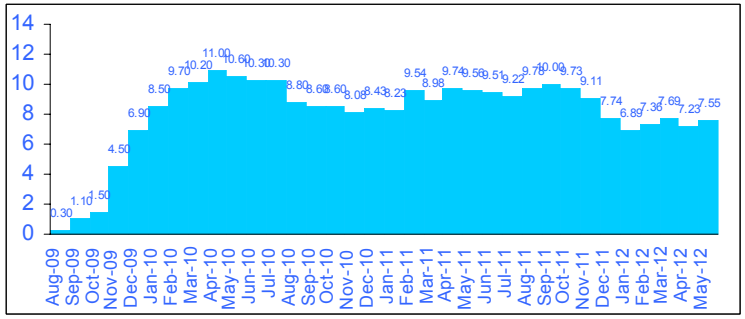
India's rupee plunged in the beginning of the week to a record low on concerns of slower economic growth and large outflows from FIIs. The Rupee crossed the 57 mark on a closing basis for the first time last week. However, India's rupee gained by the most in three years on Friday after Prime Minister Manmohan Singh said reviving investor confidence is one of his top priorities. The Euro meet outcome added to the domestic currency's strength. The USD/INR depreciated 1.2% in the week.

Relationship among policy rates and benchmarks



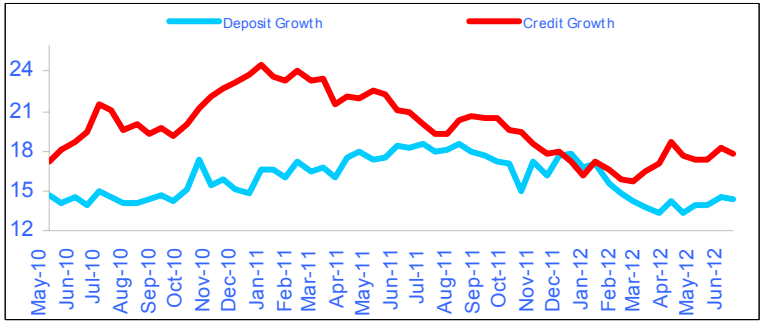
In its mid-quarter monetary policy review on June 17, the RBI left repo rate and CRR unchanged. The central bank believes that interest rates are only a small factor in the current economic downturn, and worries that supply bottlenecks and sticky inflation expectations are keeping up headline inflation.

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. The Reserve Bank of India said that the inflation risks will continue to remain elevated despite the slowdown in the India's economic growth.

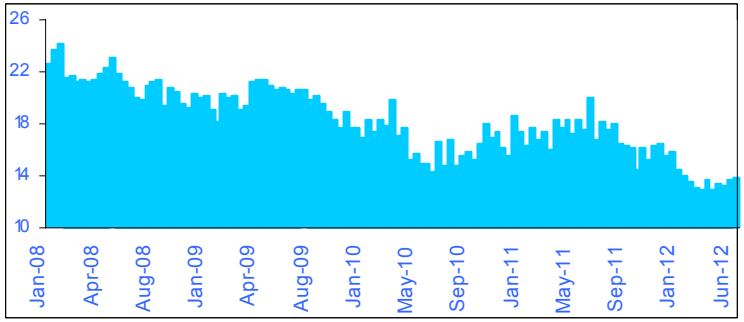
Deposit vs. Advance Growth (YoY)%



The RBI data shows that the non-food credit grew at 17.6% y-o-y, in the fortnight ended June 15, taking outstanding credit to Rs.46,09,121 crore. However, credit has actually fallen by Rs.16,000 crore since the beginning of the current financial year. The pick-up in credit is a positive surprise mainly due to demand for working capital. Deposit growth in the fortnight ended June 15 at 14.3% year-on-year, was largely unchanged compared with that in the previous fortnight.

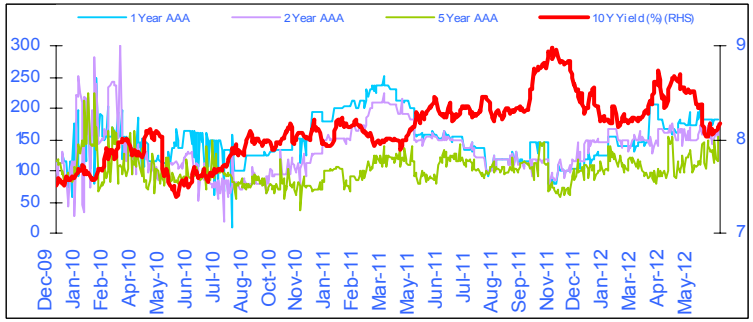
Debt Market Update contd…

Money Stock (M3) (YoY) (%)



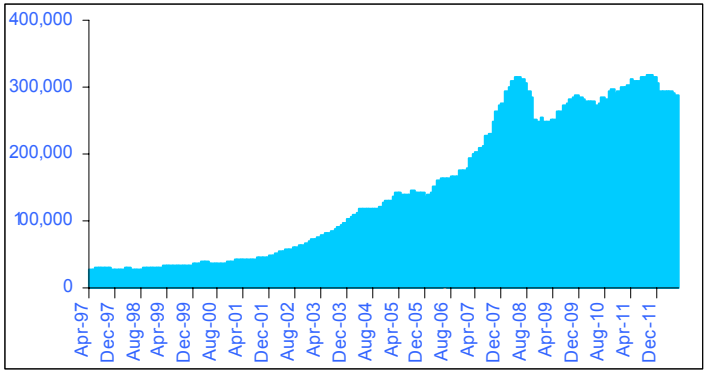
India's M3 money supply rose an annual 13.8 percent as on June 15, compared with a 13.7 percent rise two weeks ago and a 17.3 percent growth a year earlier. Money supply was 76,216.5 billion rupees ($1.3 trillion) as of June 15 compared with 76,284.2 billion rupees on May 18. The RBI said year-on-year reserve money growth was 7.2 percent in the week to June 22, compared with 15.4 percent a year ago.

Corporate Spread vs. 10Y G Sec Yield



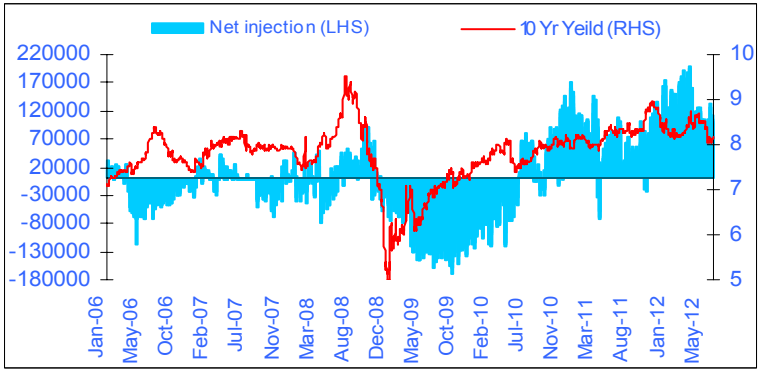
Government bond yields are likely to ease more as in the July monetary policy review there is a the possibility of policy rate cut by the Reserve Bank of India. This could widen the spreads of corporate bond yields over G-Sec yields.

Foreign Exchange Reserves (mn of USD)



India's forex reserves fell by $768 mn to $289.63 bn as of week ended June 22.

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. The total bond purchases by the RBI for fiscal 2012-13 is estimated to be around Rs 78,000 crore.

Debt Market Update contd…

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