Weekly Debt Report

August 06, 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 8.10% - 8.40% band for the week.

G Sec:

- The Indian bond markets witnessed yields rising for the week ended August 03, 2012. Indian G-Sec market opened the week on a cautious note as ahead of the RBI's monetary policy review scheduled on Tuesday.
- The prices of the gilt securities fell sharply on Tuesday due to the surprise move made by RBI on SLR cut of 1% while keeping the CRR and Repo rate unchanged.
- G Sec prices ended higher on Wednesday on value buying following the steep fall in prices in the previous session. However, an uncertainty over further repo rate cuts by the RBI in the near term capped gains on the day. The G-Sec market saw traded on a cautious note on Thursday ahead of the weekly auction that was scheduled on Friday. Yields of the gilts rose on Friday seeing slightly bearish cut-offs in the auction.
- Hence, the 10 Yr benchmark, 'G Sec 8.15% GS 2022' bond yields closed up by 14 basis points at 8.26% (99.28) on Friday Vs. its close of 8.12% on the previous week.

Weekly Gilt Auction:

- The auction cut off yields came as follows: 8.19% GS 2020 at 8.29%, 8.33% GS 2026 at 8.39%, 8.28% GS 2032 at 8.58% and 8.83% GS 2041 at 8.65%.

Debt Market Update contd…

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

Debt (%)	3-Aug	27-Jul	Change (bps)
Call Rate	8.05	8.00	5
CBLO	7.91	6.25	166
Repo	8.00	8.00	0
Reverse Repo	7.00	7.00	0
10 Year G sec	8.26	8.12	14
MIBOR	9.20	9.19	1
LIBOR - UK	0.75	0.76	-1
LIBOR - USA	0.44	0.44	0
LIBOR - Europe	0.29	0.30	-1

T-Bill:

- The T-Bill auctions held on Aug 01 were fully subscribed. RBI set the cut-off price for the 91-Day T-Bill at 8.23% which was higher than the previous cut off of 8.14%. The 182 day T-bill auction saw cut-off come in at 8.25% which was higher than the previous cut off of 8.12%.
- The central bank announced the sale of 91 Day T-Bill for the amount of Rs. 7,000 crore and 364 Day T-Bill for Rs. 5,000 crore. The auction will be conducted on Aug 08.

Call & CBLO:

- The liquidity in the system saw hardening in the initial days of the week gone. However, the average daily infusion for the week through LAF window stood at Rs. 39,087 crore. (Rs. 32,295 crore in previous week).
- The inter bank call rates hovered in the range of 8.05% levels. The CBLO rates were positioned at 7.91% level.

Debt Market Update contd…

First Quarter Review of Monetary Policy for 2012-13:

- In its First Quarter Review of Monetary Policy for 2012-13 held on July 31, the RBI kept the LAF Repo and Reverse Repo Rates unchanged at 8.0% and 7.0% respectively. Consequently, the LAF Reverse Repo rate and the rate on Marginal Standing Facility were kept at 7.0% and 9.0% respectively.
- The CRR too was kept unchanged at 4.75%.
- However, the RBI, in a surprise move, announced a 1% cut in the SLR. The SLR now stands reduced to 23%.
- The RBI also lowered the GDP growth projection for 2012-13 to 6.5%, while raising the projection on year-end WPI inflation to 7.0%.
- This RBI's stance is to contain inflation and anchor inflation expectations, support a sustainable growth path over the medium-term and continue to provide liquidity to facilitate credit availability to productive sectors.

AAA Corporate Bond Spread over Gsec:

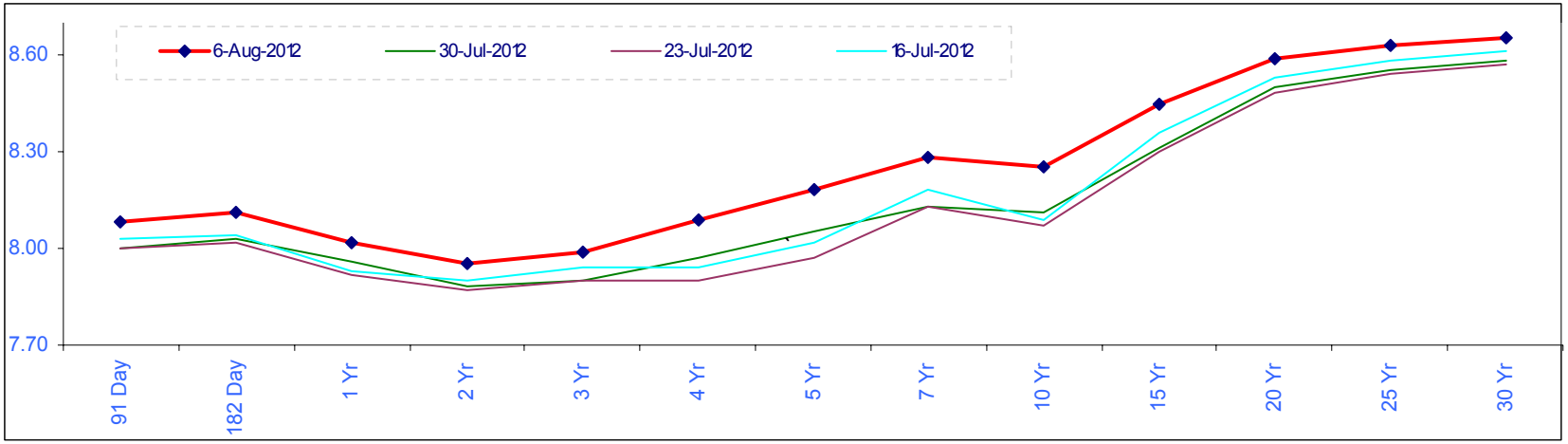
Security	3-Aug	27-Jul
1 Year	97	108
3 Year	106	116
5 Year	94	109
10 Year	85	99

Corporate Bonds:

- The 1 year AAA bond ended at 9.15% which was lower than the previous close of 9.20%.
- The 10-year bond traded at 9.28% which was slightly higher than the previous close of 9.27%.

Debt Market Update contd…

Gilt Securities Yields Movements in last 4 weeks :



Currency:

- The USD depreciated against the Euro by 0.57% for the week ended 03rd August 2012.
- The USD depreciated against the Japanese yen by 0.01% for the week.
- The US dollar appreciated against the rupee by 1.21%.

Change in CD Rates:

Maturity	3-Aug	27-Jul
3 Months	8.45	8.78
6 Months	8.65	9.02
1 Year	8.90	9.14

Debt Market Update contd...

Change in CP Rates:

Maturity	3-Aug	27-Jul
3 Months	8.72	9.22
6 Months	9.01	9.40
1 Year	9.07	9.80

Commodity price Changes:

Commodity	3-Aug	27-Jul	Change (%)
NYMEX Crude Oil ($/bbl)	91.40	90.13	1.41
Gold (oz/$)	1609.30	1618.00	-0.54
Silver (oz/$)	27.87	27.73	0.50

Gold & Crude oil:

- Crude prices rose 1.41% to USD 91.40 per barrel for the week ended August 03, 2012.
- International Gold prices fell 0.54% to USD 1,609.3 per ounce for the week.

Forthcoming Auctions:

Security	Date of Auction	Value (Rs. Crs)
91 Day T-Bill	8-Aug-12	7,000
364 Day T-Bill	8-Aug-12	5,000

Debt Market Update contd…

Global Updates:

India:

- India's forex reserves rose by $1.3 bn to $288.65 bn as of week ended July 27.
- Planning Commission says that deficient monsoon is likely to pull down the economic growth in the current fiscal to about 6%, from 6.5% a year ago.
- India's HSBC PMI for July stood at 54.2 in July, compared with 54.3 in June.
- NSE becomes the world's largest bourse in terms of the number of trades in equity segment for the first six months of 2012; a total of 7,35,474 trades took place in the equity segment of NSE during January-June 2012.
- MCX Stock Exchange says it has received approvals from SEBI and RBI to launch currency options.
- India's infrastructure sector output grew 3.6% in June from a year earlier, slower than an upwardly revised annual growth of 4.0% in the previous month.
- RBI says that demand pressures are likely to re-emerge in the Indian economy if growth picks up even marginally.
- India's Chief Economic Adviser says that India's GDP growth in the first two quarters of the current financial year started March would remain below 6%.

Asia:

- China's official non-manufacturing PMI fell to 55.6 in July from 56.7 in June.
- China's HSBC manufacturing PMI posts a 49.3 reading in July from a revised 48.2 in June.
- China's official purchasing managers' index fell to an eight-month low of 50.1 in July from 50.2 in June.
- China allows more international investors to buy bonds on its debt market and purchase high yielding notes for the first time.
- Japan's seasonally adjusted unemployment rate fell to 4.3% in June from 4.4% in May.

Debt Market Update contd…

US:

- US unemployment rate rose to 8.3% for July while non-farm payrolls increased by 163,000 jobs in the month.
- US ISM non-manufacturing index crept up to 52.6 in July from 52.1 in June.
- US Fed Reserve describes the economy as having slowed down somewhat, compared with the previous month's assessment when it said the economy had been expanding moderately.
- US ADP employment report shows that the pace of job creation by US private employers slowed modestly in July to 163,000 as compared with June's 172,000 jobs.
- US ISM Manufacturing PMI rises to 49.8 in July from 49.7 in June.
- US construction spending rose 0.4% in June following an upwardly revised 1.6% gain in May.
- US jobless claims rose by 8,000 to 365,000 as of week ended July 28.

UK:

- UK services PMI fell to 19 months low level at 51.0 in July from 51.3 in June.
- UK manufacturing PMI drop to 45.4 from a downwardly revised 48.4 in June pointed to another contraction.
- Bank of England held interest rates at 0.5% and left quantitative easing at 375bn pounds.

Euro Zone:

- European Central Bank agrees to increase the upper limit for the amount of Greek short-term loans the Bank of Greece can accept in exchange for emergency loans.
- Eurozone retail sales rose marginally by 0.1% in June, following a 0.8% gain in May.
- Eurozone manufacturing PMI fell to 44.0, the lowest reading since June 2009, from June's 45.1.
- European Central Bank (ECB) kept its refinance rate unchanged at 0.75% and marginal lending facility rate unchanged at 1.25%.

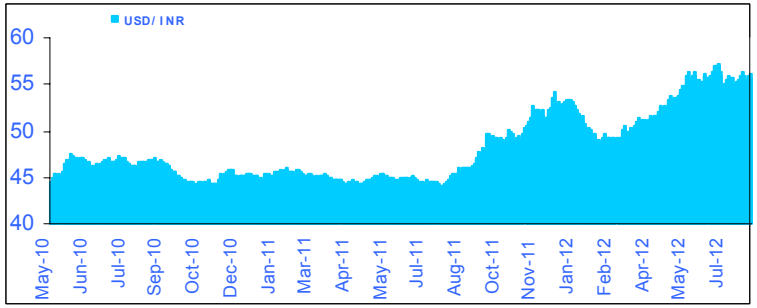
Debt Market Update contd…

Economic Calendar:

Date	Country	Event	Period	Frequency	Unit	Previous
8/8/2012	China	Retail Sales (M/M % Change)	Jul, 2012	Monthly	Percent	1.08
9/8/2012	China	Merchandise Trade Balance (level)	Jul, 2012	Monthly	Billion	31.73
10/8/2012	China	Industrial Production (Yr/Yr % change)	Jul, 2012	Yearly	Percent	9.5
3/8/2012	India	Foreign tourist arrivals (YoY Chg)	Jul	Monthly	pct	4.8
6/8/2012	India	Automobile sales data (y/y chg)	Jul	Monthly	pct	9.3
8/8/2012	India	Reserve Money (change on wk)	Wk to Aug 3	Weekly	pct	-2.2
8/8/2012	India	M3 (YoY Chg)	Wk to Jul 27	Fortnightly	pct	14.29
9/8/2012	India	IIP (YoY Chg)	Jun	Monthly	pct	2.4
9/8/2012	India	OECD composite leading indicator for India	Jun	Monthly		97.8
10/8/2012	India	FX reserve (change on wk)	Wk to Aug 3	Weekly	$ bln	1.31
10/8/2012	India	Bank Deposit (YoY Chg)	Wk to Jul 27	Fortnightly	pct	14.7
10/8/2012	India	Bank Credit (YoY Chg)	Wk to Jul 27	Fortnightly	pct	17.7
14-08-2012	India	WPI Inflation (YoY Chg) New Series (Base 2004-05)	Jul	Monthly	pct	7.25
8/8/2012	Japan	Bank of Japan Announcement	Aug, 2012	Monthly		
9/8/2012	Japan	Machine Orders	Jun, 2012	Monthly		
10/8/2012	Japan	CGPI (PPI)	Jul, 2012	Monthly		
13-08-2012	Japan	GDP	Q2, 2012	Quarterly		
7/8/2012	UK	Industrial Production	Jun, 2012	Monthly		
7/8/2012	UK	Industrial Production (IP-M/M)	Jun, 2012	Monthly	Percent	1
8/8/2012	UK	BoE Inflation Report	Q3, 2012	Quarterly		
9/8/2012	UK	Merchandise Trade	Jun, 2012	Monthly		
10/8/2012	UK	Producer Price Index	Jul, 2012	Monthly		
7/8/2012	US	ICSC-Goldman Store Sales	wk8/4, 2012	Weekly		
7/8/2012	US	Redbook	wk8/4, 2012	Weekly		
8/8/2012	US	Consumer Credit (Consumer Credit - M/M change)	Jun, 2012	Monthly	Billion	17.1
8/8/2012	US	MBA Purchase Applications	wk8/3, 2012	Weekly		
8/8/2012	US	Productivity and Costs		Quarterly	Percent	1.3
8/8/2012	US	EIA Petroleum Status Report	wk8/3, 2012	Weekly		
9/8/2012	US	Jobless Claims	wk8/4, 2012	Weekly		
9/8/2012	US	International Trade (Trade Balance Level)	Jun, 2012	Monthly	Billion	-48.7
9/8/2012	US	Bloomberg Consumer Comfort Index	Aug, 2012	Monthly		
9/8/2012	US	Wholesale Trade (Inventories - M/M change)	Jun, 2012	Monthly	Percent	0.3
9/8/2012	US	EIA Natural Gas Report	wk8/3, 2012	Weekly		
10/8/2012	US	Money Supply	wk7/30, 2012	Weekly		
10/8/2012	US	Fed Balance Sheet	wk8/8, 2012	Weekly		
10/8/2012	US	Treasury Budget (Treasury Budget - Level)	Jul, 2012	Monthly	Billion	-59.7

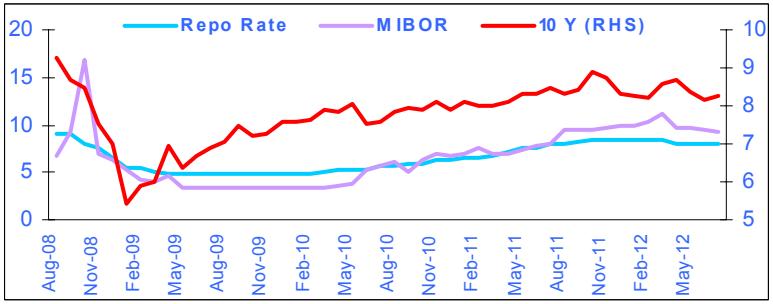
Debt Market Update contd…

US Dollar Vs Indian Rupee



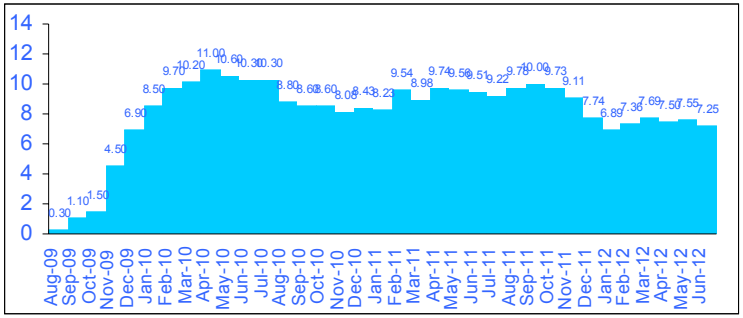
The US dollar appreciated against the rupee by 1.21% for the week ended 03rd August 2012. The rupee fell the most in more than a week after US policy-makers refrained from announcing more steps to spur growth, damping demand for riskier assets. The Indian rupee also weakened as dollar demand from oil companies to meet month-end import commitments far outweighed foreign fund inflows seen into domestic stock markets.

Relationship among policy rates and benchmarks



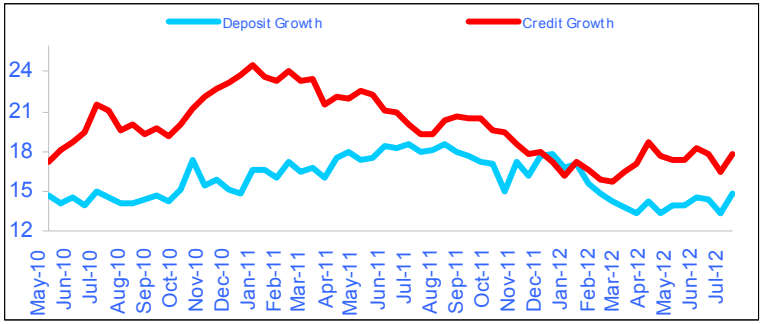
The RBI kept the LAF Repo and Reverse Repo Rates unchanged at 8.0% and 7.0% respectively in the IQ Monetary Policy Meet and cut 1% in the SLR to 23%. The cut in the SLR reflected into the G Sec market where the Government bond yields rose across the curve last week.

WPI Inflation (YoY)



WPI inflation for the month of June came in at a lower-than-expected 7.25% Vs. 7.55% recorded in May. This softening of inflation trend provides an improved environment for RBI to look at monetary easing on July 31. However, a disappointing start to monsoon and double-digit retail inflation could come in the way of any steep policy rate cuts by the central bank.

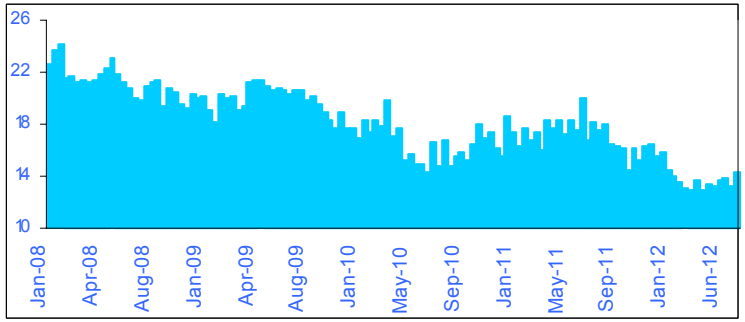
Deposit vs. Advance Growth (YoY)%



Credit growth has been steady around 17% y-o-y as on July 13, 2012, the RBI Data said. The bankers are pointing out that some of it is because dollar credit has become expensive and scarce. Deposits of banks continued to grow at a pace slower than loans. Deposits grew by 14.74% y-o-y. Most banks are looking to reduce their bulk deposits and increase the ratio of their current account and savings account to lower their cost of funds and boost margins.

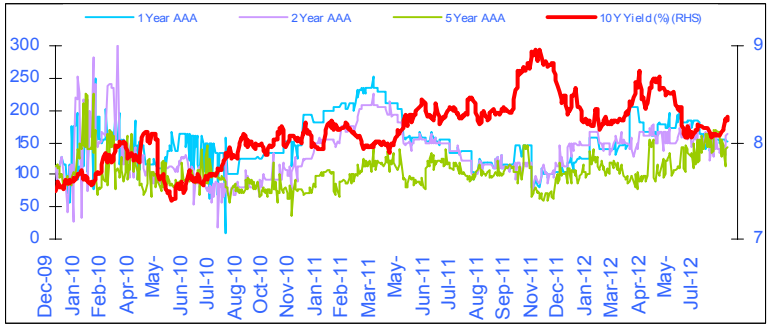
Debt Market Update contd…

Money Stock (M3) (YoY) (%)



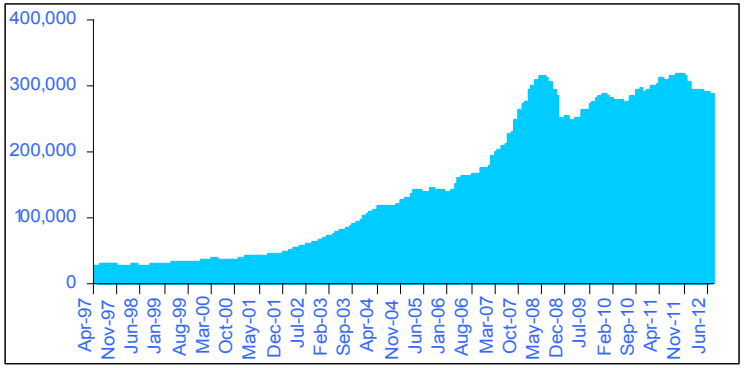
India's M3 money supply rose an annual 14.3% as on July 13, compared with a 16.9% growth a year earlier, the Reserve Bank of India said. Money supply was at 77,301.2 billion rupees ($1.4 trillion) as of July 13, compared with 77,255.6 billion rupees on June 29, the central bank said. Currency in circulation grew 13.1% year-on-year in the week to July 20, compared with 15.1% a year ago.

Corporate Spread vs. 10Y G Sec Yield



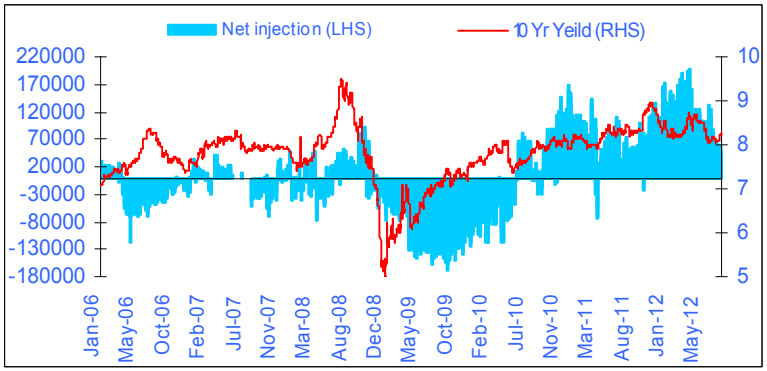
Yields of the G Secs are likely to harden going forward on the back of less demand for gilts due to reduction in the SLR. This may increase the risk of credit spread widening in the long duration bonds. Hence, funds with low duration debt instruments could perform better in the near term.

Foreign Exchange Reserves (mn of USD)



India's forex reserves rose by $1.3 bn to $288.65 bn as of week ended July 27.

Net injection through LAF window (Crs. Rs)



The liquidity in the system witnessed easing in the last three weeks given the less demand from the bank side due to government spending and OMO purchases. Liquidity is expected to be kept under the RBIs comfort zone in the month of August due to unlikelihood of any major issues.

Debt Market Update contd…

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