

May 2014



DEBT Market Review

currency banking credit recession broke investment economy
banking growth credit bond money poverty money poverty
credit mortgage business debt money Shares banking
economy recession broke bankruptcy loss
res currency health financial market Credit bankruptcy
ss poverty wealth business financial bond market Credit
money

News/Announcements

Domestic news

- India's annual headline inflation, measured by the wholesale price index, hit a three month high in March' 14 at 5.7%, higher than the 4.7% increase recorded in February driven by higher prices of food, fuel and manufactured goods. Year-on-year food prices rose to 9.9% in March' 14 from 8.1% in February' 14; prices of manufactured goods rose to 3.2% from 2.7%; and cost of fuel and power climbed 11.2%. Also, the reading for January' 14 WPI was revised upwards to 5.2% from 5.1% earlier.
- India's annual consumer price inflation inched up from 8.03% in February' 14 to 8.31% in March' 14, as food prices accelerated to 9.1% from 8.57% compared to the previous month.
- India's industrial production continued to slide in February' 14, falling to a nine month low. IIP for the month contracted by 1.9% against 0.8% in the previous month. This is attributed to a sharp decline in manufacturing segment by 3.7% against 0.7% in production in the previous month.
- Gross bank credit registered a higher growth in FY 14 at 14% compared with 13.6% in FY 13 mainly due to steady growth in the services (16.1%), personal loans (15.5%) and agricultural sector (13.5%).

Global news

- The U.S. Federal Reserve continued with its winding of stimulus program for the fourth straight meeting. The Fed cut another \$10 billion from its monthly bond-buying program to \$45 billion.
- The IMF approved a \$17 billion emergency aid package to Ukraine with an immediate disbursement of \$3.2 billion to help pay the nation its looming debt obligations.
- U.S GDP inched up 0.1% in Q1 2014, after the 2.6% increase in Q4 2013. The increase was led by consumer spending which surged up 3.0% in Q1, after registering 3.3% in Q4.
- U.S. Manufacturing PMI stood at 55.4 in April' 14, down fractionally from 55.5 in March' 14. Sharper rates of output and new business growth boosted the index, while a rise in the suppliers' delivery time component contributed negatively.
- U.S. industrial production increased by 0.7% in March' 14 after surging by an upwardly revised 1.2% in February' 14 (0.6% earlier) partly driven by 1.5% jump in mining output, which followed a 0.9% increase in February' 14.

In the Sovereign Ratings Domain

Standard & Poor's slashed Russia's sovereign credit rating by one notch to 'BBB-', the lowest investment-grade level, and warned further downgrades are possible if wide sanctions were imposed as a result of the Ukraine crisis and capital flight was not curtailed.

Fitch Ratings upgraded the outlook on Portugal's credit rating to 'positive' from 'negative', citing the good progress the country has made in reducing the budget deficit. The ratings were affirmed at 'BB+'.

S&P downgraded the rating outlook on Finland to 'negative' from 'stable' on subpar growth prospects and affirmed 'AAA' rating.

Money Markets

Given the restrictions (limit of 0.25% of NDTL), the borrowings through LAF have declined sharply moving down from the range of Rs.30,000 crore – Rs.40,000 crore in March' 14 to Rs.17,000 crore – Rs.22,000 crore in the April' 14. On the other hand, RBI continues to focus on borrowings through the term repo window which allows banks to bid rates

at which they will borrow. During the month, a 3-day (Rs.20,000 crore), 13-day (Rs.60,000 crore) and 15-day (Rs.61,000 crore) term repo auctions were conducted at variable rates.

Exhibit 1: provides an illustration of dynamics of money markets in the month of April' 14

Exhibit 1: LAF and MIBOR



Source: RBI

Average call rate recorded an increase of 118bps while MIBOR registered an increase of 17bps during the month when compared with March' 14. The base rate settled at 10.20% from a stable 10.19% in the past three months.



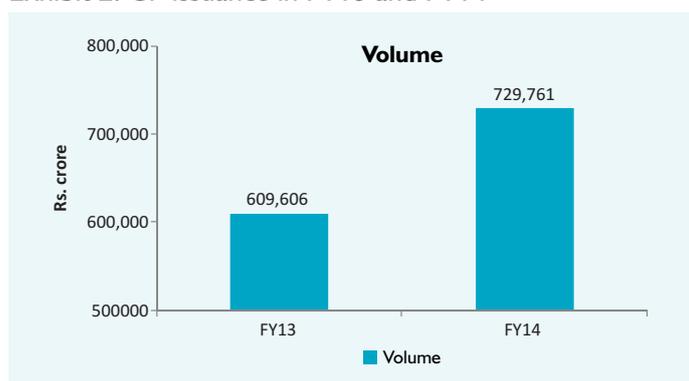
Table 1: Movement of interest rates

(%)	30-Apr-14	28-Mar-14	28-Feb-14	1 Yr ago
MIBOR	8.70	8.53	8.08	7.62
Average Call Rate	8.77	7.59	7.83	8.50
Base Rate	10.20	10.19	10.19	10.09

Source: RBI, FIMMDA

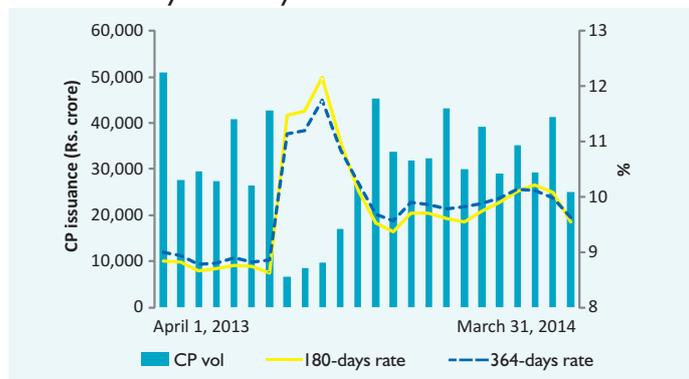
Commercial paper issued by companies amounted to Rs.729,761 crore during the period FY14 as against Rs.609,606 crore during FY13, registering a significant increase of 19.7% over the previous year (FY13).

Exhibit 2: CP issuance in FY13 and FY14



Source: RBI

Exhibit 3: Issuance of Commercial Paper (fortnightly) and secondary market yields



Source: RBI

In the secondary market, CP rates witnessed a decline, with yields on the 180-days tenor settling at 9.55% and 360-days tenor at 9.63% as on 31st March'14. The corresponding rates a year ago stood at 9.38% and 9.35% respectively. As on 30th April'14, yields on 180-days and 364-days tenor reversed registering a marginal increase of 2bps (9.58%) and 3bps (9.66%) respectively compared to the yields in the previous month.

T-Bills Market

An aggregate of Rs.75,000 crore of T-bills were raised in the month of April'14 as per the auction calendar. Yields on the 91-day T-bills moved 8bps downwards between the first and third

auction of the month and settled at 8.86%. Yields on 182-day T-bills settled at 8.90% from 8.97%, 7bps lower than the first auction of the month while those of 364-day T-bills settled at 8.92%, 10bps lower from the first auction.

As per the T-bills auction calendar for HIFY15, Rs.60,000 crore of T-bills are scheduled to be auctioned in May'14 (Rs.36,000 crore of 91-days, Rs.12,000 crore of 180-days and Rs.12,000 crore of 364-days T-bills).

G-Secs Market

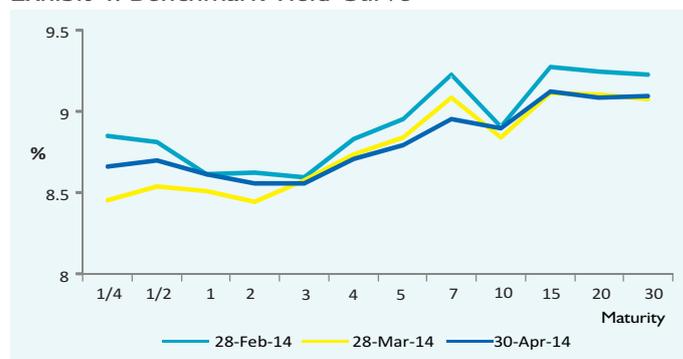
Primary G-Sec Market (Domestic)

In accordance with the auction calendar for G-Secs for HIFY15, Gsec auctions of Rs.68,000 crore were conducted during the month of April'14. Further, as per the G-sec calendar for dated securities, Rs.84,000 crore worth G-secs are scheduled to be auctioned in the month of May'14.

Eighteen auctions of State Development Loans (10-year securities) were conducted during the month of April'14, aggregating to Rs.13,801 crore while accepted aggregate amount stood at Rs.14,301 crore. Government yields averaged 9.49% across states, 7bps lower than that recorded in the previous month. Kerala and Tamil Nadu SDL (auctioned on 22nd April'14) for an amount of Rs.1,000 crore each attained the lowest yield at 9.37%, while Uttar Pradesh (Rs.1,000 cr) SDL auctioned on 9th April'14 recorded the highest yield of 9.66%.

Primary G-Sec Market (Domestic)

Exhibit 4: Benchmark Yield Curve



Source: FIMMDA

Exhibit 4 gives the yield curves at the end of the last three months for paper with different maturities. The benchmark yields across various maturities as on 30th April'14 ended mixed compared to yields on 28th March'14. The short term maturity papers – 3-month and 6-month recorded the sharpest increase of 21bps and 17bps respectively. While the long term paper with maturity of 7-years witnessed the sharpest decline of 13bps.

The NSE G-Sec Total Return Index settled higher at 355.48 as on 30th April'14 when compared with 352.70 as on 28th March'14, indicating higher returns to the investors in the secondary market.



Sovereign Bond Yields in the Global Context

Table 2: Yields on different tenure bonds (%)

Country	Apr-2014		Mar-2014		1-Year Ago	
	3 months	10-years	3 months	10-years	3 months	10-years
USA	0.22	2.65	0.23	2.70	0.28	1.78
Japan	0.14	0.62	0.14	0.63	0.16	0.60
China	5.50	4.16 ^{\$\$}	5.50	4.15 ^{\$\$}	3.88	3.16
Euro zone	0.35	1.47	0.32	1.57	0.20	1.27
India	8.89	8.83	8.88	8.79	7.51	7.70
Brazil	10.90	12.40	10.80	12.80	7.57	9.25
Russia	9.46	9.53	8.81	8.94	7.35	6.71
Greece	0.35	6.25	0.32	6.86	0.20	9.61

Source: Economist, May 3, 2014
 \$\$- 5-year yield

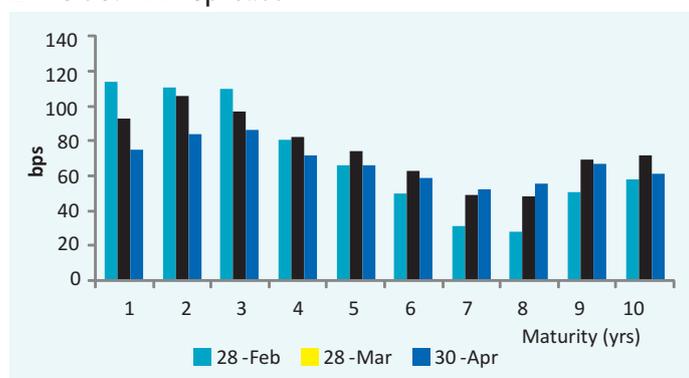
Yields on the short-term instruments across countries such as Brazil and Russia inched up by 10bps and 65bps respectively while short term yield for Japan and China remained stable.

Yields on long-term instruments for Greece (-61bps), Brazil (-40bps), Euro Zone (-10bps), USA (-5bps) and Japan (-1bp) declined during the month. However, yields in case of countries such as Russia (59bps) and India (4bps) witnessed an upward trend.

Corporate Debt Market

Corporate Bonds

Exhibit 5: AAA Spreads



Source: FIMMDA

Corporate bond spreads over G-secs across various maturities settled lower in the month of April'14 barring 7-year and 8-year long term maturity papers. The sharpest decline of 22bps in the spread was recorded in the short term maturity paper of 2-years followed by 1-year (-18bps), 3-year(-11bps) and 4-year (-10bps) maturity papers. The highest increase of 8bps between spreads in March'14 and April'14 was recorded in the long term paper with the maturity of 7-years (8bps) followed by 6-year (3bps) paper.

Latest data on trade in corporate bonds suggests that Rs.75,040 crore of corporate bond trades were settled in the month of April'14 through 4,842 transactions, registering a decline of 23% in corporate bond trades when compared with March'14.

Corporate Bonds- Confidence Index

The Barron's Confidence Index settled marginally higher at 71.9 as on 28th April'14 when compared with 71.3 as on 30th March'14 indicating rising investor confidence. (This index is a ratio of the average yield-to-maturity of the best grade bonds list compared to the average yield-to-maturity of the

intermediate grade bond list. The ratio is higher and the bond yield spread narrower as the confidence index rises when investors are confident about the market).

FII and Mutual Funds in Debt Markets

Investments by FIIs into Indian markets plunged during the month of April'14. The debt segment witnessed net outflow of \$1,519 million against a net inflow of \$1,878 million in the previous month. FIIs withdrew their money from the debt segment, as bond yields started falling from the second week of the month. Besides, the commencement of polling for general elections also played a part in the decline of FII investments.

Mutual funds also indicated lack of interest towards investment in Indian Debt market. The debt investments almost halved to Rs.50,101 million during the month from Rs.102,570 in March'14.

Table 3: Net Investments in the Debt Market

	Apr-2014	Mar-2014
FIIs (US \$ mn)	-1,519	1,878
Mutual Funds (Rs.crore)	50,101	102,570

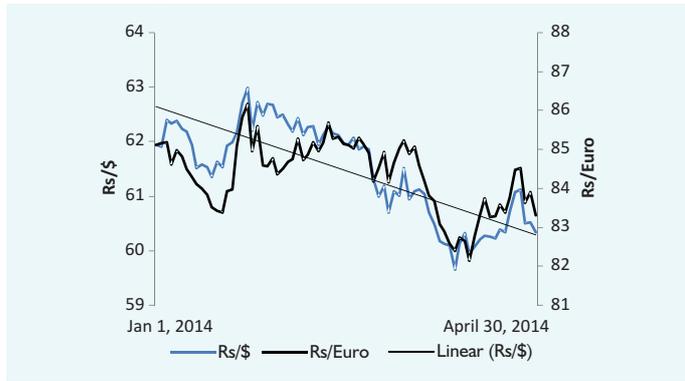
Source: SEBI

Currency Rates

Rupee fell for four consecutive weeks ever since it hit an eight month high of Rs.59.60/\$ in early April'14. The rupee settled at Rs.60.34 to a dollar at the end of the month from Rs.59.65 a dollar at the beginning of the month depreciating by 1.16%. Rupee also weakened against the Euro by 1.11% to settle at Rs.83.31 from Rs.82.39 per Euro.



Exhibit 6: Rupee movement



Source: FIMMDA

Table 4: Currency Rates

	Current Year	1-Year Ago	
	30-Apr-14	28-Mar-14	30-Apr-13
Rupee/Dollar	60.34	60.10	54.22
Rupee/Euro	83.31	82.58	70.97

Source: RBI

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