

## Debt Market Review: October 2015

### News/Announcements

#### Domestic news

- Retail inflation for October'15 came in at 5%, an increase from last month's level of 4.4%. Food inflation also witnessed significant rise to 4.5% from 3.88% in September'15, owing to a second consecutive year of deficit monsoon and surge in pulse prices.
- Index of Industrial production (IIP) was recorded at 3.6% for the month of September'15 significantly lower than previous month's level of 6.3%. While pick-up in manufacturing segment, consumer goods and capital goods pushed up growth rates. The decline in electricity and mining segment had a negative impact on the overall index.
- Headline inflation has decelerated for the 7th consecutive month in FY16 registering a contraction of 3.81% during October'15 against a positive 1.66% recorded in October'14. The continuous decline in the overall prices at the wholesale level has been mainly on account of falling prices of primary articles, fuel and power and manufacturing products.
- Core industry index rose 3.2% in September'15 compared with 2.6% growth in the previous month. Five out of eight industries (coal, natural gas, refinery products, fertilizers and electricity) showed positive growth.

#### Global news

- US Manufacturing PMI at 53.1 index points for September'15 is marginally above the 53.0 recorded in August. September's reading indicates that business conditions are easing in the United States.
- China's currency reserves fell \$ 43.3 billion in September to \$3.51 trillion as more funds left the country, the fifth consecutive monthly drop but a less sharp one than the record \$93.9 billion plunge the previous month that came after the central bank first devalued the yuan in a mid-August surprise and then saw itself forced to step up selling of dollar assets, particularly U.S. Treasury, to prevent a free fall in the currency.

- Activity in the euro zone’s manufacturing and services sectors slowed moderately in September’15 ,its composite purchasing managers index—a measure of activity in the manufacturing and services sectors—fell to 53.9 in September’15 from 54.3 in August’15.
- Sharp contraction is seen in the economy of Japan as data released showed that the world’s third - largest economy contracted by 0.8% in third quarter of 2015 following a decline of 0.7 % in the previous quarter. The slowdown in the economy was led by falling capital expenditures despite expected increase of 0.5% in private sector consumption.
- In its quarterly Statement, the Reserve Bank of Australia shifted its GDP growth forecast for 2015/16 to 2.25% from a band of 2 to 3%. It also nudged down the GDP growth at the end of the forecast period in 2017 from a 2.5 to 4% band to 2.75 to 3.75%. The longer-term downgrade is largely due to a delay in the expected contribution by LNG exports. The RBA also cut its inflation forecast for next year from 2.5% to 2% for most of next year.

### In the Sovereign Ratings Domain

- S&P cut the sovereign rating for Saudi Arabia one level to A+, the fifth-highest classification, as the deficit for the country is expected to increase to 16% of gross domestic product this year. The nation’s credit outlook is negative as the decline in oil prices makes it difficult to reverse the fiscal deterioration.
- Capital Intelligence (CI), the international credit rating agency, affirmed Lebanon’s Long-Term Foreign and Local Currency Sovereign Ratings of ‘B’ and its Short-Term Foreign and Local Currency Sovereign Ratings of ‘B’. CI has revised the Outlook for Lebanon’s Ratings to ‘Negative’ from ‘Stable’.
- Moody’s upgraded the long-term ratings of Côte d’Ivoire to Ba3 from B1. The short-term issuer rating of NP was affirmed. The outlook on the long-term ratings has changed to stable from positive.
- The sovereign ratings given by ARC Ratings as of date are given in table 1 below.

**Table 1: Sovereign Ratings by ARC Ratings**

Country	ARC Ratings*	
	Foreign Currency	Local Currency
Portugal	BBB- (Stable)	BBB- (Stable)
Spain	BBB+ (Stable)	BBB+ (Stable)
Mauritius	BBB+ (Stable)	A (Stable)
India	BBB+ (Stable)	A- (Stable)
Malaysia	A (Negative)	A+ (Negative)
Italy	BBB (Stable)	BBB (Stable)

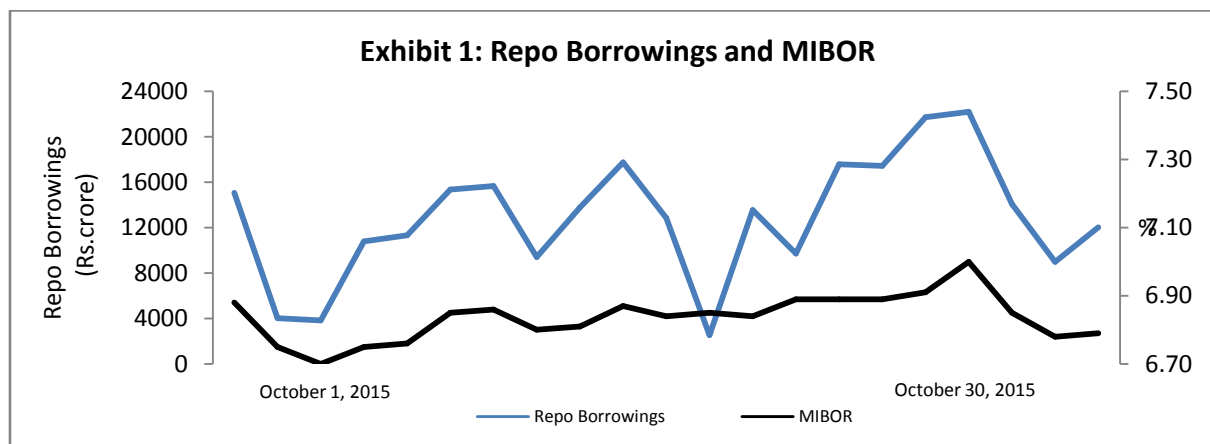
Source: ARC Ratings

\*CARE Ratings is one of the four partners

### Money Markets

Liquidity in the domestic market for the month of October was relatively easy. A total of 9 repo auctions were conducted amounting to Rs.180,000 cr by the RBI under the Liquidity Adjustment Facility. To maintain a smooth flow of liquidity, RBI also conducted 13 reverse repo auctions for varied tenures (overnight, 2day, 3-day,4-day, 5-day, 6-day) for a total amount of Rs.315,000cr.

Exhibit 1 given below depicts the dynamics of the domestic money market during the month of October'15.



Source: RBI

**MIBOR rate** was relatively stable in October'15 as it recorded fluctuation of 30bps around the average rate to 6.84%. The MIBOR was below the average rate in the first week of October after which it showed steady upwards movement to touch a high of 7% on 27<sup>th</sup> October'15 falling thereafter. The rate closed at 6.79% October-end slightly lower than the monthly average.

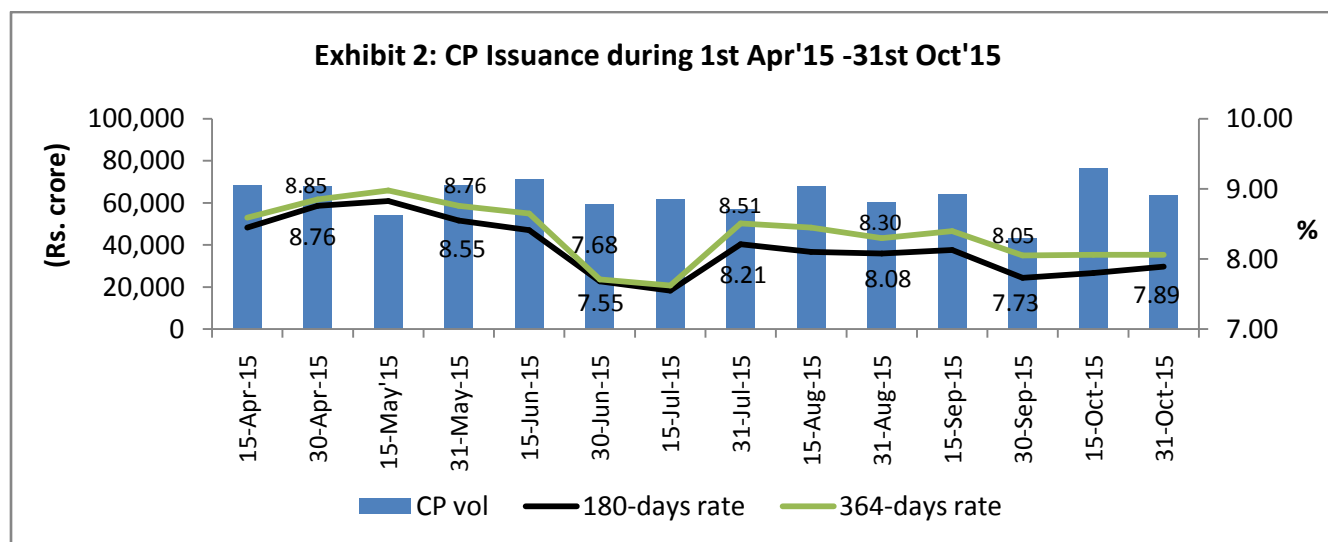
**The call rate** was between 6.26%-7.02% last month. The average call rate in October'15 was 45 bps lower than September'15 average of 7.13%. The call rate reached its highest level of 7.02% in the last week of the month, before closing significantly lower at 6.53% on 30<sup>th</sup> October'15.

**Table 2: Movement of interest rates**

(%)	31-Oct-2015	30-Sept-2015	31-Aug- 2015	1 Yr ago
<b>MIBOR</b>	6.79	7.04	7.18	8.51
<b>Average Call Rate</b>	6.53	6.86	7.13	7.90
<b>Base Rate</b>	9.50	9.70	9.85	10.19

Source: RBI, FIMMDA

Corporates issued a total of Rs. 1.40 lakh Cr. of commercial paper during the month of October'15. The total CP issuance volume for the period of 1<sup>st</sup> April '15 – 30<sup>th</sup> October'15 stood at Rs. 8.82lk cr. which is 38% higher than the amount issued during the corresponding period of the previous fiscal year.



Source: RBI

### T-Bills Market

In accordance with the calendar for T-bills auction, a total of Rs. 56,000 Cr. was raised through T-bills in October'15. Table 3 below records the details of Treasury bills auctions for various tenures held during the month of October'2015.

- The total amount auctioned during October'15 through T-bill was lower than previous month's auction of Rs.70, 000cr.
- The average yield for 91-days T-bills was significantly lower by 28bps compared to last month (7.36%).
- The average yield for 180-days T-bills was lower for October'15 vis-à-vis September'15 by 34bps (September'15 was 7.48%).
- Average yield for 364-days T-bills fell by 33bps to 7.17% in October'15 compared to the 7.50% in September'15.

**Table 3: Treasury bills auctions held during October 2015**

Tenor	No. of Auctions	Amount	Average Yield
91-days	4	32,000	7.08
182-days	2	12,000	7.14
364-days	2	12,000	7.17
<b>Total</b>	<b>8</b>	<b>56,000</b>	<b>7.12</b>

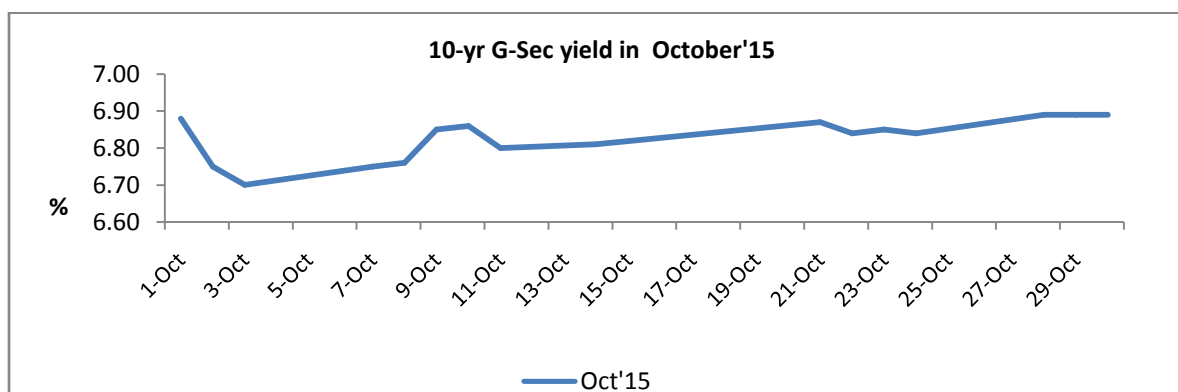
Source: RBI

### G-Secs Market

#### A) Primary G-Sec Market (Domestic)

G-sec auctions aggregating Rs. 75,000 Cr. were held during the month of October '15, significantly higher than Rs. 42,000 Cr. auctioned during the month of September '15. Yields for these G-sec auctions were in the range of 7.54% to 7.86%. The average yield fell significantly by 21 bps to 7.72% from the previous month's average of 7.93%.

Exhibit 3 captures the movement in the 10-yr G-Sec yield in October '15.



Source: FIMMDA

Table 4 below provides the State development loans auctions for October '15. Twenty-two auctions of SDL (10 yr securities) was conducted during October '15 amounting to Rs.24,087cr , with the same amount accepted for the month.

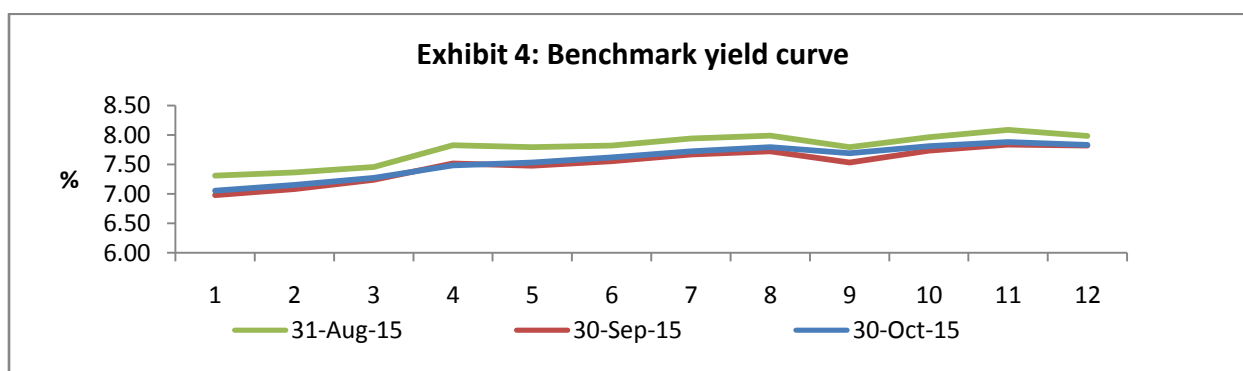
Table 4: State Development Loans (10-year) for October 2015

State	Amount Notified	Yield	Amount Accepted
Andhra Pradesh	1,500	7.97	1,500
Bihar	1,500	7.97	1,500
Gujarat	1000	7.95	1000
Himachal Pradesh	500	7.95	500
Jharkhand	500	7.98	500
Karnataka	3000	7.97	3000
Kerala	1,500	7.98	1,500
Maharashtra	3,000	7.97	3,000
Meghalaya	60	7.96	60
Puducherry	125	7.95	125
Punjab	1,500	7.98	1,500
Rajasthan	1750	7.96	1750
Tamil Nadu	2700	7.97	2700
Telangana	1,202	7.97	1,202
Uttar Pradesh	3,000	7.97	3,000
Uttarakhand	250	7.98	250
West Bengal	1,000	7.96	1,000

Source: RBI

### B) Secondary G-Secs Market (Domestic)

Exhibit 4 captures the yield curves as of the end- of-month for the last three months of Aug'15, Sept'15 and Oct'15.



Source: FIMMDA

Benchmark yields across all the various tenure papers settled above the yields for previous month. Except the 2yr maturity paper, all other tenure papers closed at higher yield levels for the month of October'15. Overall gains for the tenure papers were 6bps, with the maximum gains seen in the long-term 10yr paper of 18bps. The longest

tenure paper of 30-yr term stood 1 bps lower at 7.83% vis-à-vis previous month. The average yield was 6bps higher at 7.57% for October'15 compared to 7.51% in September'15.

**Table 5: Yields on different tenure bonds (%)**

Country	Oct- 2015		Sept- 2015		1-Year Ago	
	3-months	10-years	3-months	10-years	3-months	10-years
<b>USA</b>	0.33	2.21	0.33	2.07	0.23	2.35
<b>Japan</b>	0.08	0.31	0.08	0.34	0.11	0.46
<b>China<sup>§</sup></b>	3.04	2.94	3.15	3.09	4.45	3.57
<b>Euro zone</b>	-0.07	0.6	-0.04	0.59	0.09	0.90
<b>India</b>	7.10	7.65	7.05	7.54	8.44	8.32
<b>Brazil</b>	14.30	15.6	14.80	15.5	11.00	12.40
<b>Russia</b>	12.70	9.85	12.70	11	10.20	10.10
<b>Greece</b>	-0.07	7.92	-0.04	8.46	0.09	7.57

Source: Economist November 2<sup>nd</sup>, 2015

<sup>§</sup> - 5-year yield

Interest rates were fairly stable for most of the global economies. While short term rates for all economies(except India) were unchanged or negative, long term rates showed significant upward movement for USA and India. Economies of China, Euro zone and Greece witnessed a decline in both short-term and long-term rates. USA and Russia had unchanged short-term rates but declining long term rates. On the other hand, Brazil while having significant increase in long-terms rate saw a fall in short-term rate. India was the only economy among the above that saw improved long-term as well as short-term rates.

### Bank Credit

Table 6 gives information on growth in bank credit during for the period Mar-Sep'15 across major sectors. As can be seen, growth in credit to manufacturing as well as services has registered negative numbers on top of negative growth rates last year. Agriculture and personal loans segments have registered positive growth rates, with the latter being higher than that in 2014.

**Table 6: Sectoral distribution of credit**

Sector	o/s Sept 18, 2015 (Rs. lkhcr)	Sept 19/March31, 2014 % growth	Sept 18/Mar 20,2015 % growth
<b>Gross Bank Credit</b>	<b>62.02</b>	<b>1.8</b>	<b>1.6</b>
<b>Food Credit</b>	<b>1.03</b>	<b>15.6</b>	<b>3.6</b>
<b>Non-food Credit</b>	<b>60.99</b>	<b>1.5</b>	<b>1.6</b>
<b>Agriculture &amp; Allied Activities</b>	<b>8.13</b>	<b>8.2</b>	<b>6.2</b>
<b>Industry</b>	<b>26.29</b>	<b>-0.4</b>	<b>-1.1</b>

Micro & Small	3.68	0.4	-3.3
Medium	1.14	-2.9	-10.2
Large	21.48	-0.4	-0.1
<b>Services</b>	<b>14.01</b>	<b>-1.1</b>	<b>-0.8</b>
Transport Operators	0.96	-2.4	4.9
Tourism, hotels	0.37	-7.6	0.6
Trade	3.68	0.7	0.6
Commercial Real Estate	1.65	5.5	-1.0
NBFCs	2.96	-0.4	-5.0
<b>Personal Loans</b>	<b>12.55</b>	<b>5.3</b>	<b>7.6</b>
Consumer Durables	0.16	11.1	5.0
Housing	6.83	7.5	8.6
Credit cards	0.34	11.1	10.7
Education	0.67	4.3	6.1
Vehicle Loans	1.33	7.6	6.8

Source: RBI

**Table 7: Growth in credit to Manufacturing: Industry-wise**

Industry	o/s Sept 18, 2015	Sept/March 2014	Sept/Mar 2015	Sept'15 over Sept'14
Mining & Quarrying (incl. Coal)	0.34	7.4	-5.8	-12.1
Food Processing	1.45	-3.7	-15.5	2.8
Beverage & Tobacco	0.18	5.1	-5.7	-8.5
Textiles	1.95	-4.4	-3.3	1.0
Leather & Leather Products	0.10	-1.1	-1.3	0.2
Wood & Wood Products	0.10	1.1	2.7	6.0
Paper & Paper Products	0.35	1.2	1.1	3.8
Petroleum, Coal Products & Nuclear Fuels	0.42	-16.8	-25.9	-22.9
Chemicals & Chemical Products	1.55	-9.8	0.3	3.3
Rubber, Plastic & their Products	0.37	-0.9	-1.9	1.0
Glass & Glassware	0.09	0.5	-4.2	-3.2
Cement & Cement Products	0.56	1.0	0.1	3.0
Basic Metal & Metal Products	3.89	-0.7	1.2	8.8
Iron & Steel	2.91	-0.9	2.6	9.6
All Engineering	1.55	0.1	0.6	5.7
Vehicles, parts, & Transport Equipment	0.69	-1.6	0.4	4.6
Gems & Jewellery	0.72	-1.1	0.5	4.5
Construction	0.73	15.8	-1.6	0.9
Infrastructure	9.47	4.2	2.5	8.7
Power	5.80	6.4	4.1	12.1



Telecommunications	0.90	-3.5	-2.4	5.3
Roads	1.72	3.9	1.6	4.6
Other Infrastructure	1.05	0.9	-0.6	1.3
Other Industries	1.79	-6.8	-2.7	2.1
<b>All Industries</b>	<b>26.29</b>	<b>-0.4</b>	<b>-1.1</b>	<b>4.9</b>

Source: RBI

## Corporate Debt Market

### Corporate Bonds

32 Corporates issued bonds and debentures worth a total of Rs. 24,041 cr. during the month of October'2015.

Table 8 highlights select debt issuances during the month gone by.

**Table 8: Select Debt Issues during October'15**

Name of Issuer	Rating	Amount (Rs cr. )	Type of Instrument
Axis Bank Limited	AAA	5000	Bonds/NCD
Government of Telangana Entities	A (SO)	5000	Bonds/NCD
Housing and Urban Development Corporation Limited	AAA	3500	Bonds/NCD
Bajaj Finance Ltd	AAA	2000	Bonds/NCD
J P Morgan Securities India Private Limited	AA+	2000	Bonds/NCD
Ambience Limited	BB-	1100	Bonds/NCD
India Infradebt Limited	AAA	1000	Bonds/NCD
Rajasthan Rajya VidyutPrasaran Nigam	AA (SO)	700	Bonds/NCD
DLF Emporio Limited	AA (SO)	525	Bonds/NCD
Edelweiss Asset Reconstruction Company	AA- (SO)	400	Bonds/NCD
Edelweiss Financial Services Limited	A1+	400	Bonds/NCD
DLF Promenade Limited	AA (SO)	375	Bonds/NCD
Karelides Traders Private Limited	AA- (SO)	375	Bonds/NCD
IndianOil LNG Private Limited	AAA (SO)	326.5	Bonds/NCD
Au Financiers India Limited	A+	300	Bonds/NCD
ECL Finance Limited	A1+	300	Bonds/NCD
Tube Investments of India Ltd	AA	150	Bonds/NCD
Hitachi Payment Services Private Limited	AA	120	Bonds/NCD
IFMR Capital Pooled Bond Issuance CBO XI	A- (SO)	80	Bonds/NCD
EMCO Energy Limited	D	75	Bonds/NCD
Shubhi Agro Industries Private Limited	BBB	52.5	Bonds/NCD
Muthoot Capital Services Limited	A	50	Bonds/NCD
NeoGrowth Credit Private Limited	BBB-	50	Bonds/NCD
Shriram Housing Finance Limited	AA+	50	Bonds/NCD
Ashna Realtors Private Limited	B	25.54	Bonds/NCD

The rating changes for the month of October '15 are given in Table 9 below.

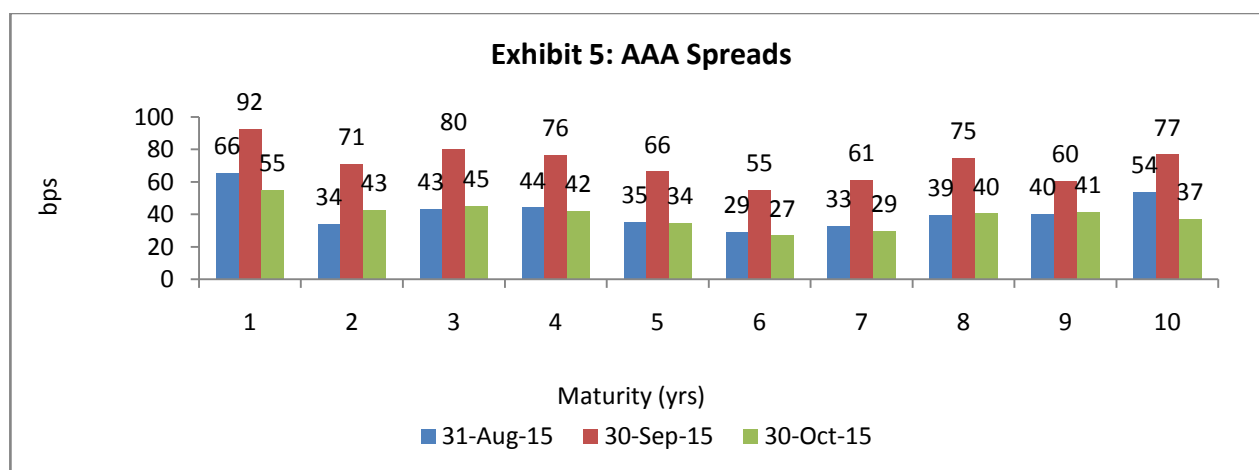
**Table 9: Rating changes during October'15**

Company	Current Rating	Rating Action
Hindalco Industries Limited	AA	Downgraded
Bank of India	AA+	Downgraded
Indian Overseas Bank	A	Downgraded
Bank of Maharashtra	AA	Downgraded
Bank of Maharashtra	AA	Downgraded
India Infoline Finance Limited	AA+	Upgraded
Hindalco Industries Limited	AA	Downgraded
GMR Holdings Private Limited	BBB-	Downgraded
Kosamattam Finance Limited	BB+	Downgraded
Transmission Corporation of Andhra Pradesh Ltd	BB (SO)	Downgraded
JM Financial Products Limited	AA	Upgraded
Andhra Pradesh State Financial Corporation	BBB+ (SO)	Downgraded

*(Based on press releases made by Rating Agencies across India)*

Corporate bond spreads across all maturities were significantly lower for the month of October'15 relative to last two months of September'15 and August'15.

The maximum decrease was seen in 10yr maturity paper (40bps) and least decline was seen in 9-yr maturity paper (19bps). 1-yr maturity paper showed 38bps decline followed by 3-yr and 4-yr papers (35bps) and 8-yr (34bps) . 7-yr and 5-yr maturity papers both showed a 32bps fall while 6-yr and 2-yr papers showed 28bps moderation. The average yield stood at 0.39, which is 32bps lower than previous month's average yield of 0.71.



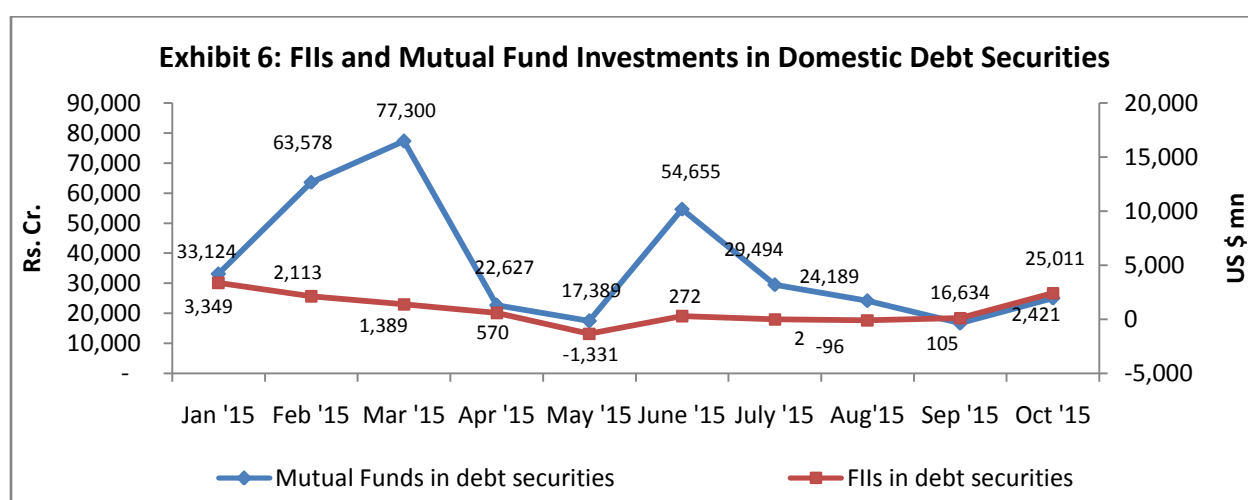
Source: FIMMDA

### FII and Mutual Funds in Debt Markets

Net FII flows and mutual fund investments showed significant pick-up in October'15. This comes on the back of increased FPI limits in Government and SDL securities by RBI. The overall investment stood at USD 3,444 mn. of which major fraction was in debt (USD 2,421 mn) while the remaining was in equity.

Mutual fund investments in debt securities also strengthened in the month gone by. The same were up to Rs. 25,011 cr in September'15 from last month's investment level of Rs. 16,634 Cr.

The exhibit 6 below displays the trends in FII inflows and Mutual Fund investments in domestic debt securities during the last 9 months.



Source: CDSL, SEBI

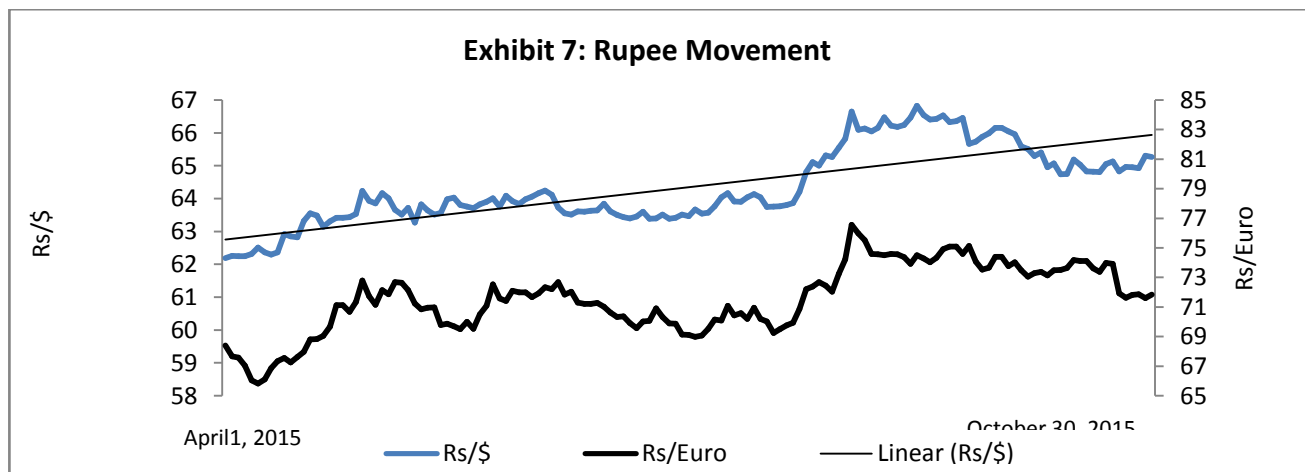
### Currency Rates

After a weak exchange rate in September'15, the INR showed improvement in October'15. The INR reached its month-high level of Rs.64.74 in the first fortnight of the month. The rupee remained strong against the Greenback for first half of the month after which factors such as invisible flows and capital movements, and uncertainty over Bihar elections pressurized the currency. The exchange rate thus closed at Rs. 65.27 by the month end. The monthly average of Rs. 65.05 was however, 1.75% higher than last month's level of Rs. 66.20 given that dollar showed weakening overseas amid uncertainty on interest rate hike by the Fed.

The Rupee-Euro exchange rate was better than the Rupee- USD exchange rate in October'15. The rupee reached its month-low of Rs.74.19in the last week of the month. The exchange rate was below 71 euro mark thereafter.

The monthly average was 1.67% higher at Rs. 73.08 in October '15 in comparison to the average of Rs. 74.33 in September'15.

The exhibit 7 below captures the movement in the exchange rates over the last few months from 1<sup>st</sup> Apr '15 to 30<sup>th</sup> October'15.



Source: RBI (reference rate)

Table 10: Currency Rates

	FY15		1-Year Ago
	30-Oct-2015	30-Sep-2015	31-Oct-2015
<b>Rs/\$</b>	65.27	65.59	61.41
<b>Rs/Euro</b>	71.85	73.50	77.19

Source: RBI

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