

## INDIA

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## CitiViews – India Market Watch

- **Macro Views:** Besides the floods that marooned the financial capital of India last week, another disaster was the fire at the ONGC platform. With heavy rains continuing unabated, the macro impact of the floods is not yet ascertainable. As a result of the fire at ONGC, which destroyed the offshore platform that had the capacity to process 100,000bpd (15% of ONGC's total sales volume), we expect India's oil import bill to increase by around US\$1.2bn-1.4bn. The damage to the platform could also have a small impact on inflation if ONGC is able to convince the government that it can't subsidize domestic prices any longer and would need to pass on the cost of higher oil prices to the consumer
- **Forex Markets:** The rupee moved in a very narrow range last week, closing at 43.48/US\$1. Trading was limited due to the two-day bank holiday forced by the heavy rains. Strong inflows nullified dollar buying, which came from oil companies largely on account of month-end demand and concerns following the fire at the ONGC oil platform
- **Bond Markets:** The 10-year benchmark yield closed at 7.02%, from 7.17% in the previous week, and is currently trading at 6.98%. As a section of the market was expecting a 25bp rate hike in the RBI's first quarter preview of the annual monetary policy, yields dropped after the RBI left all key policy interest rates unchanged. The Finance Minister's comment that the government would borrow less than the projected amount during the fiscal year further lifted sentiment. Yields came off lows after the WPI inflation rate edged up and US yields rose

Figure 1. India - Market Monitor

### KEY DATA HIGHLIGHTS

**Inflation rose to 4.18%  
for the week ended 16  
July**

**Total forex reserves fell  
by US\$26mn**

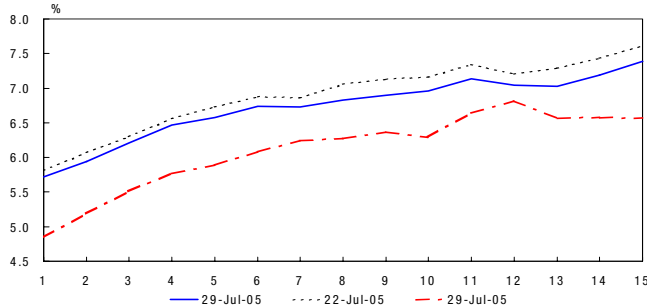
**Cumulative rainfall for  
the entire country, from  
1<sup>st</sup> June-27 July 2005 was  
2% above normal**

	Units	Latest	Previous	1M ago	3M ago	12M ago
<b>Interest Rates</b>						
Overnight	%	5.10	5.10	5.90	5.10	4.40
1 year Treasury Bill	%	5.89	5.74	5.63	5.60	4.80
1 year OIS	%	5.46	5.62	5.48	5.58	5.01
1 year MIFOR	%	5.27	5.35	5.27	5.31	4.60
5 year Corp AAA spread over GOI	%	0.33	0.33	0.38	0.56	0.93
10 year GOI	%	7.02	7.17	6.90	7.35	6.16
<b>Currency &amp; Reserves</b>						
USD/INR		43.48	43.48	43.52	43.53	46.45
EUR/USD		1.21	1.22	1.21	1.30	1.20
USD/JPY		112.38	111.23	110.66	105.14	111.59
12 Month INR Forward Premium	%	1.07	0.97	1.30	1.49	2.10
FX Assets As On (22-Jul-05)	US\$ bn.	131.5	131.5	132.9	136.6	114.2
<b>Money &amp; Banking</b>						
Credit-Deposit Ratio		65.04	64.89	64.40	63.96	56.32
Money Supply - M3	% YoY	14.0	13.7	14.20	13.80	15.30
Inflation - WPI (16-Jul-05)	% YoY	4.18	4.14	4.10	5.91	7.61

Source: Citigroup; RBI.

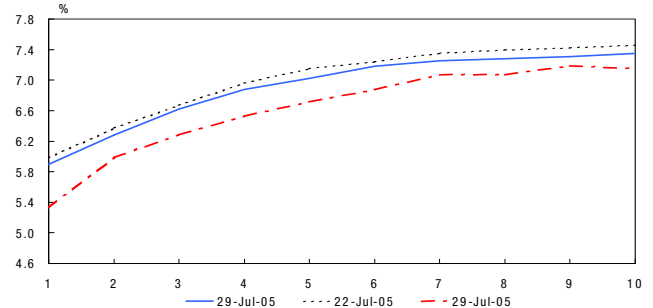
## India – Markets in Pictures

### Trends in GOI Yield Curve



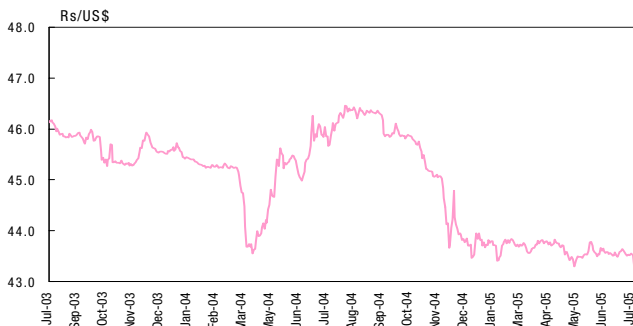
The curve shifted lower and flattened, triggered by the policy announcements, which left interest rates unchanged. The spread between the 1-year and the 15-year yield was 167bps, from 181 bps

### Trends in AAA Yield Curve



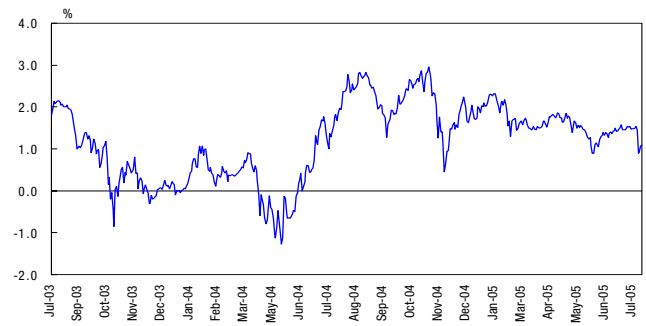
AAA yield dropped 10-12bps with the 5-year benchmark yield ended at 7.02% from 7.15%. Its spread was flat at 33bps

### Trends in Exchange Rate - Rs/US\$



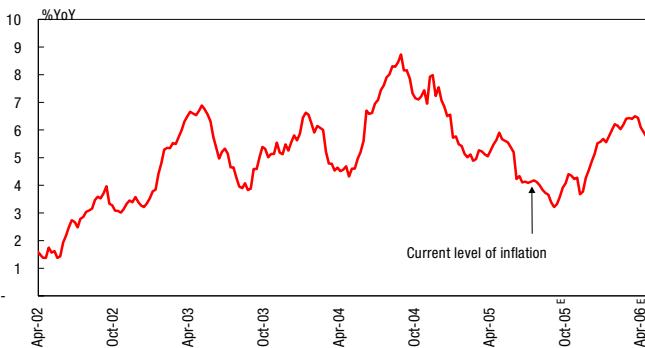
The rupee ended flat over the week at 43.48/US\$1. It slipped to 43.55/US\$1 early in the week due to dollar demand but was bolstered by strong FII inflows

### Trends in 6-Month Premiums (%)



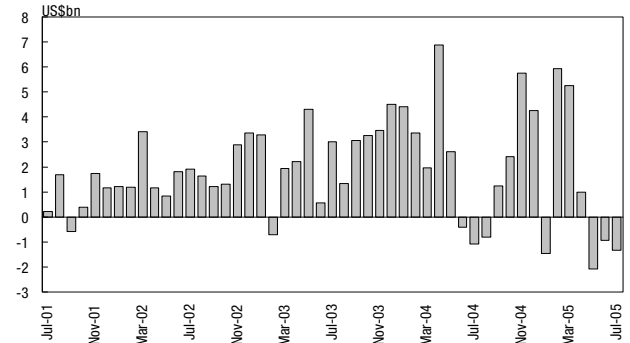
The premium edged up to 1.09% from 0.89%. This was largely a correction as the premium had fallen sharply immediately after China re-valued its currency

### Trends in Inflation (% YoY)



With a rise in all major commodity groups, inflation rose marginally to 4.18% for the week ended 16 July, as compared with 4.14% for the previous week. The sector-wise breakdown reveals that prices of Primary articles were up 0.9%, while both the Fuel index and the index for Manufactured Products up 0.1%

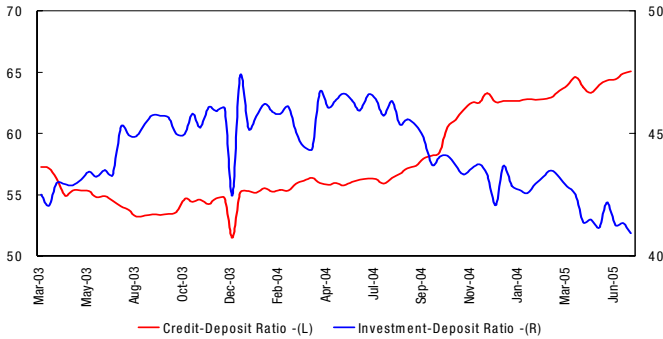
### Monthly Increase in Forex Reserves (US\$bn)



Total forex reserves, including gold, declined by US\$23m for the week ended 22 July. Fiscal YTD, foreign currency assets have fallen by nearly US\$4.1bn, compared with a rise of US\$6.4bn in the previous year. However, most of this fall was due to revaluation of reserves. Currently, forex assets (excluding gold) amount to US\$132bn.

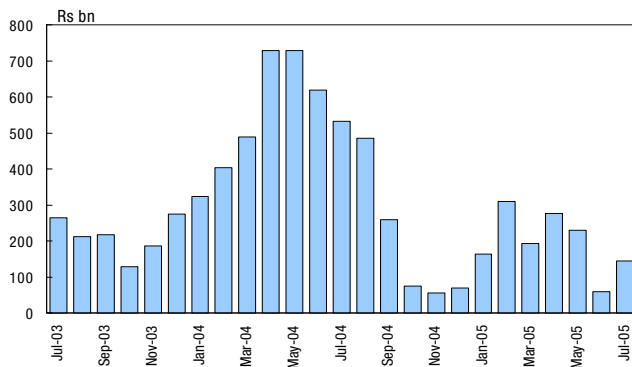
## India – Markets in Pictures

### Trends in the Credit and Investment Deposit Ratios



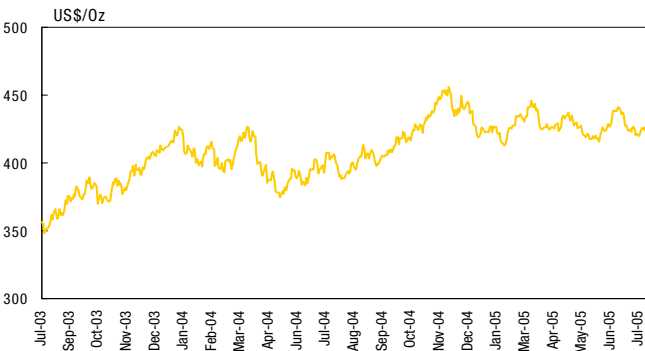
Continued buoyancy in credit resulted in the credit-deposit ratio touching an all-time high of 65.05%. While deposits have picked up, banks have been funding credit requirements by drawing down their SLR investments

### Trends in Repos (Rs bn)



Liquidity was comfortable with the LAF reverse repo receiving bids worth Rs144bn on a daily average basis

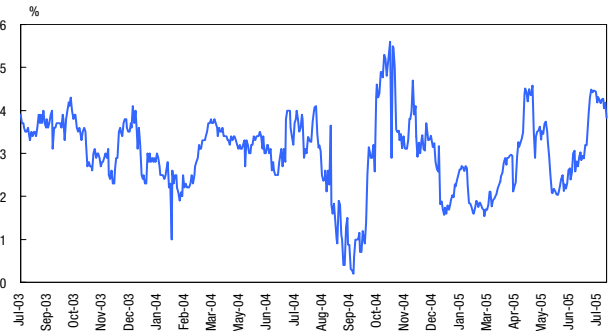
### Trends in Commodities – Gold(US\$/Oz)



Gold was up at a 1-month high of US\$430.20 from US\$424.90 largely due to easing in the dollar rally

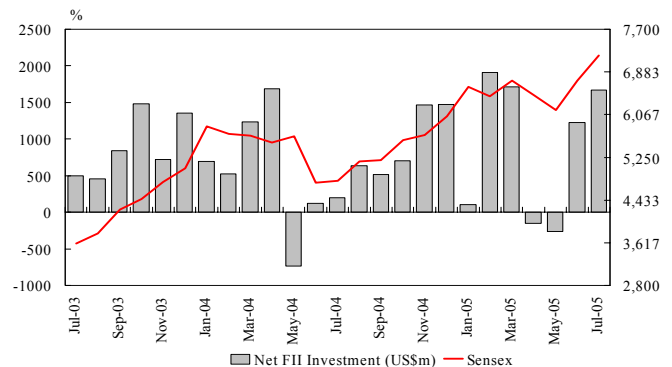
Source: Reuters; Bloomberg; Citigroup.

### Trends in 10 Year GOI over 5 Year GOI Spread (%)



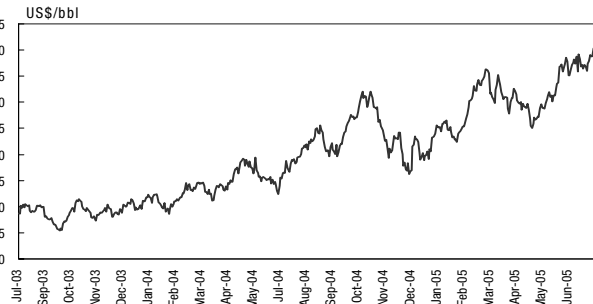
The spread narrowed to 38bps from 43bps but edged up toward the end of the week as a spike in US yields triggered profit-taking in domestic bonds late in the week

### 2 Yrs - Trends in FII Flows (US\$ m)



Equity inflows rose US\$1.7bn in June, with gains over the last week (ended 26 July) amounting to US\$524m. Fiscal YTD, equity FII flows amount to US\$2.5bn, compared with US\$1.3bn for the same period last year.

### Trends in Commodities – Oil (US\$/bbl)



Brent prices rose to US\$60.32 from US\$57.41. Concerns over supplies emerged mid-week after the US inventory data showed an unexpected supply drawdown in gasoline stocks amid robust demand

## Financial Market Forecasts

### Currency Forecasts and Forwards

	Range in June	Spot 27-Jul	1 Month		3 Months		6 Months		12 Months	
			Forecast	Forward	Forecast	Forward	Forecast	Forward	Forecast	Forward
<b>Versus USD</b>										
Japan YEN	106.72-110.81	112.44	110.00	112.08	108.00	111.37	100.00	110.23	95.00	108.45
Euro EUR	1.2038-1.2329	1.2025	1.1700	1.2040	1.2000	1.2073	1.2800	1.2132	1.3300	1.2257
China RMB	8.2765-8.2765	8.1099	8.1100	8.0850	8.1100	8.0300	7.8650	7.9350	7.6684	7.7450
Hong Kong HK\$	7.769-7.7837	7.7775	7.7750	7.7769	7.7750	7.7738	7.7800	7.7670	7.7800	7.7480
<b>India INR</b>	<b>43.488-43.742</b>	<b>43.51</b>	<b>43.25</b>	<b>43.56</b>	<b>43.00</b>	<b>43.63</b>	<b>42.50</b>	<b>43.76</b>	<b>42.00</b>	<b>43.91</b>
Indonesia IDR	9544-9768	9810	9900	9862	9850	9969	9700	10124	9400	10385
Malaysia MYR	3.8-3.8	3.7500	3.7600	3.7468	3.7400	3.7620	3.7200	3.7220	3.7200	3.6875
Philippines P	54.5-55.96	56.005	55.500	56.150	56.400	56.340	55.250	56.710	56.000	57.630
Singapore SGD	1.6605-1.6856	1.6694	1.6700	1.6671	1.6500	1.6621	1.6200	1.6538	1.5800	1.6355
South Korea KRW	1003.5-1035	1030.4	1015.0	1030.7	1000.0	1030.4	980.0	1029.4	950.0	1026.1
Taiwan TWD	31.218-31.615	31.850	31.750	31.770	31.500	31.608	31.000	31.400	30.500	30.990
Thailand THB	40.525-41.325	41.625	41.750	41.683	42.500	41.685	42.000	41.605	41.000	41.500
Vietnam VND*	15849-15875	15872	15895	15934	15920	16055	15940	16235	16000	16549

Source: Datastream, Citigroup estimates.\* State Bank of Vietnam forward ceiling rates

### Interest Rate Forecasts

		Range in June	27-Jul	In 1M	In 3M	In 6M	In 12M
US	Fed Fund Rate	2.87 - 3.37	3.25	3.25	3.50	4.00	4.00
	10-Year Treasuries	3.88 - 4.10	4.23	NA	NA	NA	NA
EU	Repo Rate	2 - 2	2.00	2.00	2.00	2.00	2.25
	10-Year Bunds	3.11 - 3.31	3.24	NA	NA	NA	NA
JP	Call Money	-0.004 - 0.001	0.00	0.00	0.00	0.00	0.00
	10-Year JGBs	1.17 - 1.31	1.28	NA	NA	NA	NA
CN	PBOC base rate (3-Month)	3.6 - 3.6	3.60	3.60	3.60	3.60	3.85
	Bond repo rate (7-Day)	1.08 - 1.14	1.25	1.25	1.50	1.75	2.50
	Govt bond yield (5-Year)	2.58 - 2.89	2.75	2.90	3.25	3.75	4.25
HK	3-Month Interbank Rate	3.15 - 3.38	3.45	3.45	3.65	3.90	4.00
	5-Year Exch Fund Note	3.23 - 3.39	3.58	3.40	3.52	3.55	3.55
IN	<b>Bank Rate</b>	<b>6 - 6</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>
	<b>91-Day T Bill</b>	<b>5.2 - 5.37</b>	<b>5.49</b>	<b>5.50</b>	<b>5.75</b>	<b>5.75</b>	<b>5.75</b>
	<b>10-Year Gilt</b>	<b>6.79 - 6.94</b>	<b>7.00</b>	<b>7.25</b>	<b>7.30</b>	<b>7.38</b>	<b>7.50</b>
ID	O/N FASBI	NA	8.50	8.75	9.00	9.25	9.75
	1-Month SBI Rate	7.98 - 8.25	8.49	8.60	8.90	9.35	9.80
	FR0026	11.08 - 11.19	11.42	11.30	11.10	10.95	11.25
MY	Overnight Policy Rate	2.7 - 2.7	2.70	2.70	2.70	2.95	3.25
	5-Year MGS 4/04	3.42 - 3.55	3.36	3.45	3.55	3.65	3.90
PH	O/N Rate	7 - 7	7.00	7.25	7.50	7.75	8.25
	5-Year T Bond	10.52 - 10.98	10.68	10.50	11.25	11.00	10.25
SG	3-Month Interbank Rate	2.04 - 2.12	2.00	2.10	2.15	2.25	2.50
	10-Year SGS	2.51 - 2.73	2.64	2.80	2.90	3.10	3.20
KR	Overnight Rate	3.25 - 3.25	3.25	3.25	3.25	3.25	3.50
	5-Year Treasury	3.78 - 4.27	4.44	4.60	4.70	4.80	5.00
TW	Overnight Rate	1.26 - 1.26	1.33	1.33	1.42	1.50	1.50
	10-Year Government Bond	1.80 - 1.94	2.01	2.05	2.15	2.24	2.15
TH	14-Day Repo Rate	2.25 - 2.5	2.75	2.75	3.00	3.25	3.25
	10-Year Government Bond	3.90 - 4.14	4.41	4.35	4.50	4.75	5.50
VN	3-Month Interbank Rate	7.44 - 7.61	7.69	7.65	7.75	7.75	8.00

Source: Primark Datastream, Citigroup estimates.

## Disclosure Appendix

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