

INDIA

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CitiViews – India Market Watch

- **Macro Views:** Positive news flow on the macro front last week included the NCAER's business confidence index touching a 10-year high for the quarter ending July 2005. Interestingly, the Commerce and Industry Minister Kamal Nath announced that June industrial production touched 12.8 % - also a 10-year high. However, the official industrial numbers are likely to be released by the CSO only on Friday 12 August. We expect the double-digit growth recorded in May to continue in June. Recent data supporting this are buoyancy in the infrastructure index, strong trends in credit growth, and double-digit growth in non-oil imports-led mainly by capital goods and raw materials.
- **Forex Markets:** The rupee closed flat at 43.48/US\$. However, during the week, the rupee moved in a fairly wide range between 43.42 and 43.53 pulled down alternately by dollar buying by state-run banks and strong investment inflows. We reiterate our view that while movements in the rupee will not be unidirectional, the rupee is likely to appreciate to Rs42 in 12M
- **Bond Markets:** The 10-year yield ended at 7% from 7.02%. Bonds moved in narrow range as cautiousness arising due to firm global oil prices, higher US yields and upcoming domestic bond auctions was largely offset by the increase in liquidity attributed to interventions by the central bank in the currency market. The Bank of England's decision to cut its key interest rate by 25bps to 4.50% propped up bonds and the drop in inflation rate to 4.07% from 4.12% was in line with market expectations. The RBI announced that it would sell the 8.07% 2017 GOI stock for Rs50bn and the 7.50% 2034 stock for Rs30bn on August 11 on behalf of the central government.

India - Market Monitor

KEY DATA HIGHLIGHTS

Inflation fell to 4.07% for the week ended 23 July

Total forex reserves rose by US\$3.1bn

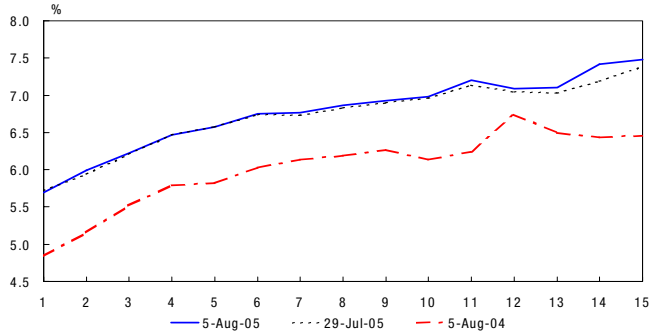
Cumulative Rainfall (ie, from June-August) has improved to 5% above normal

	Units	Latest	Previous	1M ago	3M ago	12M ago
Interest Rates						
Overnight	%	3.50	5.10	5.10	5.05	4.25
1 year Treasury Bill	%	5.65	5.89	5.74	5.58	4.64
1 year OIS	%	5.46	5.46	5.51	5.55	5.00
1 year MIFOR	%	5.22	5.27	5.37	5.16	4.46
5 year Corp AAA spread over GOI	%	0.37	0.33	0.39	0.44	0.92
10 year GOI	%	7.00	7.02	6.90	7.26	6.28
Currency & Reserves						
USD/INR		43.48	43.48	43.59	43.43	46.37
EUR/USD		1.2380	1.2094	1.1910	1.2950	1.2050
USD/JPY		111.53	112.38	111.83	104.74	111.58
12 Month INR Forward Premium	%	0.88	1.07	1.28	1.36	2.05
FX Assets As On (29-Jul-05)	US\$ Bils.	134.587	131.521	131.426	135.950	112.967
Money & Banking						
Credit Deposit Ratio		65.22	65.05	64.89	64.33	56.20
Money Supply - M3	% YoY	14.1	14.0	13.70	13.70	15.50
Inflation - WPI (23-Jul-05)	% YoY	4.07	4.18	4.14	5.96	7.91

Source: Citigroup, RBI.

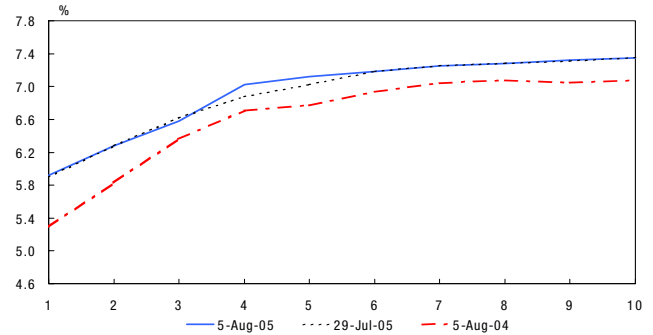
India - Markets in Pictures

Trends in GOI Yield Curve



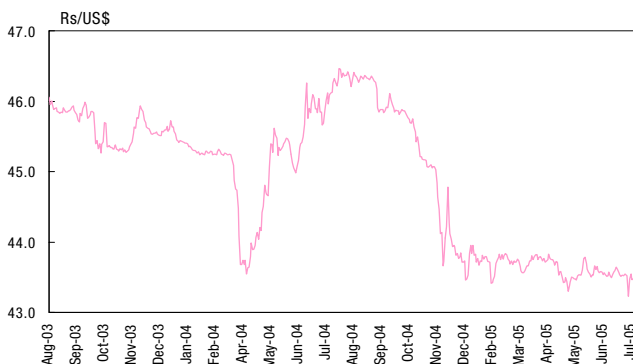
The curve was steeper with the spread between the 1-year and the 15-year yield at 178bps from 167bps

Trends in AAA Yield Curve



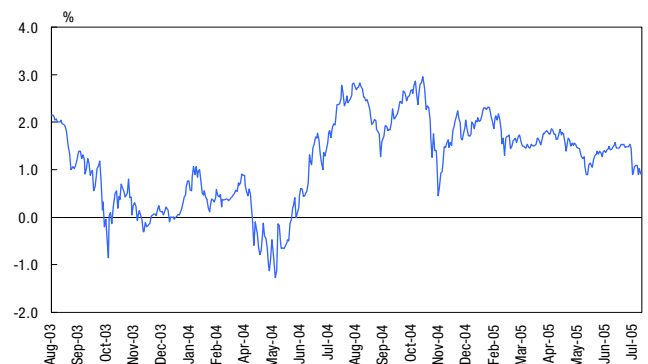
Benchmark yields were range bound. The AAA benchmark yield ended at 7.07% from 7.02% while its spread ended at 37bps from 33bps

Trends in Exchange Rate - Rs/US\$



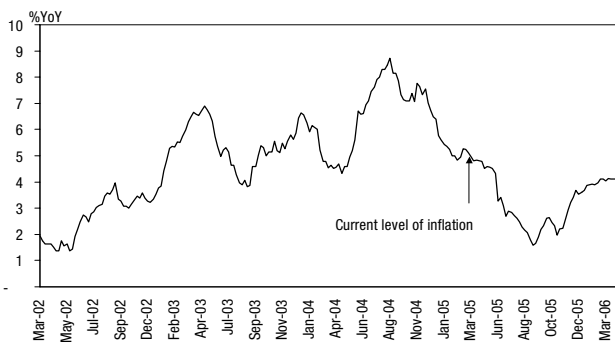
The rupee ended flat at 43.48/US\$. The rupee moved in a 10 paise range (43.42-43.53). Strong foreign fund inflows bolstered the rupee but state-run banks capped the upside of the rupee

Trends in 6 Month Premiums (%)



The premium ended at 0.89% from 1.09% similar to levels seen after the yuan revaluation

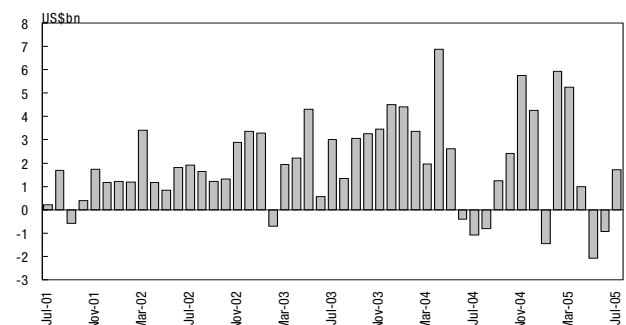
Trends in Inflation (% YoY)



Inflation fell to 4.07% for the week-ended 23 July. The fall was in spite of a marginal increase in the Primary Articles group (+0.2%), with indices for Manufactured Products and Fuel & Power remaining unchanged from the previous week.

Source: Reuters, Bloomberg.

Monthly Increase in Forex Reserves (US\$ Bils.)



Total forex reserves, including gold, rose by US\$3.1b for the week ended 29 July. The increase was largely due to a revaluation of reserves. Fiscal YTD, foreign currency assets have fallen by US\$984m, and currently amount to US\$135bn, as compared with US\$113bn last year.

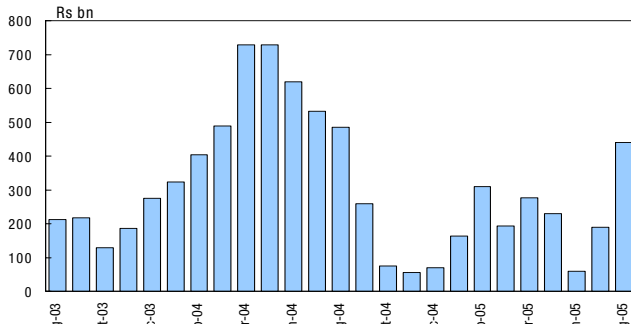
India – Markets in Pictures

Trends in 5-year – 6 month MIFOR spread



The spread widened to 82bps from 77bps. With MIFOR lacking direction, levels drift tracking forward premiums. The spread has widened 40bps in two weeks since the yuan revaluation

Trends in Repos (Rs Bils.)



Bids at the auctions shot up to an average Rs440bn from Rs144bn in the previous week. Number of bids also increased to 62 from 35, indicating surplus cash was spread across the system. This was largely on account of government spending and dollar buying by the central bank

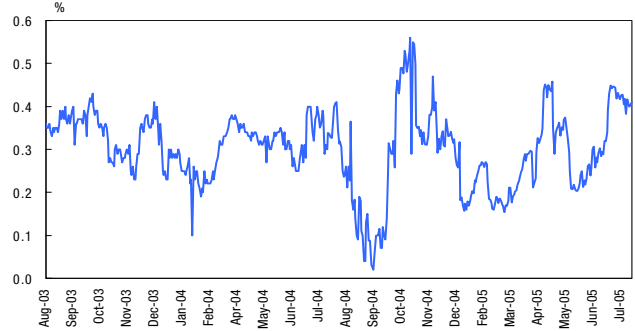
Trends in Commodities – Gold(US\$/Oz)



Gold rallied steeply for the second straight week to end at US\$437.95 from US\$430.20. The weak dollar propelled gold higher. In two weeks, gold rallied over 3%.

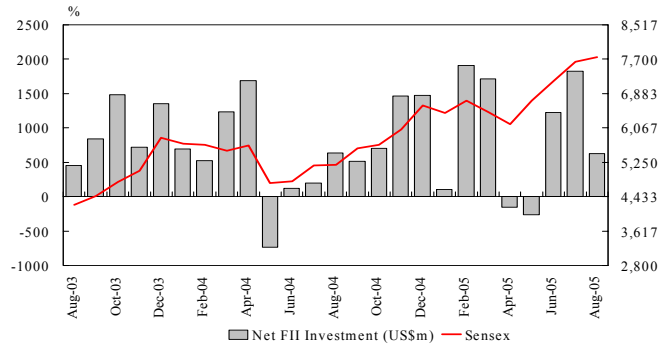
Source: Reuters; Bloomberg; Citigroup.

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



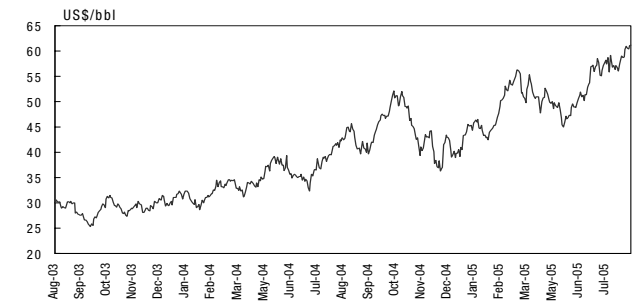
The spread was slightly wider at 41bps but was steady through the week, depicting the movement in the underlying yields. The spread has been in a narrow range just above 40bps since early July

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



Equity inflows rose by US\$629mn for the trading week ended 5th August. Fiscal YTD, total FII flows (debt+ equity) amounted to US\$3.3b, as compared with US\$1.9bn last year.

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



Brent rose to US\$61.13 from US\$60.32. Mid-week, prices dropped by over a dollar due to a surprise increase in US crude oil inventories. However, a rash of refinery problems in the US pushed prices back up.

Financial Market Forecasts

Currency Forecasts and Forwards

	Range in Jul	Spot 3-Aug	1 Month		3 Months		6 Months		12 Months	
			Forecast	Forward	Forecast	Forward	Forecast	Forward	Forecast	Forward
Versus USD										
Japan YEN	112.825 - 110.345	111.59	110.00	111.24	108.00	110.52	100.00	109.38	98.00	107.06
Euro EUR	1.1906 - 1.2198	1.2234	1.1700	1.2249	1.2000	1.2284	1.2800	1.2345	1.3300	1.2473
China RMB	8.2817 - 8.1106	8.1051	8.1100	8.0895	8.1100	8.0550	7.8650	7.9550	7.6684	7.7613
Hong Kong HK\$	7.7782 - 7.7664	7.7735	7.7750	7.7744	7.7750	7.7772	7.7800	7.7840	7.7800	7.8015
India INR	43.601 - 43.085	43.47	43.25	43.51	43.00	43.54	42.50	43.64	42.00	43.75
Indonesia IDR	9880 - 9757	9766	9900	9822	9850	9936	9700	10093	9400	10396
Malaysia MYR	3.8000 - 3.7493	3.7463	3.7500	3.7428	3.7200	3.7585	3.7000	3.7175	3.6500	3.6850
Philippines P	56.23 - 55.62	56.095	55.500	56.250	56.400	56.510	55.250	56.950	56.000	57.750
Singapore SGD	1.7009 - 1.6512	1.6536	1.6600	1.6513	1.6500	1.6462	1.6200	1.6376	1.5800	1.6196
South Korea KRW	1055.25 - 1022.58	1017.5	1000.0	1017.5	990.0	1017.2	980.0	1016.1	950.0	1013.3
Taiwan TWD	32.105 - 31.635	31.940	31.750	31.885	31.500	31.735	31.000	31.505	30.500	31.095
Thailand THB	42.125 - 41.255	41.350	41.750	41.408	42.000	41.410	41.500	41.330	41.000	41.225
Vietnam VND*	15880 - 15850	15881	15895	15934	15920	16055	15940	16235	16000	16549

Source: Datastream, Citigroup estimates.

Interest Rate Forecasts

		Range in Jul	3-Aug	In 1M	In 3M	In 6M	In 12M
US	Fed Fund Rate	2.75 - 3.5	3.25	3.25	3.50	4.00	4.00
	10-Year Treasuries	4.03 - 4.27	4.32	NA	NA	NA	NA
EU	Repo Rate	2 - 2	2.00	2.00	2.00	2.00	2.25
	10-Year Bunds	3.15 - 3.30	3.35	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	1.38	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
HK	3-Month Interbank Rate	3.34 - 3.55	3.55	3.45	3.65	3.90	4.00
	5-Year Exchange Fund Note	3.31 - 3.63	3.72	3.40	3.52	3.55	3.55
IN	Bank Rate	6 - 6	6.00	6.00	6.00	6.00	6.00
	91-Day T Bill	5.41 - 5.49	5.49	5.50	5.75	5.75	5.75
	10-Year Gilt	6.93 - 7.24	6.96	7.25	7.30	7.38	7.50
ID	O/N FASBI	NA	8.50	8.75	9.00	9.25	9.75
	1-Month SBI Rate	8.44 - 8.49	8.49	8.60	8.90	9.35	9.80
	FR0026	11.18 - 11.54	11.70	11.80	12.25	11.50	11.20
MY	Overnight Policy Rate	2.7 - 2.7	2.70	2.70	2.70	2.95	3.25
	3-Month Interbank Rate	2.87 - 2.88	2.88	2.90	2.90	3.15	3.45
	5-Year MGS 4/04	3.35 - 3.46	3.35	3.45	3.55	3.65	3.90
PH	O/N Rate	7 - 7	7.00	7.25	7.50	7.75	8.25
	91-Day T Bill	5.45 - 6.17	5.59	5.50	6.00	6.25	6.50
	5-Year T Bond	10.67 - 11.17	10.73	10.50	11.25	11.00	10.25
SG	3-Month Interbank Rate	2 - 2.06	2.02	2.10	2.15	2.25	2.50
	10-Year SGS	2.59 - 2.74	2.76	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	4.19 - 4.55	4.68	4.60	4.70	4.80	5.00
TW	Overnight Rate	1.32 - 1.32	1.32	1.33	1.42	1.50	1.50
	10-Year Government Bond	1.88 - 2.04	2.04	2.05	2.15	2.24	2.15
TH	14-Day Repo Rate	2.5 - 2.75	2.75	2.75	3.25	3.50	3.50
	10-Year Government Bond	3.97 - 4.57	4.66	4.35	4.50	4.75	5.50
VN	3-Month Interbank Rate	7.44 - 7.61	7.73	7.75	7.75	7.75	8.00

Source: Primark Datastream, Citigroup estimates.

Disclosure Appendix

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