

INDIA

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CitiViews – India Market Watch

- Highlights of Macro Data:** The 4Q GDP numbers at 7% were in line with expectations taking the full year number to 6.9%. Given the continuation of the key growth drivers, we are maintaining our FY06 GDP estimate of 7.5%. On the external front, the FY05 BOP data revealed that the widening of the trade deficit from US\$15.5bn in FY04 to US\$38bn in FY05 resulted in India moving back into a current account deficit of US\$6.4bn. Going forward, while we expect this to widen further in FY06 to US\$12bn, we maintain our positive stance as we expect sufficient capital flows to finance the current account deficit
- Forex Markets:** The rupee gained marginally to Rs43.49/US\$ from 43.54/US\$ in the previous week on the back of buoyant FII inflows. However, the gain was held back by high crude oil prices and the dollar's gains overseas. The 25bps hike by the US Fed was in line with expectations thus having no effect on either Indian bonds or the rupee. Going forward, keeping in view the widening trade deficit, we believe that while movements in the rupee are not likely to be unidirectional, we maintain our 12M estimate of the unit touching Rs42.5/US\$.
- Bond Markets:** The 10-year yield ended marginally higher at 6.96% from 6.86% in the previous week. This was largely on the back of high crude oil prices in the initial part of the week. Bonds continued to be under pressure in the later half of the week due to concerns on liquidity and the announcement of the Rs100bn bond sale. The RBI received bids worth Rs50bn in its reverse repo LAF auctions considerably lower than the Rs200bn received a fortnight ago. This can be attributed to advance tax payments, government auction but is likely to be temporary given the government's Rs200bn surplus cash with the RBI

India - Market Monitor

KEY DATA HIGHLIGHTS

**Inflation fell further to
4.1% for the week ended
18 June 2005**

**Total forex reserves fell
by US\$676mn**

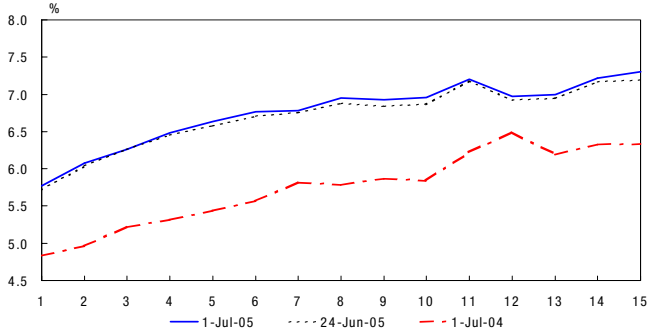
**Monsoons continue to
gather momentum, with
the IMD pegging rainfall
deficiency at only 15% as
on 30 June.**

	Units	Latest	Previous	1M ago	3M ago	12M ago
Interest Rates						
Overnight	%	5.90	5.00	5.10	5.50	4.25
1 year Treasury Bill	%	5.63	5.60	5.59	5.66	4.65
1 year OIS	%	5.49	5.46	5.50	5.45	5.03
1 year MIFOR	%	5.32	5.21	4.88	5.27	4.08
5 year Corp AAA spread over GOI	%	0.37	0.39	0.38	0.65	0.96
10 year GOI	%	6.96	6.86	6.92	6.73	5.78
Currency & Reserves						
INR/USD		43.49	43.54	43.70	43.75	45.89
EUR/USD		1.21	1.21	1.23	1.30	1.22
USD/JPY		111.07	109.18	108.25	107.27	109.14
12 Month INR Forward Premium	%	1.34	1.30	1.11	1.33	1.51
FX Assets As On (24-Jun-05)	US\$ bn.	132.94	133.61	133.95	135.09	114.13
Money & Banking						
Credit-Deposit Ratio		64.40	64.30	64.00	63.70	56.00
Money Supply - M3	% YoY	14.2	13.90	14.10	12.80	15.30
Inflation - WPI (18-Jun-05)	% YoY	4.10	4.33	5.38	5.45	6.62

Source: Citigroup; RBI.

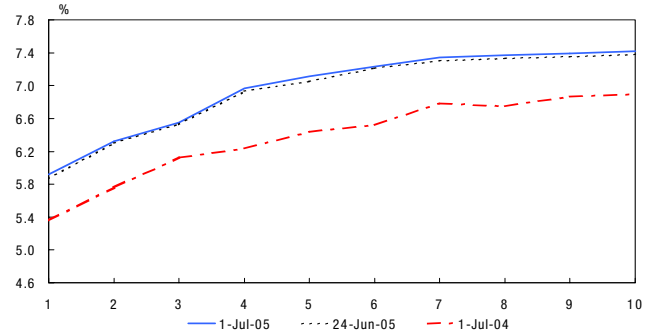
India – Markets in Pictures

Trends in GOI Yield Curve



The curve edged up and steepened due to high crude oil prices and liquidity concerns. The differential between the 1-year and the 15-year yield rose to 153 bps from 146 bps

Trends in AAA Yield Curve



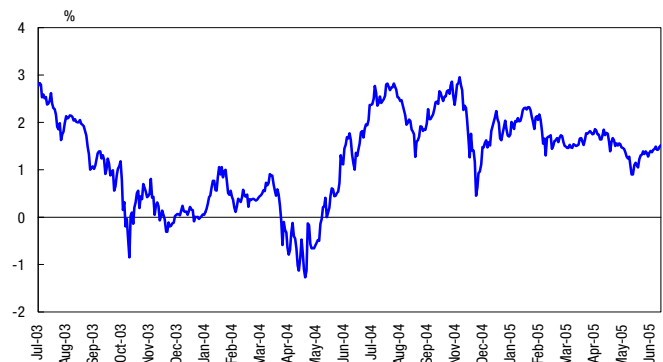
Trading activity was weak in the corporate bond segment with the 5-year benchmark yield rising to 7.11% from 7.05% in the previous week. The spread remained unchanged at 37 bps

Trends in Exchange Rate - Rs/US\$



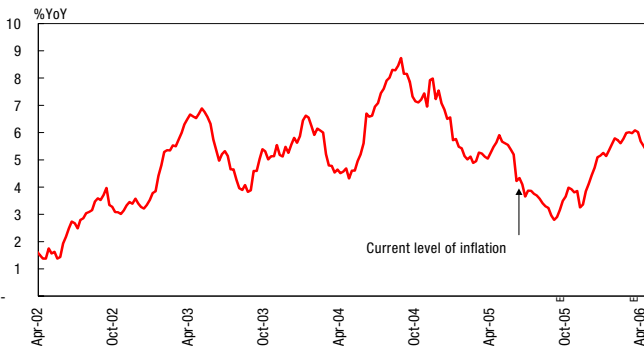
The rupee closed at 43.49/US\$ from 43.54/US\$. FII inflows strongly supported the rupee but its upside was capped at 43.50 by crude oil prices and sporadic rallies by the dollar overseas

Trends in 6 Month Premiums (%)



The premium edged up to 1.52% from 1.44% in the previous week. Arbitrage in the NDF market induced paying interest at the near month premiums mid-week

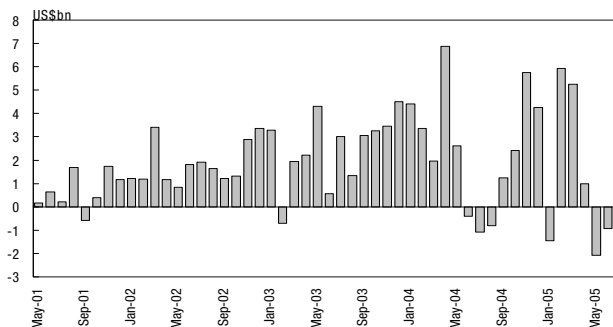
Trends in Inflation (% YoY)



Despite a marginal rise in nearly all major commodity groups- primary articles (+0.6%), and manufactured products (+0.1%), Inflation fell to 4.10% for the week-ended 18 June due to the base effect. The increase in petrol and diesel prices will get reflected in the coming week's data.

Source: Reuters, Bloomberg

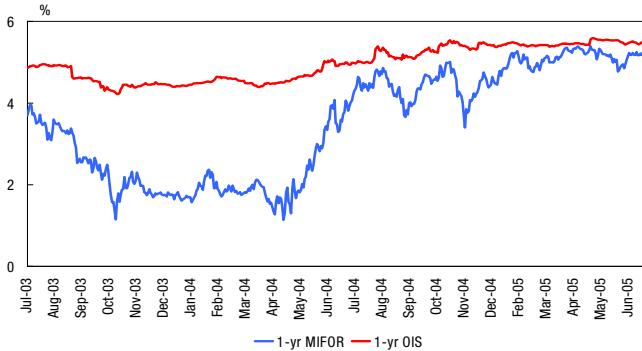
Monthly Increase in Forex Reserves (US\$bn)



Total forex reserves, including gold, declined by US\$676m for the week ended 24 June. Fiscal YTD, total forex reserves have fallen by US\$2.6, and currently amount to US\$139bn. This is as compared with US\$119bn at the same time last year.

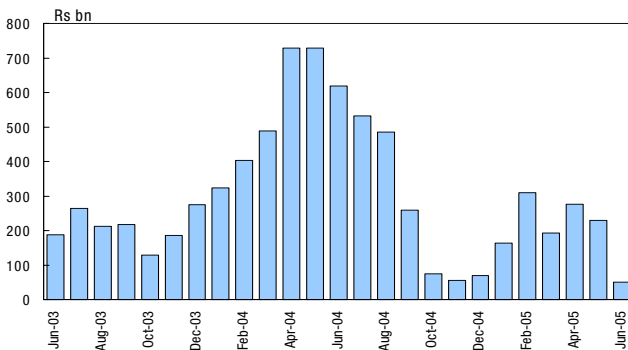
India – Markets in Pictures

Trends in the One-Year MIFOR and OIS



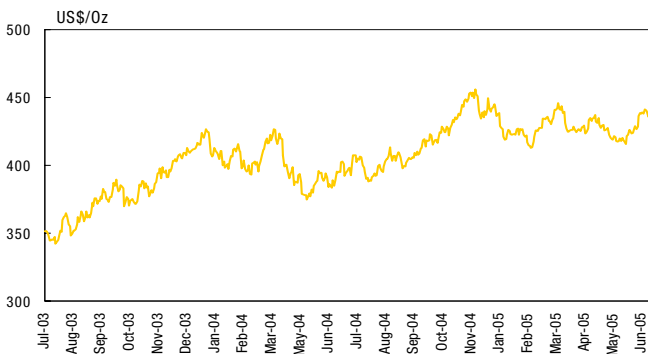
MIFOR ended at 5.32% from 5.21%, tracking US yields and forward premium. OIS rates ended at 5.49% from 5.46% largely due to high oil prices

Trends in Repo's (Rs bn)



Liquidity tightened indicated by the drop in daily average reverse repo bids to Rs50bn from Rs119bn in the previous week. The RBI also received repo bids - for the first time since December 2004

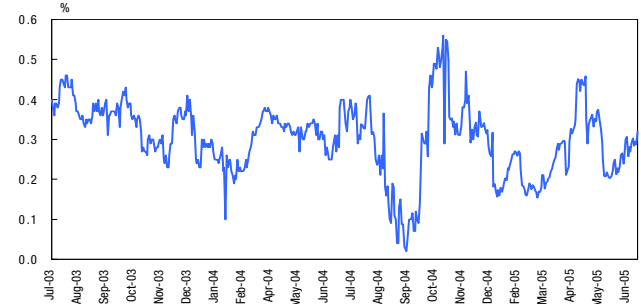
Trends in Commodities – Gold (US\$/Oz)



Gold fell to US\$427.65 from US\$440.55. Gold fell US\$10 in the last trading session, renewing its inverse link to the dollar

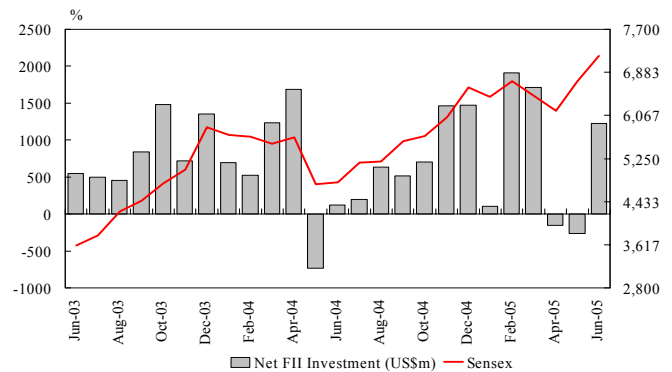
Source: Reuters; Bloomberg; Citigroup

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



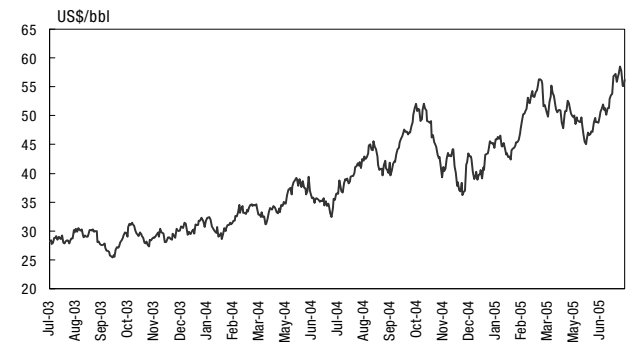
The spread widened to 32 bps from 29 bps as the 10-year bond faced stronger selling, which pushed its yield higher resulting in the spread increasing between the two segments

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



Equity inflows rose by US\$523.5mn for the trading week ended 1st July. For the month of June, total equity flows crossed US\$1bn as compared with merely US\$118mn for the same period last year.

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



Crude oil ended at US\$56.16 from US\$57.25. Profit taking and a spike in US fuel inventories pushed crude off all time peaks

Financial Market Forecasts

Currency Forecasts and Forwards

	Range in May	Spot 29-Jun	1 Month		3 Months		6 Months		12 Months	
			Forecast	Forward	Forecast	Forward	Forecast	Forward	Forecast	Forward
Versus USD										
Japan YEN	104.46-108.53	110.12	108.00	109.80	106.00	109.13	100.00	108.07	95.00	106.01
Euro EUR	1.2308-1.2959	1.2055	1.2000	1.2067	1.2200	1.2098	1.2800	1.2152	1.3300	1.2268
China RMB	8.2791-8.2817	8.2764	8.2800	8.2509	7.8700	8.1719	7.8700	8.0709	7.8700	7.8814
Hong Kong HK\$	7.7779-7.7985	7.7706	7.7750	7.7708	7.7900	7.7675	7.8000	7.7596	7.8000	7.7431
India INR	43.265-43.7	43.53	43.50	43.69	43.50	43.82	43.00	43.97	42.50	44.19
Indonesia IDR	9427-9528	9710	9850	9760	9650	9867	9450	10015	9200	10260
Malaysia MYR	3.8-3.8	3.8000	3.8000	3.7981	3.8000	3.7928	3.7200	3.7818	3.7200	3.7615
Philippines P	53.95-54.705	55.860	56.500	56.000	56.250	56.140	55.250	56.400	56.300	56.930
Singapore SGD	1.635-1.66625	1.6832	1.6800	1.6812	1.6450	1.6766	1.6100	1.6690	1.5800	1.6534
South Korea KRW	997.5-1008.5	1026.5	1015.0	1026.5	980.0	1026.3	950.0	1025.4	930.0	1022.2
Taiwan TWD	31.138-31.409	31.482	31.750	31.484	31.250	31.357	30.500	31.152	30.000	30.742
Thailand THB	39.43-40.605	41.245	41.500	41.293	40.000	41.295	39.500	41.215	39.000	41.100
Vietnam VND*	15828-15855	15861	15875	15929	15905	16056	15940	16247	16000	16628

Source: Datastream, Citigroup estimates.

Interest Rate Forecasts

		Range in May	29-Jun	1Q05	2Q05	3Q05	4Q05	1Q06
US	Fed Fund Rate	2.875 - 3.125	3.13	3.50	3.75	4.00	4.00	4.00
	10-Year Treasuries	3.981 - 4.282	3.97	4.30	4.35	4.30	4.20	4.20
EU	Repo Rate	2 - 2	2.00	2.00	2.00	2.25	2.25	2.50
	10-Year Bunds	3.274 - 3.445	3.16	3.35	3.50	3.60	3.50	3.50
JP	Call Money	-0.0045 - 0.001	0.00	0.00	0.00	0.00	0.00	0.00
	10-Year JGBs	1.226 - 1.31	1.22	1.40	1.50	1.60	1.70	1.70
CN	PBOC base rate (3-Month)	3.6 - 3.6	3.60	3.85	4.10	4.35	4.35	4.35
	Bond repo rate (7-Day)	1.1172 - 1.1883	1.10	1.75	2.25	2.50	2.50	3.50
	Government bond yield (5-Year)	3.277 - 3.389	3.02	4.50	4.75	5.00	5.00	5.00
HK	3-Month Interbank Rate	1.74286 - 3.39375	3.33	3.70	4.00	4.15	4.10	4.00
	5-Year Exchange Fund Note	3.029 - 3.637	3.29	3.50	3.75	3.78	3.70	3.70
IN	Bank Rate	6 - 6	6.00	6.00	6.00	6.00	6.00	6.00
	91-Day T Bill	5.16 - 5.201	5.32	5.75	5.75	5.75	5.75	5.75
	10-Year Gilt	6.921 - 7.331	6.90	7.10	7.38	7.50	7.50	7.50
ID	O/N FASBI	7.25 - 7.25	7.25	7.25	7.50	7.50	7.50	7.50
	FR0026	11.07 - 11.208	11.20	11.10	10.90	11.00	11.10	11.20
MY	Overnight Policy Rate	2.7 - 2.7	2.70	2.95	2.95	3.30	3.50	3.75
	5-Year MGS 4/04	3.585 - 3.62	3.42	3.65	3.75	3.90	4.15	4.25
PH	O/N Rate	7 - 7	7.00	7.50	7.75	8.00	8.25	8.25
	91-Day T Bill	5.767 - 6.319	5.89	5.50	6.00	6.25	6.50	6.50
	5-Year T Bond	10.5909 - 11.3821	10.71	10.50	10.75	10.50	10.25	10.00
SG	3-Month Interbank Rate	2.0125 - 2.125	2.05	2.25	2.40	2.50	2.50	2.50
	10-Year SGS	2.63 - 2.97	2.62	3.00	3.20	3.20	3.20	3.20
KR	Overnight Rate	3.25 - 3.25	3.25	3.25	3.25	3.25	3.50	3.50
	5-Year Treasury	3.8 - 4.03	4.00	4.10	4.40	4.60	4.70	4.70
TW	Overnight Rate	1.262 - 1.269	1.27	1.33	1.42	1.50	1.50	1.50
	10-Year Government Bond	1.911 - 2.163	1.87	2.10	2.20	2.25	2.15	2.15
TH	14-Day Repo Rate	2.25 - 2.25	2.50	2.75	3.25	3.25	3.25	3.25
	10-Year Government Bond	4.121 - 4.457	3.94	4.50	4.75	5.25	5.50	5.50
VN	3-Month Interbank Rate	7.54 - 7.56	7.51	7.75	7.75	7.75	8.00	8.00

Source: Primark Datastream, Citigroup estimates

Disclosure Appendix

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