See the Disclosure Appendix for the Analyst Certification and Other Disclosures

INDIA

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CitiViews – India Market Watch

- **Macro Views:** The theme in the July Macroscope discussed how the availability of low-cost, high-quality medical care was rapidly turning India into a 'global health destination'[1]. Interestingly, recent reports state that the government plans to introduce medical visas. Currently, visitors seeking medical treatment in India enter the country on a six-month tourist visa, which can be extended only with the permission of the Indian home ministry. However, reports[2] suggest that the medical visas will be issued for a year, and can be extended further by the state governments or Foreign Regional Registration Offices. Another move designed to encourage medical tourism involves accrediting 50 hospitals and 30 ayurvedic centers across the country, to specially cater to tourists traveling to India for its healthcare benefits. We believe these moves will serve to strengthen the industry in its nascent stages.

- **Forex Markets:** The rupee strengthened marginally to 43.52/US$ from 43.61/US$ in the previous week due to the buoyancy in FII inflows. However, the rupee's gains were limited by the dollar's rally overseas, largely due to the better than expected US data. We re-iterate our view that while movements in the rupee are unlikely to be uni-directional in the near term, we maintain our 12M estimate of the unit touching Rs42.5/US$

- **Bond Markets:** The 10-year benchmark bond traded at 7.17% from 7.19% in the previous week. However sentiment was and remains weak due to the continuation of high oil prices, tight liquidity coupled with the robust industrial production data, which could have a bearing on the monetary policy review due on July 26

KEY DATA HIGHLIGHTS

Inflation fell to 4.09% for the week ended 2 July

Total forex reserves fell by US$544mn

On a cumulative basis, rainfall during the first two weeks of July was 1% above normal.

India - Market Monitor

	Units	Latest	Previous	1M ago	3M ago	12M ago
Interest Rates						
Overnight	%	5.05	5.00	5.05	4.80	4.50
1 year Treasury Bill	%	5.74	5.63	5.60	5.65	4.62
1 year OIS	%	5.60	5.54	5.51	5.46	4.99
1 year MIFOR	%	5.46	5.36	5.23	5.31	4.00
5 year Corp AAA spread over GOI	%	0.30	0.23	0.39	0.48	0.95
10 year GOI	%	7.17	7.19	6.90	7.08	5.95
Currency & Reserves						
USD/INR		43.52	43.61	43.59	43.83	45.96
EUR/USD		1.21	1.19	1.21	1.29	1.24
USD/JPY		111.99	112.43	109.16	107.19	109.57
12 Month INR Forward Premium	%	1.31	1.33	1.24	1.57	1.47
FX Assets As On (08-Jul-05)	US$ bn.	130.90	131.43	132.57	135.52	115.41
Money & Banking						
Credit-Deposit Ratio		64.89	64.40	64.33	63.91	56.25
Money Supply - M3	% YoY	13.7	14.2	13.90	12.70	14.80
Inflation - WPI (02-Jul-05)	% YoY	4.09	4.14	4.22	5.70	6.16

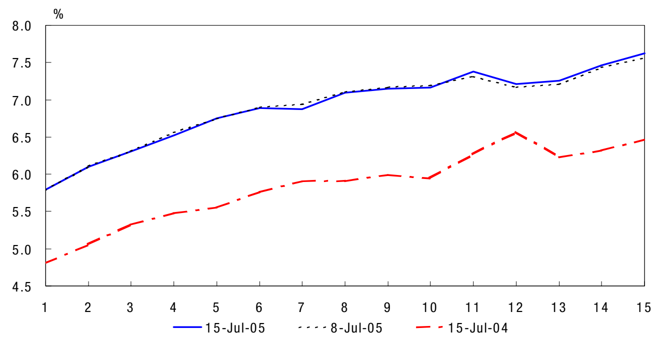
Source: Citigroup; RBI.

[1] For details please refer to India Macroscope dated 12th July "Medical Tourism in India: A new and Growing Opportunity"

[2] Hindustan Times – UK edition dated 16th July.

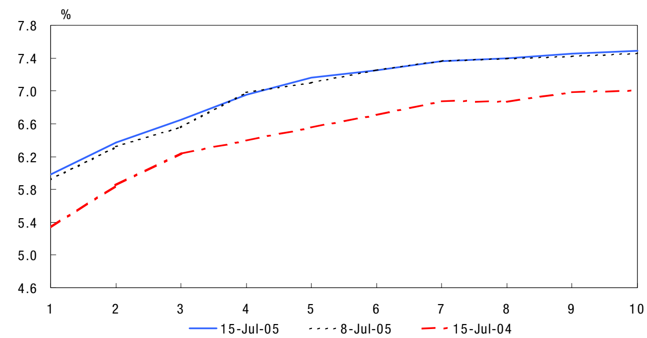
India – Markets in Pictures

Trends in GOI Yield Curve



The curve steepened as long-term yields edged up amidst broadly bearish sentiment ahead of the monetary policy review. The differential between the 1-year and the 15-year yield increased to 183 bps from 178 bps

Trends in AAA Yield Curve

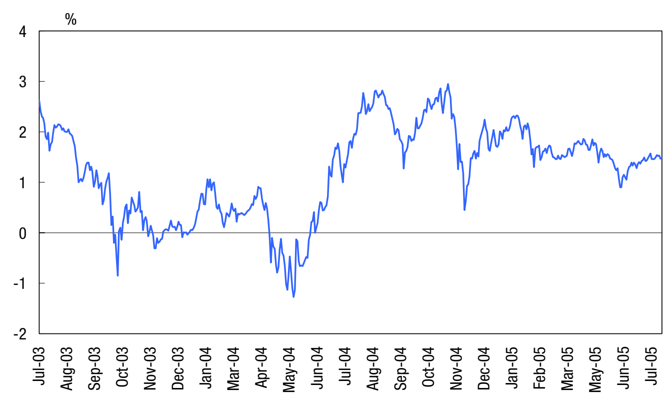


AAA yields rose sharply early in the week mirroring the broad bond market trend but failed to recover off lows like the sovereign counterparts. The 5-year benchmark yield ended at 7.16% from 7.1%. Its spread was 30 bps from 23 bps

Trends in Exchange Rate - Rs/US$

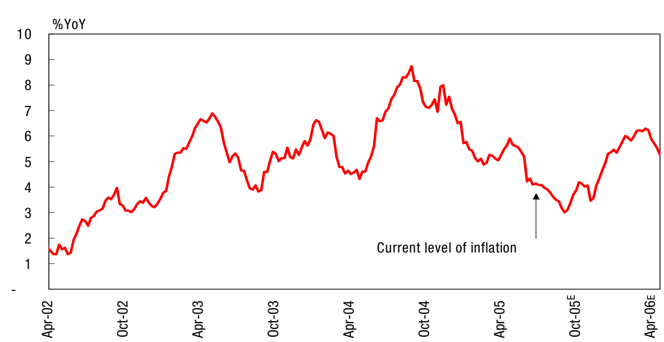
The rupee closed at 43.52/US$ from 43.61/US$ largely on the back of FII inflows. High crude oil prices and buying by state-run banks prevented the rupee from breaking 43.50/US$ levels

Trends in 6 Month Premiums (%)



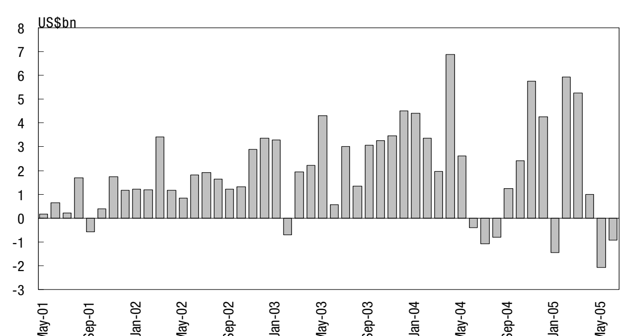
The premium remained largely unchanged at 1.48% with limited trading in the absence of firm views over currencies

Trends in Inflation (% YoY)



Inflation fell to 4.09% for the week ended 2 July. This is a 22-month low, largely on the back of a decline in Primary Articles (-1.3%), and despite a rise in the Fuel Index (+0.5%). Meanwhile, the index for Manufactured Products remained unchanged for the week.

Monthly Increase in Forex Reserves (US$bn)

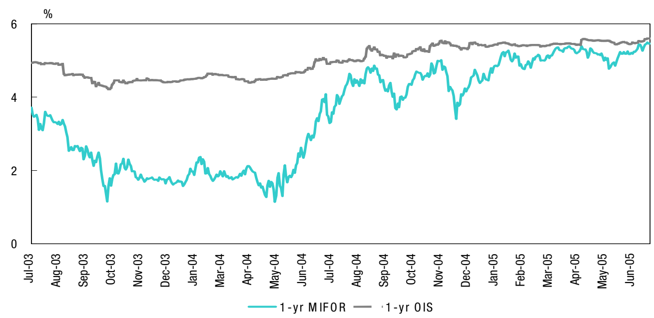


Total forex reserves, including gold, declined by US$544m for the week ended 8 July. Fiscal YTD, foreign currency assets have fallen by nearly US$4.7bn, which is attributed to the current account going back into a deficit and revaluation of reserves. FX reserves currently stand at US$131bn

Source: Reuters, Bloomberg

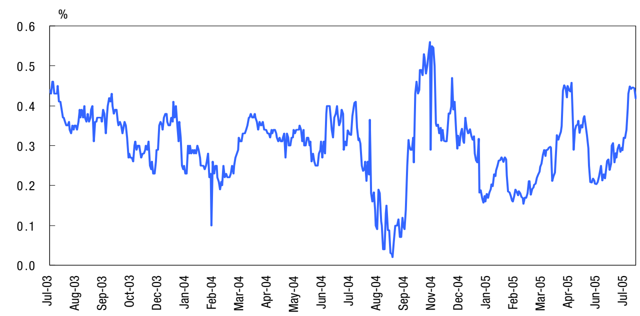
India – Markets in Pictures

Trends in the Credit and Investment Deposit Ratios



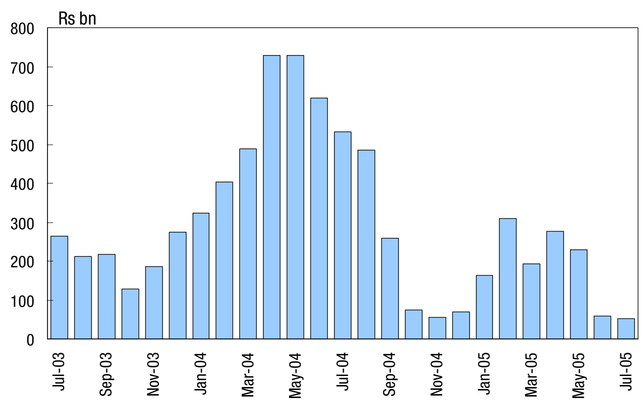
MIFOR rose to 5.46% from 5.36%. OIS rose to 5.6% from 5.54%, indicating the nervousness ahead of the policy review

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



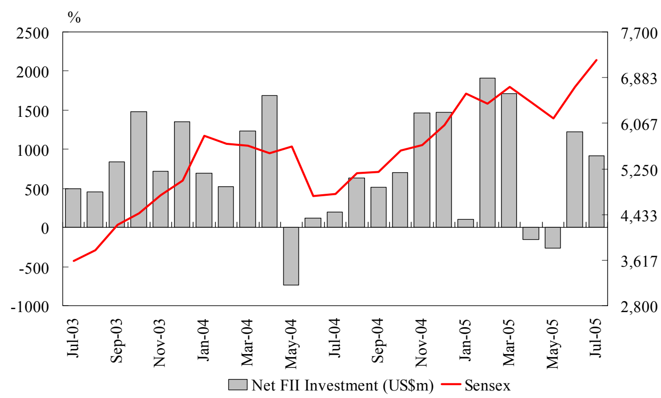
The spread stayed at 2-1/2 month highs - at 42 bps with the intra-week spread steady as both underlying yields moved in sync

Trends in Repo's (Rs bn)



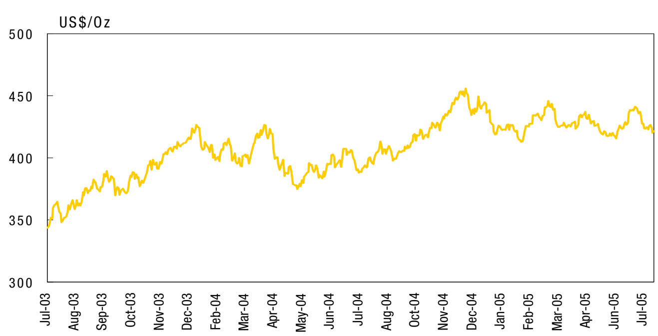
Daily average reverse repo bids fell to Rs52bn from Rs116bn in the previous week. This is possibly attributed to net fx outflows coupled with the government's surplus cash lying with RBI

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



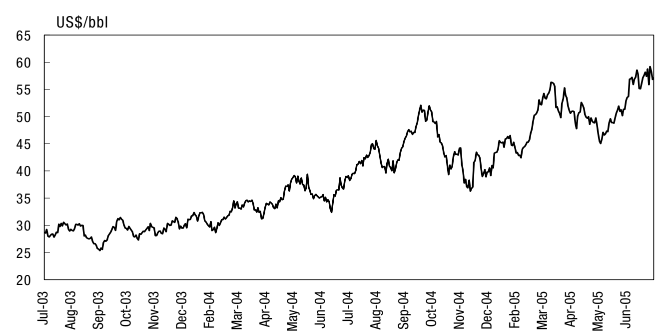
Equity inflows rose by US$386mn for the trading week ended 15th July. Fiscal YTD, total FII flows (debt+ equity) amounted to US$1.7bn, as compared with US$1.3b during the same period last year

Trends in Commodities – Gold(US$/Oz)



Gold slipped to US$421.55 from US$423.05. The dollar's strength in the currency market has pushed the metal down by US$20 during the last three weeks

Trends in Commodities – Oil (US$/bbl)



Brent ended at US$57.16 from US$58.75 in a volatile week. The biggest concern last week was the possibility of damage to the production capacities in the Gulf of Mexico due to the hurricanes

Source: Reuters; Bloomberg; Citigroup

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Financial Market Forecasts

Currency Forecasts and Forwards

	Range in Jan	Spot 13-Jul	1 Month Forecast	1 Month *Forward*	3 Months Forecast	3 Months *Forward*	6 Months Forecast	6 Months *Forward*	12 Months Forecast	12 Months *Forward*
Versus USD										
Japan YEN	106.72-110.81	111.38	112.00	*111.06*	108.00	*110.35*	100.00	*109.24*	95.00	*107.02*
Euro EUR	1.2038-1.2329	1.2184	1.1700	*1.2197*	1.2000	*1.2230*	1.2800	*1.2288*	1.3300	*1.2410*
China RMB	8.2765-8.2765	8.2764	8.2800	*8.2344*	7.8650	*8.1264*	7.8650	*8.0214*	7.8650	*7.8264*
Hong Kong HK$	7.769-7.7837	7.7787	7.7750	*7.7796*	7.7800	*7.7824*	7.7850	*7.7895*	7.7900	*7.8065*
India INR	**43.488-43.742**	**43.53**	**43.50**	***43.63***	**43.50**	***43.77***	**43.00**	***43.94***	**42.50**	***44.14***
Indonesia IDR	9544-9768	9781	9850	*9833*	9650	*9949*	9450	*10026*	9200	*10346*
Malaysia MYR	3.8-3.8	3.8000	3.8000	*3.7944*	3.8000	*3.7913*	3.7200	*3.7781*	3.7200	*3.7535*
Philippines P	54.5-55.96	56.150	56.500	*56.390*	56.250	*56.710*	55.250	*57.210*	56.300	*58.220*
Singapore SGD	1.6605-1.6856	1.6890	1.6900	*1.6869*	1.6550	*1.6820*	1.6100	*1.6736*	1.5800	*1.6567*
South Korea KRW	1003.5-1035	1037.1	1050.0	*1037.3*	1020.0	*1037.0*	980.0	*1035.8*	950.0	*1032.9*
Taiwan TWD	31.218-31.615	31.978	32.200	*31.920*	31.750	*31.788*	31.250	*31.593*	30.500	*31.193*
Thailand THB	40.525-41.325	41.860	42.750	*41.918*	42.000	*41.920*	41.000	*41.840*	40.000	*41.735*
Vietnam VND*	15849-15875	15874	15895	*15935*	15920	*16056*	15940	*16236*	16000	*16597*

Source: Datastream, Citigroup estimates. *State Bank of Vietnam Forward Ceiling Rates

Interest Rate Forecasts

		Range in Jun	13-Jul	In 1M	In 3M	In 6M	In 12M
US	Fed Fund Rate	2.87 - 3.37	3.25	3.25	3.50	3.75	4.00
	10-Year Treasuries	3.88 - 4.10	4.16	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	3.25	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	1.26	NA	NA	NA	NA
CN	PBOC base rate (3-Month)	3.6 - 3.6	3.60	3.60	3.85	4.10	4.35
	Bond repo rate (7-Day)	1.08 - 1.14	1.16	1.25	1.75	2.25	2.50
	Government bond yield (5-Year)	2.58 - 2.89	2.88	3.50	4.00	4.50	5.00
HK	3-Month Interbank Rate	3.15 - 3.38	3.40	3.55	3.70	4.00	4.10
	5-Year Exchange Fund Note	3.23 - 3.39	3.36	3.45	3.65	3.85	3.70
IN	**Bank Rate**	**6 - 6**	**6.00**	**6.00**	**6.00**	**6.00**	**6.00**
	91-Day T Bill	**5.2 - 5.37**	**5.41**	**5.50**	**5.75**	**5.75**	**5.75**
	10-Year Gilt	**6.79 - 6.94**	**7.23**	**7.00**	**7.25**	**7.25**	**7.50**
ID	O/N FASBI	NA	8.50	8.75	9.00	9.25	9.75
	FR0026	11.08 - 11.19	11.51	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	3.46	3.40	3.50	3.65	3.90
PH	O/N Rate	7 - 7	7.00	7.00	7.50	7.75	8.25
	91-Day T Bill	5.69 - 5.89	6.17	6.50	5.50	6.00	6.50
	5-Year T Bond	10.52 - 10.98	10.90	11.25	10.50	10.75	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	2.73	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	4.29	4.20	4.20	4.50	4.70
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	2.00	2.05	2.15	2.24	2.15
TH	14-Day Repo Rate	2.25 - 2.5	2.50	2.75	2.75	3.25	3.25
	10-Year Government Bond	3.90 - 4.14	4.15	4.25	4.50	4.75	5.50
VN	3-Month Interbank Rate	7.44 - 7.61	7.52	7.65	7.75	7.75	8.00

Source: Primark Datastream, Citigroup estimates

Disclosure Appendix

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