

Debt Market Review

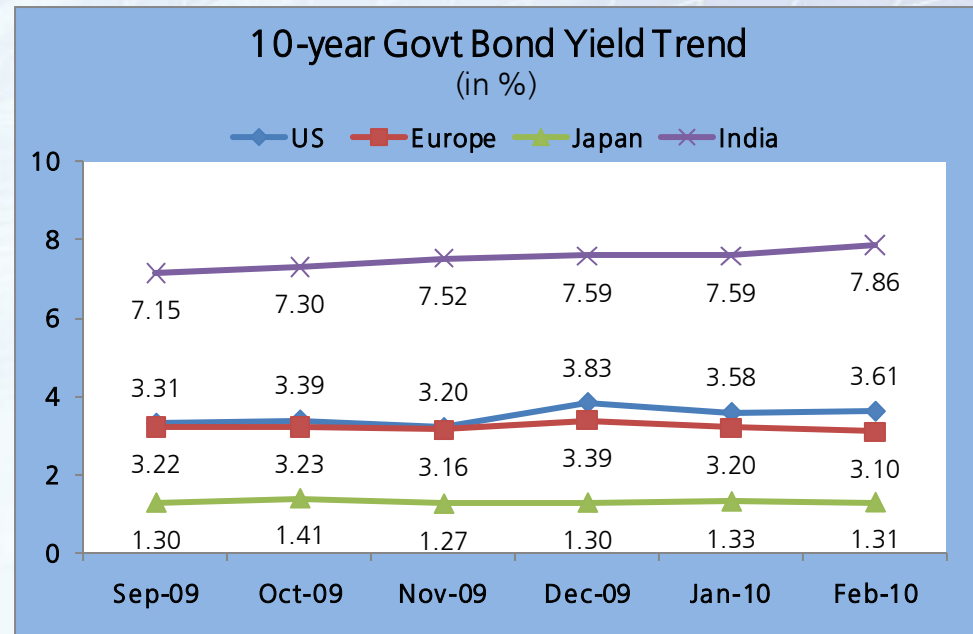
March 2010



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Global Bond Markets Perform Weak

- Improvement in risk appetite weighs
- US 10-year treasury yield moves up 3 bps to 3.61%
- Yield on 10-year European govt bond falls 10 bps to 3.10%
- Japan's 10-year govt bond yield declines 2 bps to 1.31%



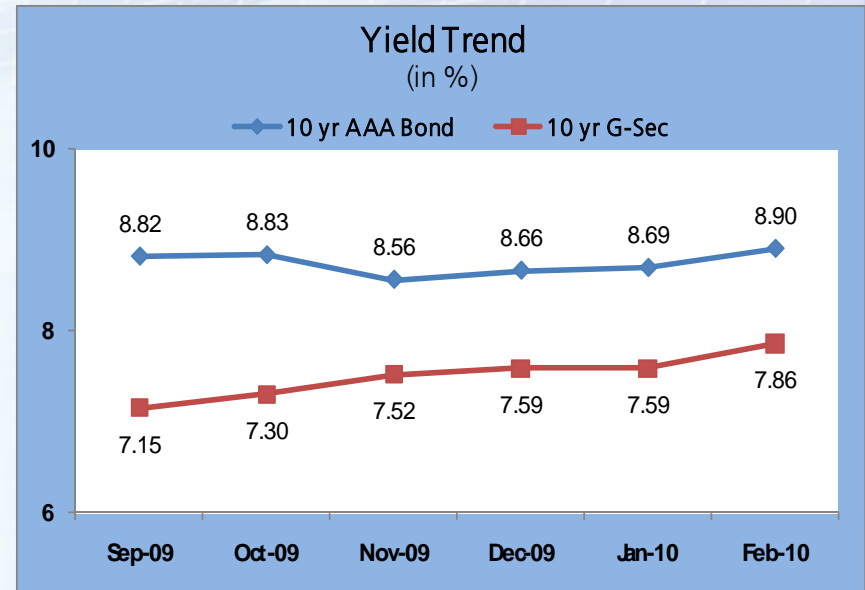
Indian Bond Prices Decline

Highlights

- Yields move up across the curve
 - On uncertainty about govt borrowing needs
 - A view that strengthening economy and concerns over rising inflation could result in RBI raising interest rates in the coming months also dampened sentiments
- Liquidity remains comfortable
- Call rates remain range bound in 3.10 – 3.40%
- Govt's gross borrowing for FY11 marginally higher at Rs 4,57,143 crores

Spread

- On 10-year G-sec and 10-year AAA bond shortens by 7 at 89 bps



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G-Sec Yields Rise

10-year G-sec yield

- Rises 27 bps to 7.86%

Yield on 5-year G-sec

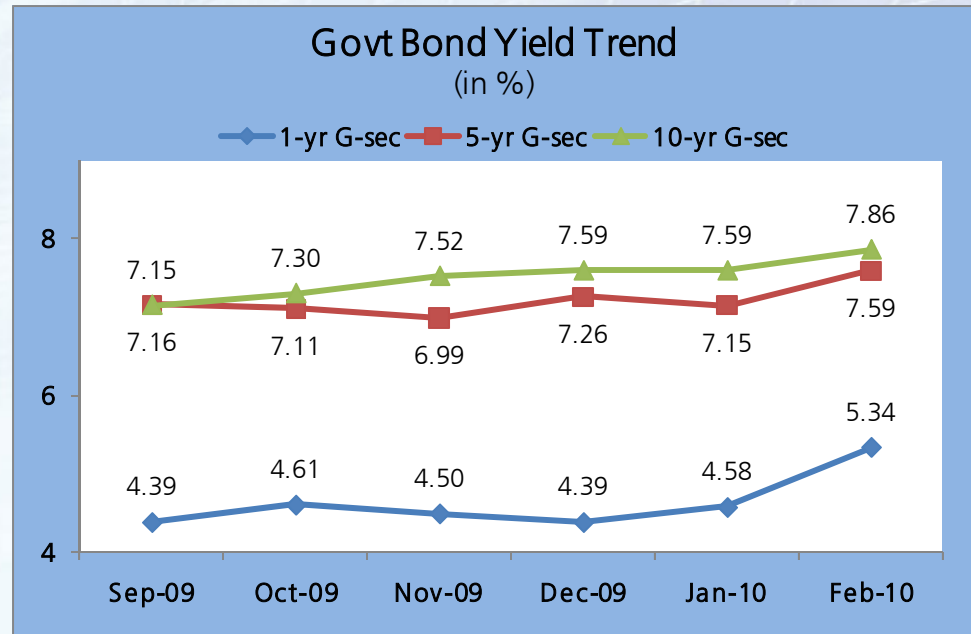
- Moves up 44 bps to 7.59%

Short term 1-year G-sec yield

- Climbs 76 bps to 5.34%

Spread

- On 1 & 10-year G-sec shortens by 44 bps to 255 bps



Corporate Bond Yields Follow Suit

10-year AAA yield

- Moves up 21 bps to 8.90%

5-year AAA yield

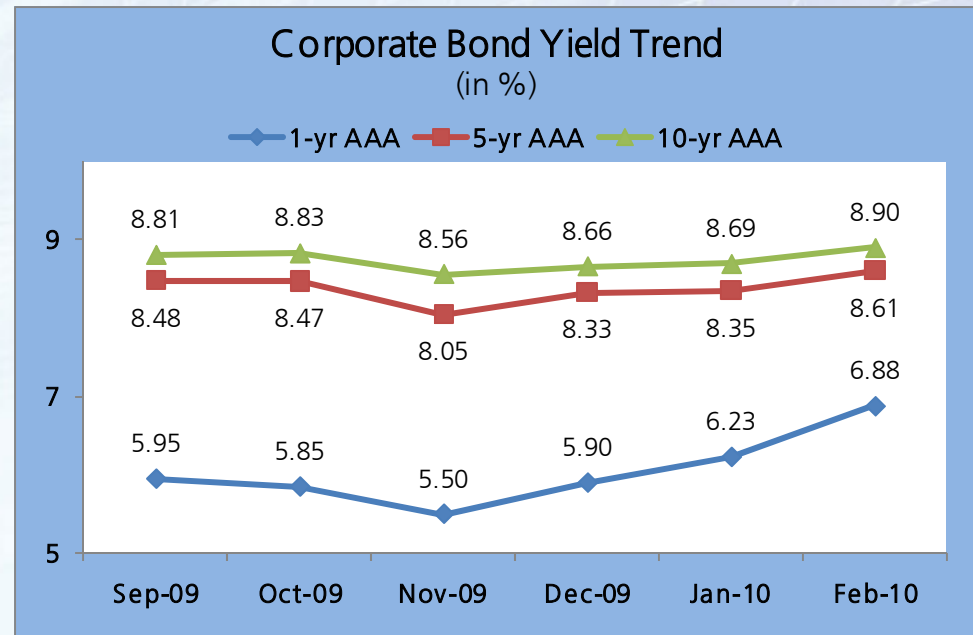
- Climbs 26 bps to 8.61%

Short term 1-year AAA yield

- Rises 65 bps to 6.88%

Spread

- On 1 and 10-year AAA bond shortens by 45 bps to 203 bps



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Outlook

- Budget restricted gross borrowing and net borrowing on lower side of market expectations
- Actual supply which would hit debt markets is expected to be substantially higher than FY10 as RBI is not expected to conduct Gilt purchases through OMOs
- Inflation continues to be a concern and banking system liquidity will fall due to CRR hike effect and advance tax outflows during March
- 10-year benchmark G-sec yield may trade in a range of 7.75% to 8.25% during the month
- Short term CD/CP rates may also remain volatile with upward bias



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Thank You!

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