Inflation Traded in

Introduction

The monetary policy statement by Governor Subbarao for the year 2012-13 assumes critical significance at this juncture for two reasons. First, it offers to provide the tone of policy setting for the fiscal year 2012-13 as a whole and will generate expectations that would be difficult to reverse in the short run; and second, the policy is announced at a time that the Indian economy is facing multiple downside risks namely persistent and sticky inflation at an elevated level, weakening external sector in terms of current account deficit, depreciating currency and declining reserves position, and the fiscal laxity posing the challenge of managing a huge additional borrowing programme.

There seems to be no reason to become complacent on any of the downside risks. The extremely dovish action of cutting the repo rate by 50 basis points (bps) has no doubt pleasantly surprised the market as much as the earlier cumulative cuts in cash reserve ratio (CRR) by 125 bps. Stock market responded favourably immediately after the announcement. Trades in benchmark government securities have shown easing of rates by above 10-15 bps. This would generate expectations about further rate cuts though the forward guidance indicates that the scope for any further easing of policy rate is limited.

Combining the intensity of CRR cuts and the repo rate cut within a short span of about four months, ever since a pause to tightening stance was announced, the stand taken by the RBI now should be termed no less than ‘aggressive easing’ of policy. The hawkish posture reflected in macroeconomic review released a day earlier and also in the assessments of downside risks in the policy statement, the nose-diving dovish policy action is inexplicable.

It is argued here that the policy posture taken by the Reserve Bank of India (RBI) is fraught with the risk of fuelling inflation rather than propelling growth, meeting the government borrowing at a lower cost than providing a fillip to credit growth and investment demand and exacerbating the weaknesses surfacing in the external sector.

1.1 The Inflation Illusion

The real gross domestic product (GDP) growth projection is 7.3% for 2012-13, that is in alignment with the post crisis trend growth. The post crisis period was characterised by a very tight stance of monetary policy. If a growth rate of around 7% was sustained in that tight environment, then with aggressive easing of policy, one should expect the growth to be at least equivalent to the budgetary projection of 7.6%. With inflation rate expected to remain sticky around the current levels, then the policy action seems to only trading in inflation for a very modest pickup in growth.

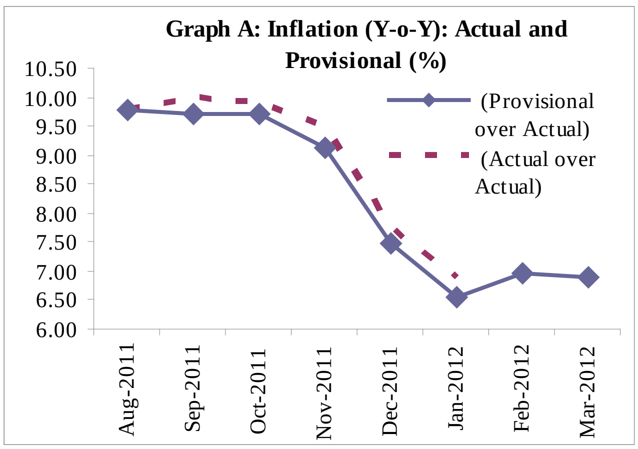
The official wholesale price inflation data for every month come in the guise of provisional numbers followed by actual revised numbers with a lag of about two months, For instance, as of April, only provisional inflation numbers are available for the months of February and March 2012, which stood respectively at 6.95% and 6.89%. This gives an impression that not only the inflation rate has followed a declining trend, but it also ruled below the psychological level of 7.0% at the year end. But, an examination of the track record of trend between the provisional and actual inflation numbers would reveal that the provisional inflation data consistently created an illusion of inflation being milder than what actually it is. This illusion persists over time, since not much publicity is given to these changes, and people focus on current numbers however inaccurate it is than on the revised lagged data. While this illusion is not as off the mark as it was in the case of industrial production numbers recently, the trend shows clearly that there is a consistent downward bias in provisional inflation numbers.

The Table 1 and Graph A illustrates the final (actual) and provisional annual inflation estimates during August-January 2011-12 for which period, the comparative figures are available based on the new series with base year 2004-05. If the deviation from provisional to actual numbers is purely due to statistical discrepancy, the normal expectation is that these errors or differences would be randomly and normally distributed with an average of around zero. But, this was not the case. The provisional numbers had a downward bias on an average by 23 bps and for the latest period of November 2011 to January 2012 the bias had widened to a range of 27 to 35 bps. Therefore, there is high probability to believe that the year-end inflation for 2011-12 is not below 7.0%, but is around 7.2% which would become evident only after two months.

Table 1: Y-o-Y Inflation: Actual and Provisional *(%)*			
	(Provisional over Actual)	(Actual over Actual)	Difference (*percentage points*)
Aug-11	9.78	9.78	0
Sep-11	9.72	10	0.28
Oct-11	9.73	9.87	0.14
Nov-11	9.11	9.46	0.35
Dec-11	7.47	7.74	0.27
Jan-12	6.55	6.89	0.34
Feb-12	6.95		
Mar-12	6.89		

Note: Provisional Data for 2004-05 (base year) series is available only from August 2010.

Source: Compiled by EPWRF



The RBI in its recently released monetary policy has projected WPI inflation for March 2013 at 6.5% portending a 50 bps reduction over a year-end inflation for March 2012. However, the downside risks such as the current upward pressure in food and mineral prices and the impact of increase in services and other indirect taxes along with highly volatile global crude prices and the overhang of suppressed oil inflation makes the projection to appear a bit ambitious. The RBI itself has admitted to the sticky nature of inflation at current levels.

1.2 Investments likely to crowd out Bank credit

As has been acknowledged, there has been a shift in composition of bank assets from credit to SLR investments. The CRR cuts thus far seemed to have helped the conduct of government borrowing programme rather than increasing the supply of credit. Table 2 shows that between April 2011 and March 2012, banks invested in SLR securities to the extent of 33.8% of incremental deposits. The incremental credit flow also accounted for as high as 96.2% of increase in aggregate deposits. On an incremental basis, the incremental credit and investment deposit ratio worked out to a very high 126.8%. This indicates that obviously the incremental investments and credit by banks were met out of borrowed funds, in particular from the RBI through its Liquidity Adjustment Facility (LAF) which was rather passively operated practically without any prudential limit whatsoever.

Table 2: Projected Bank Credit and Investments *(Amount in Rs crore)*

	Bank Credit	Aggregate Deposit	Investments (SLR)	Non -SLR	Total Bank Credit + Total Investments
Outstanding Amount					
2010-11	3942083	5207969	1501619	193660	5637362
2011-12	4611630	5903660	1736640	171520	6519790
Incremental over 2010-11	669547 (96.2)	695691	235021 (33.8)	-22140	882428 (126.8)
2012-13*	5404830	6848246	1916000	-	7320830
Incremental over 2011-12	793200 (84.0)	944586	319270 (33.8)	-	1112470 (117.8)

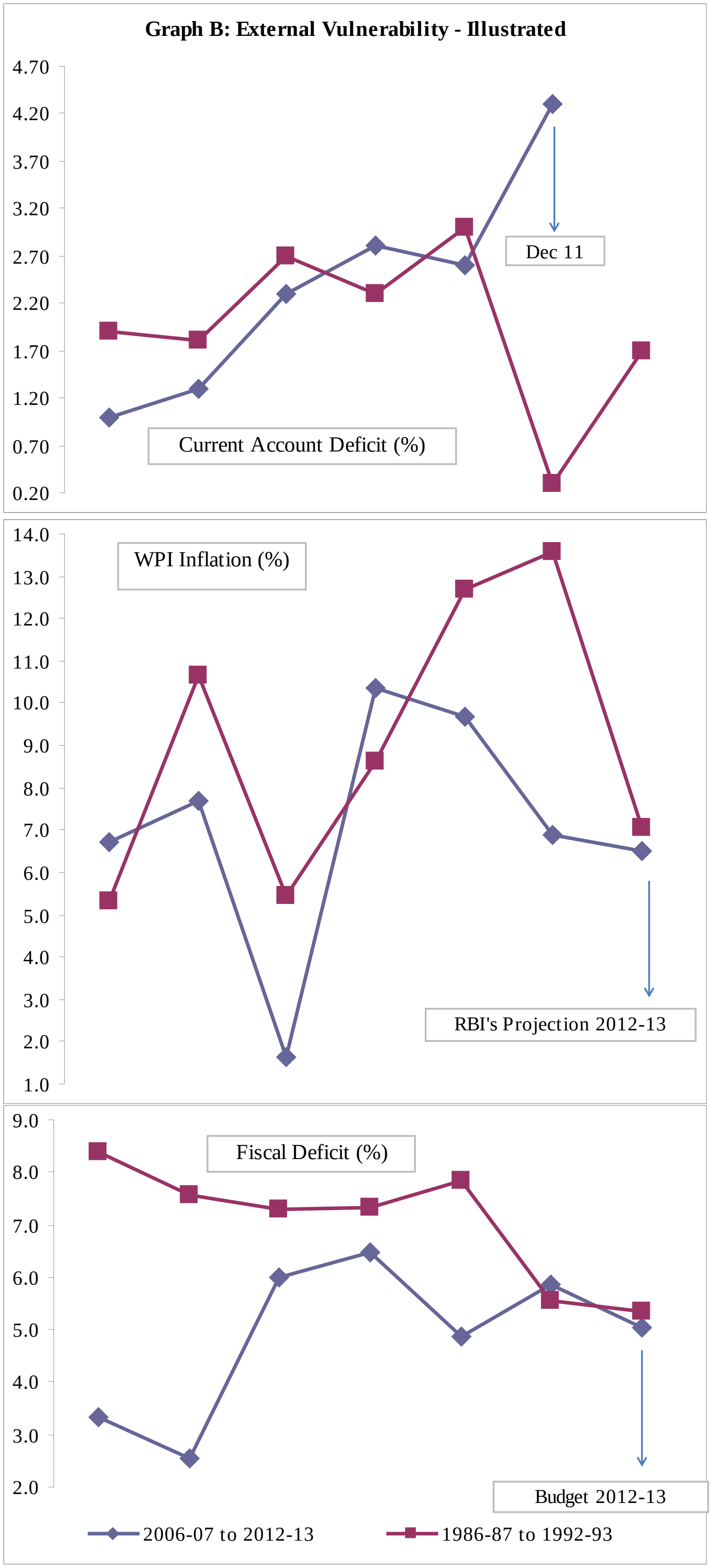
Figures in brackets are percentage to aggregate deposits. SLR: Statutory Liquidity Ratio.
* Projected By EPWRF

A tentative projection on an incremental basis, based upon the assumptions of RBI with regard to deposit and credit growth and investment in SLR in the same proportion as in 2011-12, and with no net investment in non-SLR, the incremental credit and investment to deposit ratio would work out to 117.8% for the year 2012-13. This may not be technically feasible without a continued open LAF window supplemented by open market purchases, to support credit and investment growth. A continued and passive accommodation of the banking system under LAF at lower cost is fraught with the risk of expanding liquidity beyond reasonable limits with attendant risks of adding to inflationary pressures.

With lower interest rates, deposit accretion might further slowdown. Banks would prefer to invest in government securities in an environment of southward moving interest rates for trading profits. With tightening of provisioning requirements including capital and liquidity requirements under the Basel III coming into effect shortly, banks would be further encouraged to build up risk free assets in the form government securities portfolio. The worsening non-performing credit portfolio would further strengthen this tendency.

1.3 Complacency about External Sector Vulnerability

As Governor Subbarao mentioned, today’s situation is no doubt different from the 1991 crisis period and the country is much more resilient. But, it does not dilute the real gravity of the situation. Graph B juxtaposes the trends in current account deficit, inflation rate and the fiscal deficit of the central government during 1986-87 to 1992-93 and during 2006-07 to 2012-13. The similarity of the situation and the build up of vulnerability is rather striking. In some respect, the current situation seems to be slightly worse. The improvement in some indicators around 1991 was due to the IMF loan. How resilient India will be in the current situation to overcome adverse trends, only time will tell.


Graph B: External Vulnerability - Illustrated
4.70
4.20
3.70
3.20
2.70
2.20
1.70
1.20
0.70
0.20
Dec 11
Current Account Deficit (%)
14.0
13.0
12.0
11.0
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
WPI Inflation (%)
RBI's Projection 2012-13
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
Fiscal Deficit (%)
Budget 2012-13
2006-07 to 2012-13
1986-87 to 1992-93

1.4 In Sum

Overall, given the downside risks, and the kind of bullish expectations that the aggressive easing of policy stature is likely to create in financial markets, a rate cut of 50 bps at this juncture would appear premature.

2. Money, Forex and Debt Markets

The closing month of the financial year 2011-12 for financial markets proved to be rather stiff after recouping in February on the back of optimistic global developments. This was despite a policy review of the Reserve Bank of India (RBI) and budget projection by the government. The month of March began with sudden spurt in oil prices overseas hurting domestic market sentiments exerting inflationary pressures. Further, murky domestic gross domestic product (GDP) growth projection for 2011-12 and diminishing hopes about a rate cut thwarted investor confidence. However, encouraging industrial production numbers for January at 6.8% (proved to be a false signal later when it was revised to a shocking 1.1%) raised hopes for renewal in investment growth. The surprising 75 basis points cut in cash reserve ratio (CRR) encouraged market participants to hope for further softening measures from the RBI. Still, dismal advance tax payments by corporates for the last quarter of 2011-12, once again underpinned market sentiments. Further, the mid-quarter monetary policy review on 15 March turned unexciting. In the second half of the month the budget announcement did not change the cynical outlook about the domestic economic prospects. Finance Minister has announced the highest-ever borrowing for the fiscal year 2012-13 and targeted a lower fiscal deficit at 5.1% as against 5.9% seen in 2011-12. Moreover, the proposed General Anti Avoidance Rule (GAAR) in the Budget posed an alarm to foreign investors and they began to unwind their exposures in the Indian market fearing tax liability for capital gains.

Liquidity strain exacerbated in March and forced the central bank to cut CRR by another 75 bps on 9 March releasing Rs 48,000 crore to the system. Overall, the system faced a liquidity outflow of around Rs 94,000 crore in March. Bank credit expanded by around Rs 3 lakh crore while, increase in the same amount of aggregate deposits during March adequately leveraged the situation. However, RBI credit to government and central governments cash balances with RBI caused an outflow of Rs 48,000 crore each during the month. In addition, government's market borrowing continued in the last month of the fiscal and absorbed Rs 26,000 crore while banker's deposits with RBI took out Rs 33,650 crore. However, inflows through net foreign assets by more than Rs 56,000 crore relieved the system to some extent. RBI also continued its liquidity infusion through liquidity adjustment facility (LAF) and open market operations (OMO) window to ease the liquidity tightness that usually builds up towards the financial year closing.

2.1. Money Market

Despite a 125 bps cut in CRR in two tranches in 2012, the liquidity situation in the system remained tight owing to advance tax outflows in mid-March. The situation worsened further with fiscal year approaching to its close. Widespread liquidity shortage in the system put huge burden on short-term money market rates in March and overnight money market rates moved upwards from the beginning of the month and weighted average one-day rates stayed above the repo rate of 8.50%. Towards the end of March, call rates hardened significantly and crossed 9% levels while touched their high of 11.77% on 30 March. During March, the weighted average call money rates hardened by 15 bps to 9.05% compared to previous month.

Similarly, the notice money market displayed sharp rise in its daily rates and the weighted average rates increased by a substantial 72 bps to 9.52% in period of one month. Renewed uncertainty over monetary easing and crucial liquidity stress kept the rates in collateralised instruments like collateralised borrowing and lending obligations (CBLO) and market repo more volatile and they ruled in an upper range during the same period. Weighted average daily rates of CBLO and market repo increased by 10 bps and 14 bps, respectively over the review period.

Following heightened dependence over short-term money market instruments in March, the daily trading activity in the overnight segment galloped 40% compared to the previous month. The daily traded turnover in notice and term money segment also increased by 14% and 4%, respectively during March over February. The volumes in CBLO market also increased by 19% over the period while, owing to sharp rise in the weighted average rates the market repo segments depicting marginal decline in its daily turnover (Table 3).

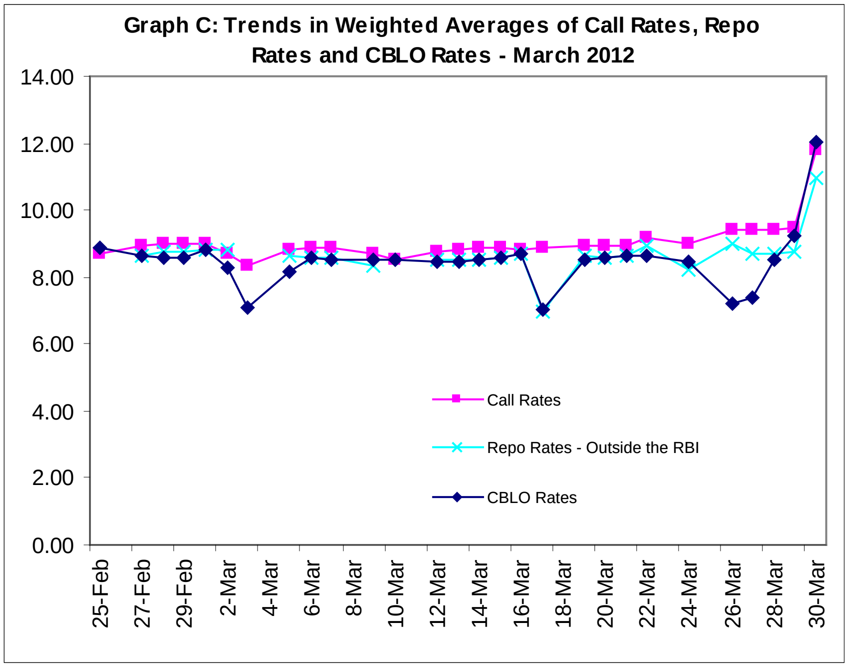
Table 3: Money Market Activity *(Volume and Rates)*						
Instruments	March 2012			February 2012		
	Daily Average Volume (Rs crore)	Monthly Weighted Average Rate (%)	Range of Weighted Average Daily Rate (%)	Daily Average Volume (Rs crore)	Monthly Weighted Average Rate (%)	Range of Weighted Average Daily Rate (%)
Call Money	14429	9.05	8.34-11.77	10321	8.90	8.45-9.15
Notice Money	3549	9.52	7.92-13.14	3121	8.79	7.50-9.20
Term Money @	300	-	8.40-13.50	289	-	8.00-10.75
CBLO	38557	8.51	7.05-12.04	32392	8.41	7.09-8.69
Market Repo	11493	8.71	7.00-10.98	11698	8.56	8.31-8.65
@: Range of rates during the month. Source: www.rbi.org.in. and www.ccilindia.com						

As per the latest available data from the RBI, the issuance of certificates of deposit (CDs) by scheduled commercial banks increased during the fortnight ending 24 February 2012 and amounted to Rs 38,800 crore. The outstanding amount crossed to Rs 4 lakh crore in February after a span of three fortnights. However, CPs issued by corporates amounted to Rs 31,420 crore for the fortnight ending 15 February 2012 but, the outstanding amount declined by more than Rs 44,000 crore to Rs 1.05 lakh crore for the same fortnight. The discount rates for CDs ranged between 9.30% and 10.65% while, CPs rates ruled between 7.15% and 12.30% for the respective review period.

According to the trading platform - Fixed Income Money Market and Derivatives Association (FIMMDA) –CDs recorded two-fold rise in the average daily traded volume during March over February. However, the CPs daily trading activity reduced by 27% during the same review period.

Table 4: RBI's Market Operations *(Amount in Rs crore)*		
Month/ Year	OMO [Net Purchase (+)/ Sale (-)]	LAF Net [Average Daily Injection (+)/ Absorption (-)]
Oct-2011	6	50708
Nov-2011	9446	91719
Dec-2011	33687	112599
Jan-2012	34772	128471
Feb-2012	20690	133547
Mar-2012	35600	155162
Source: RBI's *Weekly Statistical Supplement*		

The liquidity strain remained exacerbated in March and the RBI infused funds worth more than thrice the comfort level of 1% of net demand and time liabilities (NDTL), besides releasing Rs 48,000 crore through cut in CRR in March. The passive approach of the RBI to inject funds through its LAF repo window resulted in banks borrowing more than Rs 1.55 lakh crore on daily average basis in March. The RBI injected the highest ever Rs 2.02 lakh crore on 30 March. In addition, it conducted additional repo on 30 and 31 March. Furthermore, RBI continued with its purchase of securities in its OMO window and released Rs 35,600 crore in March. Despite all these, borrowers also availed the marginal standing facility (MSF) during several days in March and borrowed more than Rs 24,000 crore in aggregate (Table 4).



2.2 Forex Market

The United Sates (US) dollar strengthened against most currencies from the beginning of March as rising US Treasury yields backed by signs of a strengthening economy enhanced its safe heaven appeal. Expected monetary injections by the world's largest central banks further supported the greenback since the Japanese central bank hinted at another round of monetary stimulus to support growth. Following overall recovery in the US currency, the US dollar index [Nominal Major Currencies Dollar Index (March 1973=100)] improved by 60 bps during a period of one month and ended at 72.74 points on 30 March.

Despite Fitch downgrading the outlook of UK's sovereign rating to negative, the Pound sterling advanced by 1.4% against dollar while, rising hopes of recovery in the Euroarea kept the euro positive versus dollar. Asian currencies exhibited mixed performances, while most of them depreciated against the dollar hurt by rising crude oil prices. This was also reflected in 67 bps fall in the JP Morgan Asian dollar index (a spot index of emerging Asia's most actively traded currency pairs valued against the US dollar) in March (Table 5).

Table 5: Foreign Exchange Market: Select Indicators

Month	Rs/$ Reference Rate (Last Friday of the month)	Appreciation (+) /Depreciation (-) of Rs/$ (%)	FII Flows (Equity+Debt) In US $ million	BSE Sensex (month-end closing)	US Dollar Index (month-end closing) #
Oct-2011	48.82	0.21	634	17705	70.52
Nov-2011	52.17	-6.41	-586	16123	72.37
Dec-2011	53.26	-2.05	4195	15455	73.33
Jan-2012	49.68	7.20	5087	17194	72.60
Feb-2012	49.07	1.26	7164	17753	72.14
Mar-2012	51.16	-4.09	387	17404	72.74

#: Nominal Major Currencies Dollar Index.

Source: www.rbi.org.in, www.bseindia.com, www.sebi.gov.in, www.federalreserve.gov.

In the domestic front, market participants welcomed the liquidity-boosting 75-bps CRR cut. The focus on the inflation data, especially after the recent spikes in global crude oil prices prompted the central bank to withhold key policy rate cut in March. The Budget 2012-13, keenly awaited by local and foreign investors alike, announced on 16 March also had some adverse impact as the Finance Minister proposed GAAR which dampened the sentiments of portfolio investors. After pouring record funds in past three months, the overseas investors turned cautious in Indian equity and debt market and invested just $387 million in March compared to $7164 million invested in February. Investors have been also worried about the loss of growth momentum as well, with investment climate weakening due to policy uncertainty and widening fiscal deficit. The current account deficit has also gone up on the back of higher oil prices this fiscal year. These twin deficits, combined with high inflation have drastically affected investors' appetite for Indian assets, especially equities. Thus, domestic equity markets turned bearish and BSE Sensex lost 348 points in a period of one month. Following all these repellent developments, the Indian rupee depreciated by a harsh 4% against US dollar during March over February.

The rupee-dollar exchange rate began the month on a very negative note hurt by rising crude oil prices hovering above $125 per barrel. Fearing tardy growth of Indian economy on the back of a massive setback to the Congress party in crucial state elections, the rupee depreciated continuously for five days in row showing 3.27% fall and slid below Rs 50.57 versus dollar on 7 March. Persistent dollar demand from oil importers coupled with weak local share market also weighed on rupee. Thereafter, the local currency suddenly bounced back from 9 March, propelled by RBI's liquidity boosting 75 bps CRR cut and the release of better than expected IIP data for January. However, the euphoria in forex market was short-lived as the rupee once again took the depreciating counter from 14 March as importers' demand for the greenback exerted additional pressure. After the budget announcement on 16 March, the domestic rupee recovered by 19 paise but sharply reversed its gains and depreciated continuously till 30 March excepting on 27 March. The proposed GAAR issue by the finance minister in the Annual Budget impinged portfolio investors' sentiments and rupee shed more than 100 paise against dollar from 20 March onwards. The market ignored the eased norms and some tax concessions to access foreign capital through external commercial borrowings (ECBs) and ended at Rs 51.16 per dollar as on 30 March showing a 4.39% depreciation over February.

Following sharp rise in crude oil prices, coupled with widening current account deficit and fiscal deficit, the forward premia across three tenures hardened substantially during the beginning of March. Grim external outlook had adverse impact on premia and the near-month premia spiked to the highest 11.69% on 26 March. However, the one month premia eased towards the end of the month and ended at 8.68% on 30 March showing 1.5 percentage points fall over 29 February. Similarly, the three-month and six-month premia also hardened from the beginning of the month tracking steady fall in rupee but, softened significantly towards the end. Both the tenures moved in tandem and eased by 1.25 percentage points and 76 bps and ended at 8.91% and 7.56%, respectively on 30 March.

The uncertainty in forex market prompted increased turnover during February. The daily trading in different segments of forex market improved by 8% in February compared to the previous month. The highest rise in turnover reported by merchant and spot markets while, inter-bank and forward transactions also recorded 6.8% and 3.1% improvements in turnover over the period (Table 6).

The revival in trading activity was observed in the currency derivatives market during March, following uncertainty prevailing in the external front. The movement in rupee against other currencies also influenced volatility in forex market. The domestic exchanges reported

15% rise in their aggregate turnovers over a period of one month while, the aggregate daily average turnover crossed Rs 30,000 crore during March. Segment-wise, futures turnover increased by 15% while, options trading improved by 6% during the month on daily average terms. USD-INR contracts continued their dominance in the futures segment and garnered 96% of market share as in earlier months. The turnover in other three products remained negligible.

Table 6: Average Daily Turnover in the Foreign Exchange Market * *(US $ billion)*

Month	Merchant		Inter-bank		Spot		Forward		Total	
Sep-2011	15.1	-(11.2)	44.8	-(3.8)	29.6	-(2.3)	30.3	-(9.0)	59.8	-(5.8)
Oct-2011	12.6	-(16.7)	40.0	-(10.6)	26.7	-(9.8)	25.9	-(14.4)	52.6	-(12.1)
Nov-2011	12.3	-(2.2)	41.0	(2.5)	26.6	-(0.3)	26.7	(3.07)	53.3	(1.4)
Dec-2011	11.2	-(8.4)	35.6	-(13.2)	22.8	-(14.2)	24.0	-(10.0)	46.8	-(12.1)
Jan-2012	9.9	-(11.9)	38.7	(8.6)	22.8	-(0.3)	25.8	(7.4)	48.6	(3.7)
Feb-2012	11.1	(12.5)	41.3	(6.8)	25.8	(13.4)	26.6	(3.1)	52.4	(7.9)

*: Includes trading in FCY/ INR and FCY/FCY
Figures in brackets are percentage change over the previous month.
Source: RBI's *Weekly Statistical Supplement*, Various Issues.

Among the exchanges trading in currency derivatives products, National Stock Exchange (NSE) witnessed similar trading activity as recorded in the previous month but, sustained its dominance with 53% market share. However, the Multi-Commodity Exchange (MCX-SX) reported 20% jump in its trading and contributed 46% towards the total currency derivatives turnover, influenced by the recent Bombay High Court judgment favoring MCX-SX over SEBI relating to equity trading issue. United Stock Exchange (USE) also reflected revival in trading and reported 29% increase in turnover but, managed to garner just 1% of market share during March.

2.3 Central Government Securities

Borrowing programme for the new financial year began on 3 April, with devolvement for two securities out of four, set for Rs 18,000 crore auction. OMO auctions were conducted twice, on March 2 and March 9, purchasing government securities worth Rs 10,776 crore and Rs 11,554 crore, respectively. With completion of borrowing programme, no further OMO was anticipated; but, ahead of tight liquidity conditions RBI conducted one more OMO auction on March 30 purchasing securities worth Rs 4,528 crore though aggregate ceiling was worth Rs 10,000 crore.

Prevalent tight liquidity conditions however pushed cut-off yields up in each segment of primary market, viz., central government securities, SDLs and treasury bills.

In March, only one and the last auction for FY 2011-12 was scheduled on April 9 re-issuing three securities namely 8.24% 2018, 8.79% 2021-the 10-year benchmark security and 8.83% 2041 for Rs 12,000 crore. The auction secured a bid cover of 2.17 times of the notified amount in aggregate and overall, the yield moved up marginally by 2 bps to 8.37% (Table 7).

Table 7: Details of Central Government Market Borrowings *(Amount in Rs crore)*

Date of Auction	Nomenclature of Loan		Notified Amount	Bid Cover Ratio	Devolvement on Primary Dealers	YTM at Cut-off Price (*%*)	Cut-off Price (*Rs*)
9-Mar-12	8.24% 2018	R	3000	2.29	nil	8.34	99.51
	8.79% 2021	R	6000	1.86	nil	8.27	103.42
	8.83% 2041	R	3000	2.68	nil	8.62	102.22
Total For March 2012			12000	2.17	Nil	8.37	102.14
Total For February 2012			49000	2.08	Nil	8.33	103.2

R: Re-issue
Source: RBI Press Releases.

Higher than expected gross borrowing for FY 2012-13, kept secondary market yields firmed up in the first half of March. In the second half also, yields remained firm in the backdrop of front loaded borrowing programme during the first half of 2012-13, to the extent of 64%, announced by RBI in consultation with the central government. The calendar also notified higher aggregate amount of borrowing for each auction throughout the first half of 2012-13.

Total traded volume on the NDS and NDS-OM during the period had declined by 50% to Rs 1,56,922 crore over the month. Overall yield increased by 17 bps to 8.44% over the month. Top five securities contributed 89% towards total turnover. Those securities were 8.79% 2021, 9.15% 2024, 7.83% 2018, 8.19% 2020 and 8.97% 2030. About 67% or Rs 1,01,284 crore of turnover had come from the 8.79% 2021-10-year benchmark security alone (Tables 8, 9 and 10).

Table 8: Secondary Market Outright Trades in Government Papers: NDS and NDS-OM Deals													*(Amount in Rs crore)*
Descriptions		March 2012						Previous Month		Three months ago		Six months ago	
		Last Week (30)		First Week (2)		Total for the month		(February 2012)		(December 2011)		(September 2011)	
		AMT	YTM	AMT	YTM	AMT	YTM	AMT	YTM	AMT	YTM	AMT	YTM
1.Treasury Bills		14047		10730		40438		17780		35227		27761	
A.91-Day Bills		4290	8.99	5487	9.02	21206	8.94	9462	8.84	13588	8.54	21065	8.31
B.182-Day Bills		2937	8.90	3128	8.78	7731	8.81	763	8.81	9918	8.51	2787	8.35
C.364-Day Bills		6820	8.59	2115	8.74	11501	8.64	7555	8.53	11721	8.41	3909	8.34
2. GOI Dated Securities		43655	8.60	18168	8.27	151957	8.44	308879	8.26	442147	8.58	245522	8.35
Year of Maturity	(No of Securities)												
2012	(4)	1739	9.77	186	9.09	3788	9.46	965	8.77	3805	8.62	1003	8.32
2013	(2)	70	8.07			136	8.09	520	8.16	80	8.37	822	8.27
2014	(8)	5	8.24	200	8.08	850	8.16	105	8.06	265	8.23	266	8.26
2015	(6)	264	8.34	65	8.23	471	8.30	486	8.13	984	8.44	1067	8.32
2016	(3)	291	8.61	241	8.32	990	8.42	1460	8.24	976	8.42	997	8.33
2017	(4)	401	8.60	22	8.32	1963	8.43	687	8.23	2304	8.51	5405	8.33
2018	(5)	2101	8.58	938	8.35	7534	8.47	18020	8.25	41070	8.47	12051	8.34
2019	(2)	6	8.72	0	8.43	7	8.67	17	8.29	130	8.46	25	8.34
2020	(4)	1519	8.69	50	8.29	4140	8.66	13429	8.42	7805	9.59	1590	8.97
2021	(4)	29865	8.54	9813	8.21	102738	8.39	148850	8.19	199127	8.50	174377	8.32
2022	(3)	159	8.58	57	8.37	1120	8.44	571	8.29	9490	8.55	42386	8.41
2023	(2)	1	8.58			2	8.51	0	8.41			1	8.65
2024	(1)	5714	8.56	5818	8.30	22486	8.39	111538	8.30	152133	8.63		
2027	(3)	378	8.63	71	8.51	885	8.57	2088	8.49	3938	8.86	4218	8.57
2028	(2)	0	8.60			17	8.60	1	8.62			1	8.51
2030	(1)	730	8.71	398	8.59	2028	8.64	7387	8.57	11096	8.75		
2032	(2)	7	8.55	21	8.48	79	8.55	436	8.52	113	8.65	231	8.58
2034	(1)	1	8.15	3	8.57	6	8.45	1	8.55	2	8.49	4	8.51
2035	(1)			2	8.57	2	8.57	0	8.46			2	8.92
2040	(1)	93	8.67	166	8.57	690	8.60	418	8.55	4514	8.94	1076	8.63
2041	(1)	311	8.69	113	8.59	1988	8.63	1895	8.56	4315	8.74		
3. State Govt. Securities		1478	8.74	879	8.61	4364	8.67	4659	8.69	2337	9.15	2328	8.57
Grand total (1 to 3)		48967		125431		331022		486660		204295		305738	

(-) means no trading YTM = Yield to maturity in per cent per annum NDS = Negotiated Dealing System OM = Order Matching Segment
Notes: 1) Yields are weighted yields, weighted by the amounts of each transaction (2) Trading in 2026, 2036 and 2039 are negligible.
Source: Compiled by EPWRF; base data from RBI and CCIL.

Table 9: Yield Spreads (Weighted Average): Central Government Securities						*(basis points)*
Yield Spread in bps	March 2012			Previous	Three	Six months
	Last Week	First Week	Entire month	Month	months ago	ago
1 Year - 5 Year	53	-	34	7	14	6
5 Year - 10 Year	-2	5	1	6	4	8
10 Year - 15 Year	5	14	13	20	31	16
1 Year - 10 Year	51	-	34	13	18	14

Source: as in Table 8

Table 10: Predominantly Traded Government Securities													***(Amount in Rs crore)***
Descriptions		March 2012						Previous Month		Three months ago		Six months ago	
		Last Week (30)		First Week (2)		Total for the month		(February 2012)		(December 2011)		(September 2011)	
		AMT	YTM	AMT	YTM	AMT	YTM	AMT	YTM	AMT	YTM	AMT	YTM
GOI Dated Securities													
6.85	2012	375	11.46	27	8.97	745	10.41	236	8.74	2235	8.67	639	8.35
7.17	2015	164	8.25	60	8.22	340	8.25	486	8.13	824	8.44	991	8.28
7.59	2016			180	8.31	470	8.32	1379	8.24	964	8.42	970	8.31
7.99	2017	399	8.61	20	8.33	1714	8.44	575	8.23	1011	8.50	2477	8.36
8.07	2017	0	8.41	0	8.40	191	8.35	72	8.21	1103	8.54	2802	8.32
7.83	2018	2100	8.58	638	8.31	6578	8.47	17245	8.24	41023	8.47	12041	8.34
8.19	2020	1349	8.58	50	8.29	3480	8.47	11842	8.25				
7.80	2021	556	8.68	108	8.31	1144	8.56	1228	8.26	19154	8.49	174374	8.32
8.79	2021	29309	8.54	9705	8.21	101284	8.39	147521	8.19	139600	8.55		
8.08	2022	10	8.59	37	8.37	73	8.39	152	8.30	5370	8.53	9931	8.40
8.13	2022	143	8.58	20	8.36	1041	8.44	419	8.29	4105	8.58	32390	8.41
9.15	2024	5714	8.56	5818	8.30	22486	8.39	111538	8.30	152133	8.63		
8.26	2027	25	8.67	28	8.52	109	8.54	486	8.48	722	8.87	562	8.57
8.28	2027	353	8.63	37	8.50	757	8.57	1590	8.50	3197	8.86	3656	8.57
8.97	2030	730	8.71	398	8.59	2028	8.64	7387	8.57	11096	8.75		
8.28	2032	7	8.55	21	8.47	39	8.50	424	8.52	113	8.65	218	8.58
8.30	2040	93	8.67	166	8.57	690	8.60	418	8.55	4514	8.94	1076	8.63
8.83	2041	311	8.69	113	8.59	1988	8.63	1895	8.56	4315	8.74		
Total (All Securities)		43655	8.60	18168	8.27	151957	8.44	308879	8.26	442147	8.58	245522	8.35

(-) means no trading YTM = Yield to maturity in percentage per annum

Note: 1) Yields are weighted yields, weighted by the amounts of each transaction.

Source: as in Table 8

During the month, in all, twenty states issued SDLs for an aggregate amount of Rs 21,261 crore with higher bid cover at 1.77 times and also higher overall cut-off and weighted yields. Andhra Pradesh, Haryana, Kerala, Bihar, Jammu & Kashmir and Nagaland issued state loans twice while Gujarat and Punjab tapped the market thrice. Except Punjab, which witnessed lower cut-off yield in the second auction, all other states witnessed increased cut-off yields in successive auctions. Absence of the central government in primary auctions after the initial few days in the month provided the added space for states during the month. Cut-off yields ranged from 8.92% to 9.49%. The accepted amount was the lowest at Rs 5 crore for Nagaland while the highest amount was raised by Maharashtra worth Rs 2,424 crore. In the auction on March 29, state loans of three states, namely Bihar, Manipur & Sikkim remained unsold. Turnover of SDLs had gone up by 69% to Rs 7,379 crore with higher yield at 8.84%, over February (Table 11).

Table 11: Details of State Government Borrowings *(Amount in Rs crore)*

Date of Auction	Number of Participating States	Total Amount Accepted	Bid Cover Ratio	YTM at cut-off price (%)	Weighted Average Yield (%)
6-Mar-12	10	11067	1.72	8.95	8.90
13-Mar-12	5	2610	2.88	8.98	8.95
20-Mar-12	5	1216	2.26	9.03	9.01
29-Mar-12	12	6368	1.21	9.17	9.07
Total for March 2012	32	21261	1.74	9.02	8.96
Total for February 2012	16	15088	1.44	8.74	8.71

Source: RBI Press Releases.

2.4 Treasury Bills

Continuous build up of pressure on yields of 91-day treasury bills (TBs) was witnessed during the month. For 182-day maturity, overall yield remained flat while dropped n the case of 364-day maturities. Total amount raised though 91-day TBs was worth Rs 40,000 crore during the month, whereas the issuance amount remained the same for 182-day and 364-day TBs at Rs 12,000 and Rs 8,000 crore each, respectively. Bid cover improved across maturities, over the period (Table 12).

Table 12: Auctions of Treasury Bills *(Amount in Rs crore)*

Date of Auction	Bids Accepted	Bid Cover Ratio	Cut-off Yield (%)	Weighted Average Yield (%)	Cut-off Price (Rs)	Weighted Average Price (Rs)
A: 91-Day Treasury Bills						
29-Feb-12	8000	2.15	9.06	9.06	97.79	97.79
7-Mar-12	8000	3.26	9.06	9.02	97.79	97.80
14-Mar-12	8000	3.68	8.98	8.94	97.81	97.82
21-Mar-12	8000	3.12	8.98	8.98	97.81	97.81
28-Mar-12	8000	2.56	9.02	8.98	97.80	97.81
Total for March 2012	40000	2.95	9.02	9.00	97.80	97.81
Total for February 2012	44000	2.00	8.94	8.91	97.82	97.83
B: 182-Day Treasury Bills						
29-Feb-12	4000	2.57	8.75	8.73	95.82	95.83
14-Mar-12	4000	3.11	8.66	8.64	95.86	95.87
28-Mar-12	4000	3.06	8.66	8.64	95.86	95.87
Total for March 2012	12000	2.91	8.69	8.67	95.85	95.86
Total for February 2012	12000	2.70	8.69	8.66	95.85	95.86
C: 364-Day Treasury Bills						
7-Mar-12	4000	4.93	8.45	8.42	92.23	92.25
21-Mar-12	4000	4.85	8.40	8.40	92.27	92.27
Total for March 2012	8000	4.89	8.42	8.41	92.25	92.26
Total for February 2012	8000	4.43	8.51	8.49	92.18	92.19
Source:RBI's Press Releases						

In contrast to dated securities, due to demand for short term securities in the market, the traded volume of TBs across maturities jumped up more than twice at Rs 40,438 crore over the last month. Major contribution in this leap was from 182-day TBs, followed by 91-day TBs. Yield hardened for 91-day and 364-day maturities to 8.94% and 8.64%, respectively while it remained unchanged for 182-day TBs at 8.81%.

2.5 Corporate Bonds Market

Amount raised by privately placed issues on NSE plunged by 64% during the period to Rs 7,672 crore. A total of 45 issues struck the market against 69 in February. Central government undertakings dominated the issuance volume raising Rs 4,976 crore with coupons ranging from 9.25% to 9.72%. Three central government undertakings namely, NTPC, NHPC and Power Finance Corporation Ltd. tapped the market. Highest coupons were paid by corporates in a narrow range of 11.50% to 12% (Table 13).

Table 13: Details of Private Placement in Corporate Bonds

Institutional Category	No. of Issues	Volume (Rs crore)	Range of Coupon Rates (%)	Range of Maturity in Years
Banks/FIs	6	2309	9.50-11.00	3 to 10
Central Undertakings	34	4976	9.25-9.72	3 to 20
Corporates	5	387	11.50-12.00	1.1 to 10
Total for March 2012	45	7672	9.25-12.00	1.1 to 20
Total for February 2012	69	21332	9.00-11.60	1 to 10

Source: www.nseindia.com

Rural Electrification Corporation Ltd. tapped market through a public issue of tax free, secured, redeemable, non-convertible bonds for an amount of Rs 1,500 crore with the option to retain over subscription up to an aggregate amount Rs 3,000 crore. This issue opened on March 6 and closed on March 12. These bonds were divided into two series, series one with 10-years maturity and 7.93% coupon, and second series with 15-years maturity and 8.12% coupon.

A public issue by Muthoot Finance Ltd. for an aggregate amount of Rs 500 crore is closed on Mach 17 after opened on March 2. These are secured, non-convertible debentures. For these bonds, four different maturities were available, for 2-years maturity coupon was 13%, for 3-years and 5-years maturity coupon offered was 13.25% and for last maturity of 5.6 years, 13.43% coupon was offered.

Turnover in the secondary market was recorded at Rs 53,440 crore during the month. FIMMDA reported turnover worth Rs 25,316 crore closely followed by NSE reporting turnover worth Rs 24,667 crore.

[Team led by K. Kanagasabapathy and supported by Anita B. Shetty, Vishakha G Tilak, V. P. Prasanth, R. Krishnaswamy, Shruti J. Pandey, Pallavi Oak and Sharan P. Shetty]