Currency Update

- Improving economic data points helped GBP to score better over US Dollar. Gains were supported following Bank of England policy maker Ben Broadbent maintained the possibility of an interest rates hike in 2015. Latest quarterly GDP number came as per market expectation of 0.7%. Business investment was also up 8.5% from a year earlier

- Japanese Yen underperformed primarily on the back of strong words from the Federal Chairperson Janet Yellen and expansionary policy of Japan's central bank. BoJ stands committed to boost economic sentiments. They maintained expansionary monetary policy on Feb 18 and extended special loan programs to help buoy economic growth

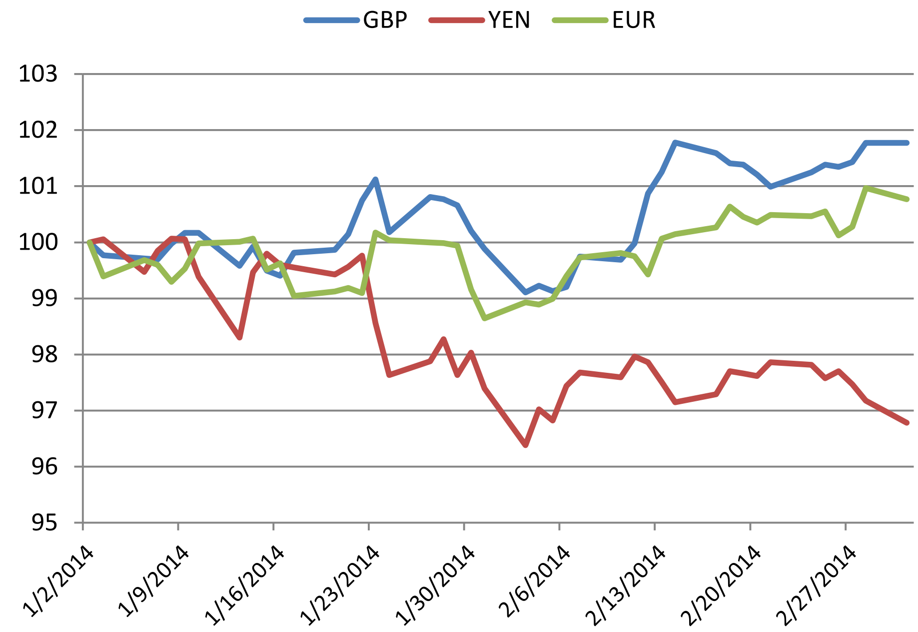
- Euro recouped part of its losses off late, following weak numbers from the Unites States. Going ahead EUR/USD will closely track economic data points from the Unites States & Europe and contemplate statement from Fed officials.

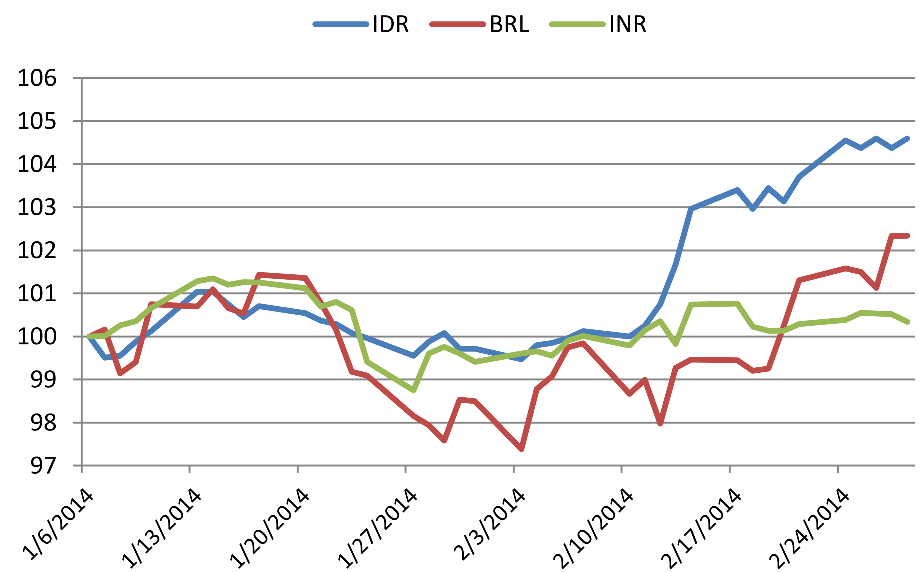
- IDR appreciated significantly after competitive exports and adequate capital inflows. Indonesia's balance of payments swung to a surplus in the last quarter of 2013, partly due to a shrinking current account deficit, in a further sign of improving economic fundamentals.

- Brazilian real appreciated on the back of easing concerns over fiscal deterioration and better than expected industrial activity. Note Brazil has decided to cut 44 billion reals ($18.7 billion) from this year's budget

- Rupee moved in a narrow range as debt inflows countered cautious sentiment well, ahead of general elections.

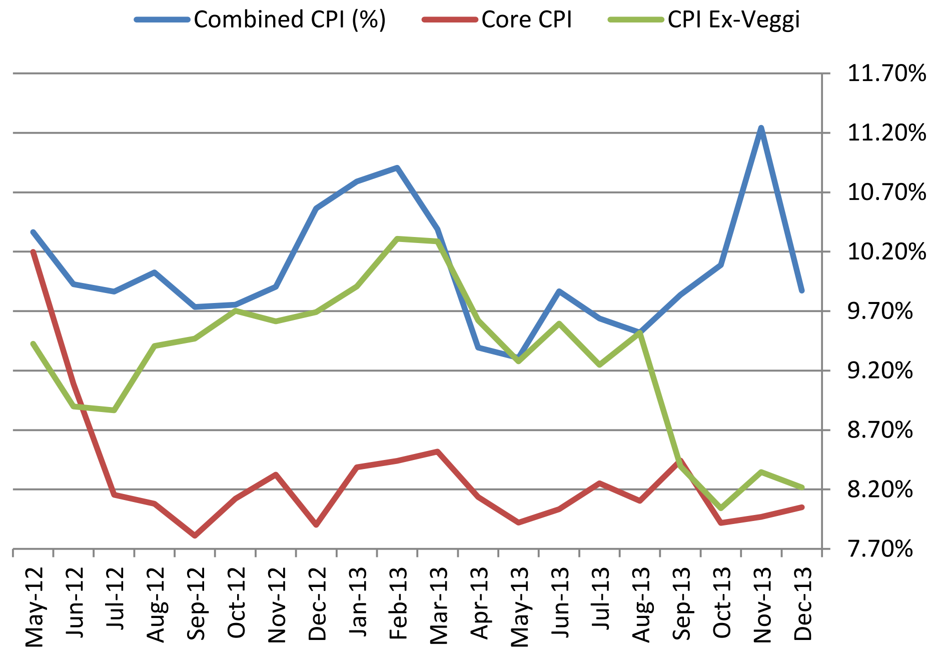
- Debt flows has been majorly in short papers hence risk of depreciation persist. Traders will closely track sentiment in developed markets in addition to domestic inflation and foreign fund inflows.



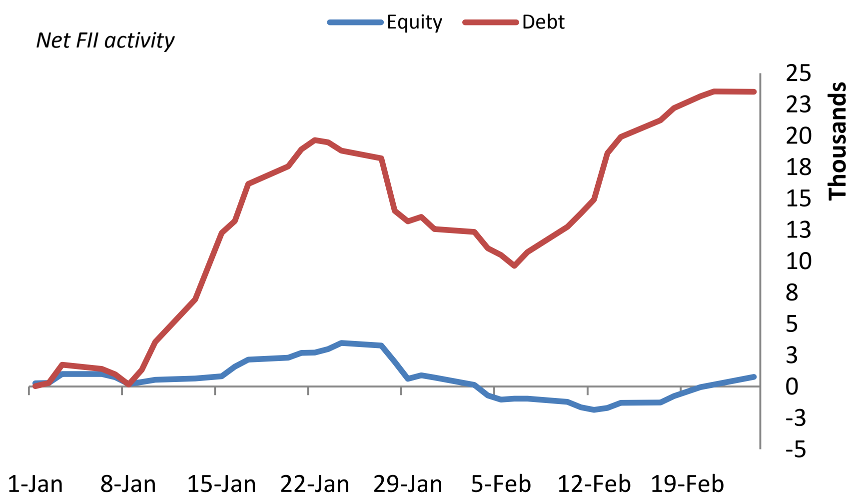


India : Macro Update

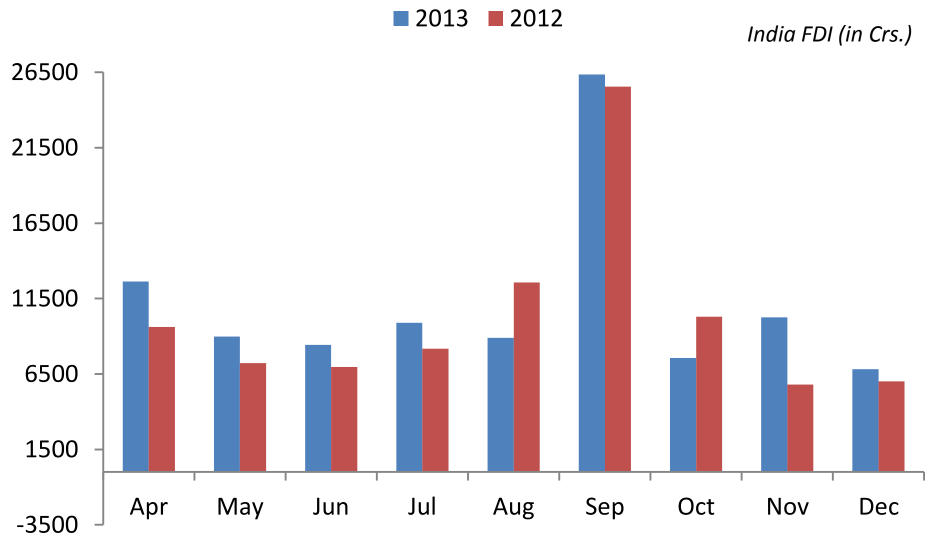
- Indian economy bolstered in last couple of quarters after a number of steps on monetary and fiscal front.
- Government with the help of the Reserve Bank of India managed to pull down current account deficit substantially. FM Chidambaram has limited the fiscal deficit number below the so called 'red line' of 4.8% of GDP.
- Inflation which is believed to remain a key factor deciding the fate of economy for the next couple of years receded from earlier levels primary on the back of steep fall in vegetable prices. Consistent fall in vegetable prices is unlikely hence a pullback in headline number, next year, is very much anticipated.
- Poor net equity inflow (2014 till date) deciphers cautious stance of FIIs. Debt inflows are seen strong however maximum of them are for a short term strategy to gain on interest rate differential and steady currency.
- Tapering liquidity and upcoming domestic elections will keep the inflow activity sluggish. Inflation numbers and fiscal prudence will remain a key factor determining economic situation in time to come.



Net FII activity



India FDI (in Crs.)



VOA (Vote on Account)

- Three key points from VoA :
  1. The fiscal deficit for 2013-14 is contained at 4.6 percent and to be contained at 4.1% in FY15.
  2. The current account deficit is projected to be at USD 45 billion in 2013-14 down from USD 88 billion in 2012-13.
  3. Foreign exchange reserve will grow by USD 15 billion in this Financial Year.

- Finance Minister P. Chidambaram has kept up his promise to keep the deficit within the most reiterated red line of 4.8%. However the means by which he minimized the deficit is well known i.e. by rolling over the subsidy payments in the following year. Demand supply dynamics for bonds at a net borrowing number of ~4.6tn seem favorable however above statement of increasing the FX reserves(less OMO) by USD15bn and RBI's bias towards low SLR may dampen initial calculations.

- Weak demand and reduced tax rate make the tax collection projections tad optimistic. The most watched and worrying factor, subsidy, is planned for INR 2.47lk cr. However unnatural movement in Oil and Fertilizer prices may bring up uncomfortable numbers. If one pegs FY15 growth at 5.5% and nominal growth at 13.4% than that tentatively prices in an inflation (precisely GDP deflator) of 7.5%.

Funding Fiscal Deficit	
Source (Net)	Amount (Rs. Bn)
Gilts	4573.2
91DTB	144.5
364DTB	201
Small Savings	82.3
SPF	120
Others	107.9
External Debt	57.3
Fiscal Deficit (Sum of above)	5286.2

Parameters (Amt. in bn)	FY13 RE	FY14BE	FY14BE over FY13RE	FY14RE	FY14RE over FY13RE	FY15 BE	FY15BE over FY14RE
Central Govt. Net Tax Revenue	7421	8841	19.1%	8360	12.7%	9864	18.0%
Non Tax Revenue	1297	1723	32.8%	1932	49.0%	1807	-6.5%
Total Revenue Receipts	**8718**	**10564**	**21.2%**	**10293**	**18.1%**	**11671**	**13.4%**
Non Debt Capital Receipts	381	665	74.6%	366	-3.7%	675	84.1%
Divestment & Others	240	558	132.6%	258	7.7%	369	42.8%
Total Receipts	**9099**	**11229**	**23.4%**	**10659**	**17.1%**	**12346**	**15.8%**
Non Plan Expenditure	**10016**	**11100**	**10.8%**	**11149**	**11.3%**	**12079**	**8.3%**
Revenue Expenditure	*9197*	*9929*	*8.0%*	*10277*	*11.7%*	*11078*	*7.8%*
Subsidy (Excl. Others)	2577	2310	-10.4%	2455	-4.7%	2479	1.0%
Food	850	900	5.9%	920	8.2%	1150	25.0%
Fertilizers	660	660	0.0%	680	3.0%	679	-0.1%
Fuel	969	650	-32.9%	855	-11.8%	650	-24.0%
Capital Expenditure	*819*	*1171*	*43.0%*	*872*	*6.5%*	*1001*	*14.8%*
Plan Expenditure	**4292**	**5553**	**29.4%**	**4755**	**10.8%**	**5553**	**16.8%**
Revenue Expenditure	*3434*	*4433*	*29.1%*	*3719*	*8.3%*	*4423*	*18.9%*
Capital Expenditure	*858*	*1121*	*30.7%*	*1037*	*20.8%*	*1130*	*9.0%*
Total Expenditure	**14308**	**16653**	**16.4%**	**15904**	**11.2%**	**17632**	**10.9%**
Nominal GDP	**101132**	**113719**	**12.4%**	**113205**	**11.9%**	**128400**	**13.4%**
Fisc. Deficit	(5209)	(5424)		(5245)		(5286)	
Fisc. Deficit % to GDP	**5.15%**	**4.77%**		**4.63%**		**4.12%**	
Gross G-sec Borrowing						**5970**	
Net G-sec Borrowing						**4573**	

India : GDP

- India's gross domestic product growth in Oct-Dec moderated to 4.7% from 4.8% in the previous quarter, primarily on account of a contraction in industry and slowdown in agriculture
- The agriculture sector growth also slowed down to 3.6% from 4.6% a quarter ago. The farm sector had grown 0.8% a year ago.
- Q3 nominal expenditure GDP growth at 12.6 per cent implied an inflation of 8 per cent. Note Finance Minister this year has budgeted a nominal growth of ~13.4%.
- Services growth covered up the persuasive weakness in industrial activity.
- Gross fixed capital formation shrank during October-December 2013 to 27 percent of the Gross Domestic Product (GDP) from 29.4 percent in April-September.
- Given the performance in the first nine months and GDP growth of 4.9 per cent projected by the CSO in its advance estimates for this financial year, the economy must expand 5.7 per cent in the fourth quarter ending March.
- Exports failed to prop up GDP this time however many this is cited to be a one off due to unfavorable weather conditions in the western countries.

At Factor Cost (at 2004-2005 Price) - Growth (y-o-y)

Particulars	GDP Growth Rate						
	Q3FY14	Q2FY14	Q1FY14	Q4FY13	Q3FY13	Q2FY13	Q1FY13
GDP	4.7%	4.8%	4.4%	4.8%	4.7%	5.2%	5.4%
Agri. & allied activities	3.6%	4.6%	2.7%	1.4%	1.8%	1.7%	2.9%
Industry	-0.7%	1.4%	-0.9%	2.0%	2.3%	0.5%	-0.2%
Mining & Quarrying	-1.6%	-0.4%	-2.8%	-3.1%	-0.7%	1.7%	0.4%
Manufacturing	-1.9%	1.0%	-1.2%	2.6%	2.5%	0.1%	-1.0%
Electricity, Gas & Water Supply	5.0%	7.7%	3.7%	2.8%	4.5%	3.2%	6.2%
Services	7.6%	5.9%	6.6%	6.6%	6.7%	7.6%	7.7%
Construction	0.6%	4.3%	2.8%	4.4%	2.9%	3.1%	7.0%
Trade, Hotel,Transport and Communications	4.3%	4.0%	3.9%	6.2%	6.4%	6.8%	6.1%
Finance,Insurance, RealEstate & Business Services	12.5%	10.0%	8.9%	9.1%	7.8%	8.3%	9.3%
Community,Social & Personal Services	7.0%	4.2%	9.4%	4.0%	5.6%	8.4%	8.9%

Source : Mospi, My Capital

Expenditure Approach (Current Price)

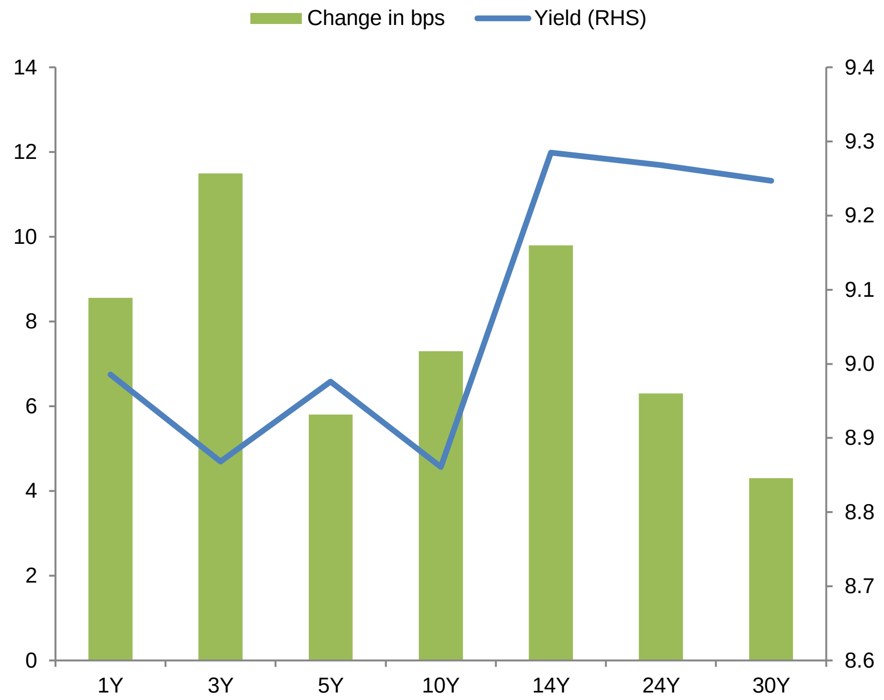
Particulars	% of GDP						
	Q3FY14	Q2FY14	Q1FY14	Q4FY13	Q3FY13	Q2FY13	Q1FY13
PFCE	58.20	56.60	56.50	54.30	58.60	58.20	56.40
GFCE	12.70	11.00	12.70	11.70	12.60	11.50	11.40
GFCF	27.00	29.40	28.60	29.60	28.20	30.90	29.90
Change in Stock	1.60	3.50	3.50	3.50	3.40	3.70	3.60
Valuables	1.90	2.80	4.60	2.20	2.40	2.70	2.70
Export	24.20	26.90	24.70	23.80	21.80	24.40	25.60
Import	27.80	31.30	32.40	29.90	31.00	32.90	32.80

Source : Mospi, My Capital

Indian Debt Market

- Benchmark paper started this month at 8.78% which creeped to ~8.90% levels by end February.
- Lack of supply and benign inflation expectation failed to prop up bond prices. FIIs and Asset managers pared down duration anticipating heavy Q1FY15 supply.
- Generally RBI use to conduct OMOs to make up for the liquidity deficit indirectly helping sovereign bonds however Governor Raghuram Rajan's bias for term repo has dampened hopes of gains this time.
- Insurers along with retirement and other long funds aggressively added SDLs which traded at an average spread of ~75-85bps.
- Spreads for short and medium tenor corporate bonds narrowed in the first week due to low supply however increased issuance at the end widened the same to initial levels.
- Strategic investors may continue to add short maturity bonds for their related income funds. Redemption pressures will hit demand albeit marginally.

G-sec



Net Buy/Sell in Crs. (1-28 Feb)				
Entities	Gsec	T-bills	SDLs	Total
Foreign Banks	2222	4027	-1372	4877
Public Sector Banks	7009	4987	2630	14627
Private Sector Banks	-1001	128	784	-89
Mutual Funds	-9484	-2655	-183	-12322
Others	5063	4799	1826	11688
Primary Dealers	-3810	-11286	-3685	-18781

Corporate Bond Spread (Bps) as on Feb'14 end								
Tenor	**AAA**	Month Ago	**AA+**	Month Ago	**AA**	Month Ago	**AA-**	Month Ago
1	91	91	101	101	112	112	131	130
3	67	65	85	91	98	104	118	121
5	64	61	78	76	90	90	110	108
10	70	68	82	82	94	96	116	116

Indian Money Market

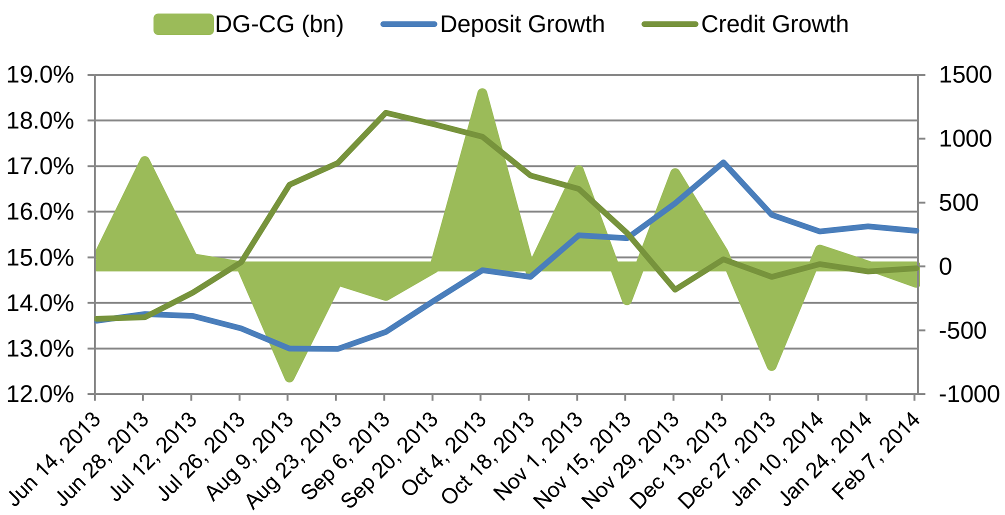
- Liquidity remains tight in the last quarter more specifically in the last month of a financial year. Government runs heavy cash balances, banks scramble to make up for their deposit-credit growth target and corporates run after loans to acquire assets for depreciation benefit.

- Short term CD rates rose in the middle of the month (Feb) due to tight liquidity and subsequently heavy borrowing at RBI's multiple window. 3M CD rates started at ~9.61% which by middle of the month rose to 9.80% and thereafter settling tad below 9.80% levels by end of the month.

- With a 13% M3 growth, money multiplier at 5.55, reserve money growth is seen falling short by ~500bn. It will be interesting to see whether RBI pumps in money via OMO in addition to term repo to make up for the structural (and not temporary) liquidity deficit.

- Asset managers may lock in high rates with duration heavy money market papers in anticipation of rates cooling off in Q1FY15.

- Strong demand for long money market instruments from Insurers, who actively add MM papers only in March, may limit the rise in yields for early 2015 papers.



Cash Inflows in Crs.

Date	Instrument	Payment	Amount
3-Mar	Gsec&SDLs	Interest	2830
4/5 Mar	SDLs	Interest	353
6-Mar	SDLs&Tbills	Int&Redmp.	21350
7/8Mar	SDLs	Interest	920
10-Mar	Gsec&SDLs	Interest	3421
11-Mar	Gsec&SDLs	Interest	1166
13-Mar	Tbills	Redemption	17705
14/15Mar	SDLs	Interest	346
18-Mar	SDLs	Interest	754
20-Mar	SDLs&Tbills	Int&Redmp.	15927
21/22 Mar	SDLs&Gsec	Interest	6590
24-Mar	SDLs&Gsec	Interest	4082
25-Mar	SDLs&Gsec	Interest	2094
26-Mar	SDLs	Interest	290
27-Mar	SDLs&Tbills	Int&Redmp.	22647
		Total	**100618**

Cash Outflow in Crs.

Date	Instrument	Noti. Amount
5-Mar	T-bills Auction	14000
11-Mar	SDLs (estimated)	11000
12-Mar	T-bills Auction	14000
19-Mar	T-bills Auction	14000
25-Mar	SDLs (estimated)	11000
26-Mar	T-bills Auction	14000
5-Mar	T-bills Auction	14000
11-Mar	SDLs (estimated)	11000
	Total	**78000**