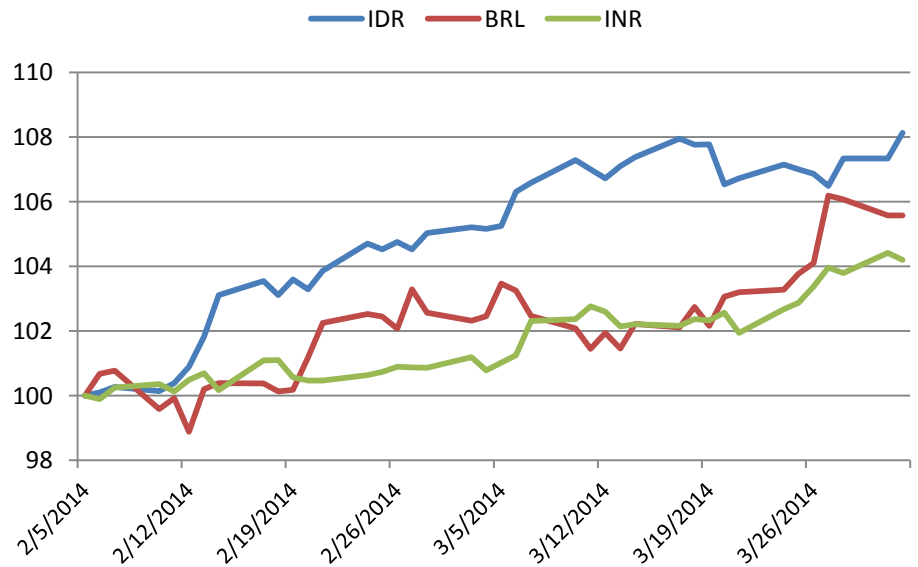
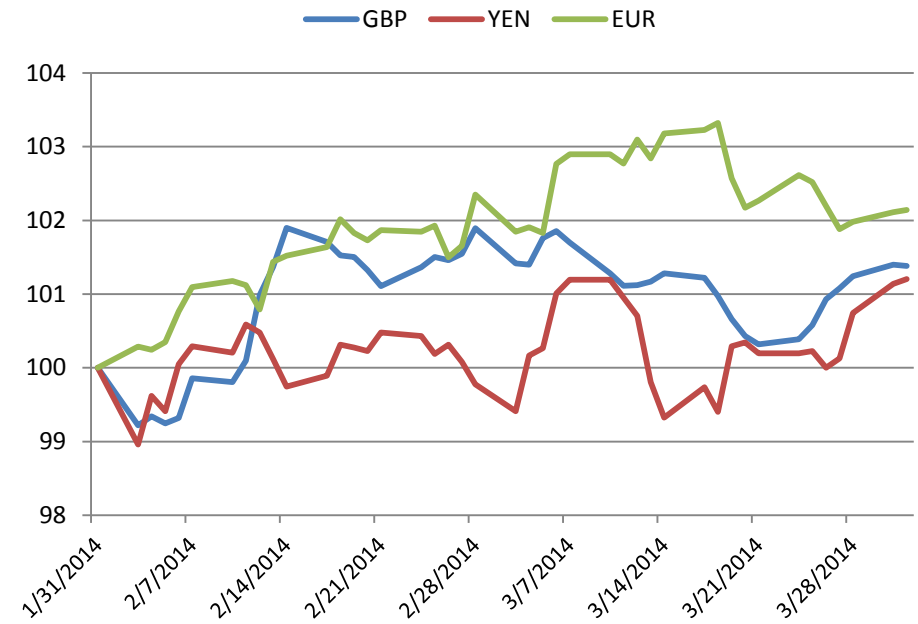


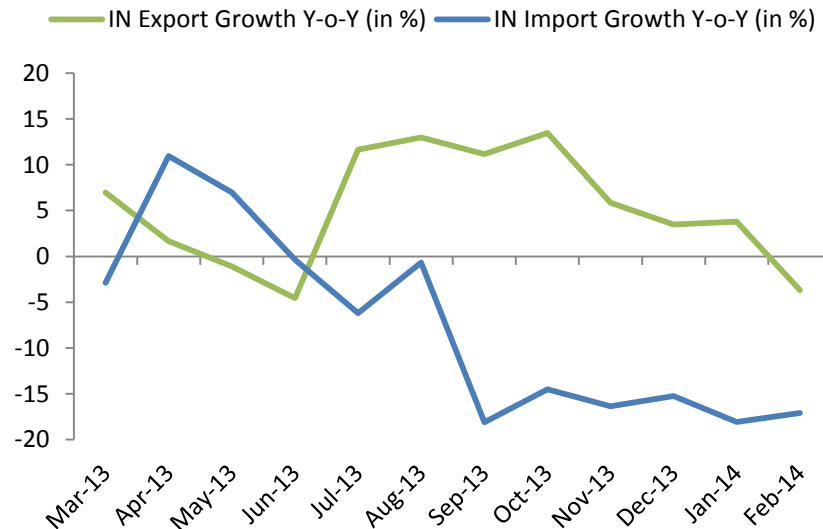
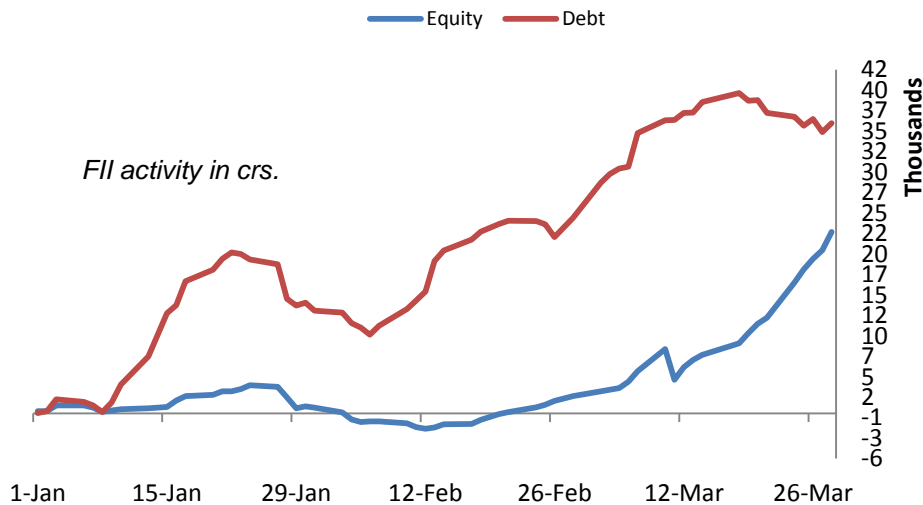
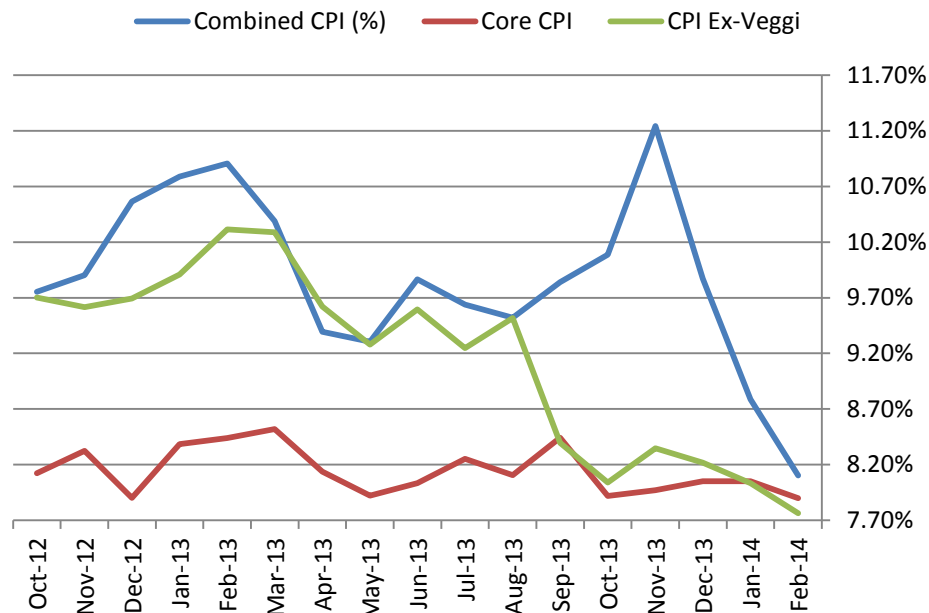
Currency Update

- ❑ US dollar gained considerably before Fed's Jan policy in anticipation of hawkish outcome. Post Fed's announcement USD pared down January gains.
- ❑ GBP rallied in the first half of February primarily on the back of rate hike expectation. A policymaker at BoE said that there is a powerful case for a moderate rise in interest rates due to high inflation. Inflation in the UK accelerated to 3.7 percent in December, significantly exceeding the central bank's target of 2 percent. Latest number on March 25 i.e. 1.7%(February) allayed fears of hike to some extent.
- ❑ Japanese Yen in March strengthened for a short bout on the back of the market's risk aversion. However the same gave up most of the gains following BoJ's chief comment of leaving the door open to further easing.
- ❑ Chinese Yuan outperformed relatively on speculation that the Chinese government may soon unveil stimulus measures to support the faltering economy.
- ❑ Strong FII inflows have supported emerging currencies like Indian rupee and Indonesian rupiah. Indonesia has topped the charts with FIIs pumping in \$1.98 billion in 2014, closely followed by India at \$1.75 billion till date.
- ❑ Indian currency will closely follow FII inflow in debt and equity markets. Off late debt flow has started receding however equity flow has countered the same very well. Dollar borrowing of domestic corporates and banks have added to the gains.
- ❑ High probability of a BJP led NDA coming to power has compelled a number of foreign investors to tweak asset allocation in favor of India.
- ❑ Current account deficit fears which ruled the USD/INR movement for long has now almost vanished after a number of steps from the monetary and government authority.



India : Macro Update

- Macro situation has improved considerably in last couple of quarters. Inflation has receded from a multi year high of ~11% primarily because of falling vegetable prices.
- Buoyed export import dynamic has brought trade deficit and CAD to a much sustainable level. Off late consistent rupee appreciation should bode well for the economy.
- FII inflow have started consolidating in the debt segment however the same is countered well by strong equity inflow.
- Key risk going ahead is election outcome and El-nino. A fractured mandate may not only dent market sentiment but may also extend the recovery process. Fears of El-nino may impact rural economy to a great extent pulling down the recent momentum in the agricultural sector. Market expect GDP growth to get impacted by ~0.5% if El-nino crops up.
- RBI Governor Raghuram Rajan kept the key policy rate (unchanged since retail inflation still remains comfortable but introduced steps to increase liquidity and contain volatility in the money market.



Election

- ❑ India is set to vote for the most crucial polls. Polling will be held in nine phases from April 07 to May 12 and the counting of votes will be held on May 16.
- ❑ Opinion polls till date clearly decipher there is a strong wave of anti-incumbency. With most polls indicating decimation of Congress led UPA, and substantial rise in NDA's vote share.
- ❑ Equity market last month rose by ~5% following strong inflow from FIIs. Market's anticipation of BJP led NDA government supported sentiment.
- ❑ However there is some fear among participants of fractured mandate given the share of seats for regional parties is very likely to increase from previous election.
- ❑ Uttar Pradesh(80), Maharashtra(48) and Bihar(40) will be closely tracked.
- ❑ Southern and eastern states where NDA ,the leading alliance, is seen relatively weak may turn out to be of key importance if BJD, TMC and AIDMK garner a sizeable seats.

Opinion Poll – Uttar Pradesh

Alliance / Party	2009 Actual	ABP Nielson Survey	Times Now C-voter	Lokniti-IBN Tracker
BJP	10	40	34	41 to 49
Congress	21	7	4	5 to 9
BSP	20	13	21	8 to 14
SP	23	14	20	11 to 17
Others	6	6	1	1 to 5

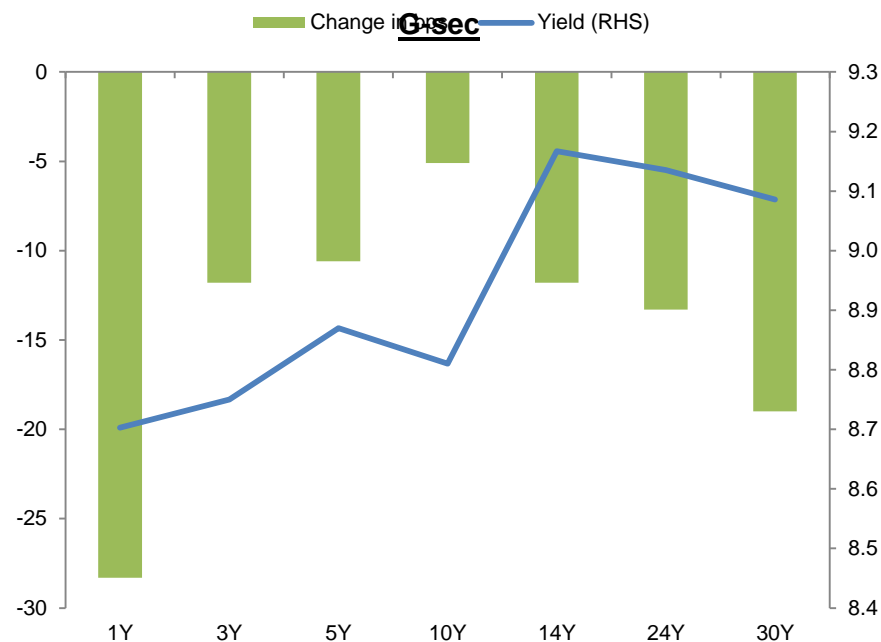
Opinion Poll - INDIA

Alliance / Party	2009 Actual	ABP Nielson Survey	Times Now C-voter	Lokniti-IBN Tracker
UPA	259	92	101	119-139
Congress	206	73	89	94-110
NDA	159	236	227	212-232
BJP	116	217	202	193-213
Shiv Sena	11	9	15	11
Others	125	215	214	168-216
AAP	0	10	7	1 to 5
SP	23	16	20	11 to 17
BSP	21	15	21	8 to 14
TMC	19	29	24	20 - 28
Total	543	543	543	543

Source : Respective sites; Compiled by : Mycap Research

Indian Debt Market

- ❑ Benchmark paper unperformed relatively. 8.83 moved in a tight range of 8.72-8.90%. Long only buyers preferred adding 2019 and 2027 papers for their HTM portfolio after the spread (vis-à-vis 10Y benchmark) widened to an attractive level.
- ❑ FII, this month, pared down their T-bill holdings and actively added duration in anticipation of dovish stance from the Reserve Bank of India.
- ❑ Asset managers continued to sell duration primarily on the back of change in outlook and redemption pressures.
- ❑ Spread assets stood out and performed well as demand exceeds supply. Many preferred to take tactical position in spread assets rather than gilts which may turn volatile once the RBI releases auction calendar.
- ❑ El-nino certainly will impact bonds given it has its bearing on retail inflation. Fears has risen after the Southern Oscillation Index recently was noted at -12.5. A number below -8 means a greater possibility of the event.
- ❑ Investments by FPIs in G-Secs shall henceforth be permitted only in dated securities of residual maturity of 1Y+ and existing investment in T-bills will be allowed to taper off on maturity/sale. FII upper cap in T-bill is seen at 254bn out of which 222 is utilized.



Net Buy/Sell in Crs. (March 2014)

Entities	Gsec	T-bills	SDLs	Total
Foreign Banks	4476	-6798	-841	-3163
Public Sector Banks	551	9543	1233	11328
Private Sector Banks	1125	401	1675	3201
Mutual Funds	-8269	-1784	1079	-8974
Others	2080	3525	1168	6773
Primary Dealers	37	-4887	-4315	-9165

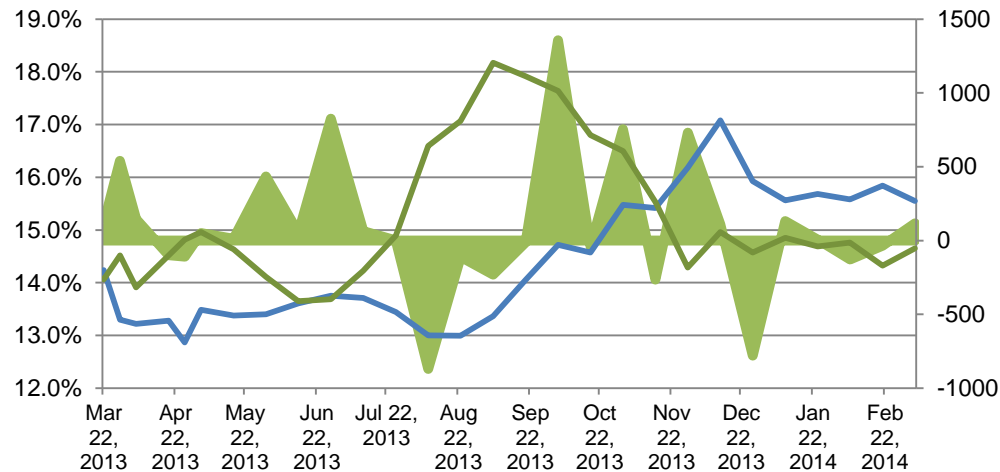
Corporate Bond Spread (Bps) as on Mar'14 end

Tenor	AAA	Month Ago	AA+	Month Ago	AA	Month Ago	AA-	Month Ago
1	74	91	82	101	93	112	111	131
3	53	73	63	85	75	98	94	118
5	51	64	62	78	74	90	93	110
10	59	70	70	82	83	94	101	116

Indian Money Market

- ❑ Liquidity is set to improve substantially as we move in the next financial year. The money market curve which was seen inverted, where 1M CD rates was higher than 3M and 3M was higher than 1Y, may become upward sloping. We expect 3M rates to recede by ~65-75bps. 1Y may fall to 8.80-8.90%.
- ❑ Liquidity deficit which by March end rose to ~2tn is expected to ease and hover at around 1.25-1.35tn. Government expenditure coupled with substantial inflows via redemption will support overnight rates to some extent.
- ❑ Term repo o/s by March end was seen at ~1.2tn. Looking at subsiding demand in the initial days of April, RBI may rollover term repo worth ~500-600bn only
- ❑ Currency in circulation will aggravate liquidity concerns as we head for general election. We expect currency leakage of ~350bn in the month of April. The number can surprise on the upside.
- ❑ The RBI has decided to increase the liquidity provided under term repos from 0.5% of NDTL to 0.75%, and decrease the liquidity provided under overnight repos under the LAF from 0.5% of bank-wise NDTL to 0.25% with immediate effect.

■ DG-CG (bn)
 — Deposit Growth
 — Credit Growth



Cash Inflows in Crs.

Date	Instrument	Payment	Amount
3-Apr	SDLs/Tbills	Int&Redmp	18801
5/7 Apr	SDLs	Interest	869
9-Apr	Gsec&SDLs	Interest	1439
10-Apr	Gsec&Tbills	Int&Redmp	11198
11/12/15 Apr	Gsec&SDLs	Interest	8665
16-Apr	Gsec&Tbills	Int&Redmp	44791
17-Apr	SDLs&Tbills	Int&Redmp	13462
19-Apr	SDLs	Interest	844
21-Apr	SDLs&Gsec	Interest	638
22-Apr	Gsec	Interest	3411
23-Apr	SDLs	Interest	8462
24-Apr	Tbills	Redemption	12411
25-Apr	SDLs	Interest	709
28-Apr	SDLs	Interest	636
29-Apr	SDLs&Gsec	Interest	148
30-Apr	SDLs	Interest	377
Total			126861

Cash Outflow in Crs.

Date	Instrument	Noti. Amount
2-Apr	T-bills Auction	15000
4-Apr	Gsec Auction	16000
8-Apr	SDLs (estimated)	8000
9-Apr	T-bills Auction	15000
11-Apr	Gsec Auction	16000
16-Apr	T-bills Auction	15000
18-Apr	Gsec Auction	20000
22-Apr	SDLs (estimated)	8000
23-Apr	T-bills Auction	15000
25-Apr	Gsec Auction	16000
30-Apr	T-bills Auction	15000
Total		159000