

INDIA

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Table of Contents

Spotlight	1
Market in Pictures	2-3
India Mkt Monitor +	
Financial Mkt Forecasts	4

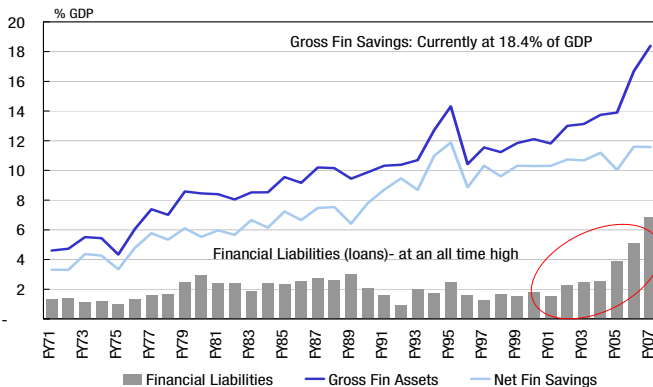
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CitiViews – India Market Watch

➤ **Spotlight on Financial Savings in India:** Latest data released by the RBI in its annual report indicates a continued uptrend in gross financial savings of the household sector, to 18.4% of GDP in FY07, up from 16.7% last year and 13.9% in FY05. However, **net** financial savings have remained constant at 11.6% - a result of an increase in financial liabilities (loans) to 6.8% in FY07, up from 5.1% in FY06 and 3.9% in FY05. The composition of financial savings indicates:

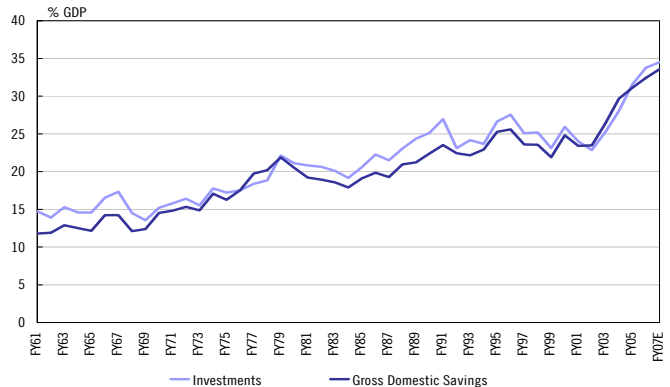
- Bank deposits have been on the rise.** On the back of rising interest rates, coupled with the spread of banking and financial services across the country, bank deposits as a percentage of total financial assets rose to 56% in FY07 up from 47% in FY06 and 37% in FY05. This has been at the expense of investments in small savings schemes, which saw a sharp decline to 4.9% of total financial assets in FY07, from 12.2% in FY06 and 19.6% in FY05.
 - Savings going to equities also rises:** Interestingly, while savings in bank deposits have risen, so have those in shares and debentures, at 6.3% of total financial assets – up from 5% in FY06 and 1.1% in FY05. This can be attributed to the upturn in the capital markets and the spread of the mutual fund industry.
 - Insurance Products:** Finally, growing de-regulation has resulted in the entry of new players and greater competition in the insurance industry. This is reflected in the insurance funds continuing to occupy 15% of the pie, higher than the 9.2% investment in provident/pension funds. Looking ahead, as insurance penetration deepens; we expect to see more investments coming into this area.
- **Overall Savings Rate likely to remain high – Positive for Growth:** India’s savings have been on a clear uptrend with a spurt in the last few years from 23.5% of GDP in FY03 to 32.4% currently. The household sector continues to be the biggest contributor to total savings (69%) while the shares of the corporate and public sector stand at 25% and 6%, respectively. Moreover given favorable demographics, the uptrend in savings is likely to continue and is positive given the 11th Plan is targeting GDP growth of 9%+.

Trends in Gross, Net Household Financial Assets and Liabilities (%)



Source: RBI

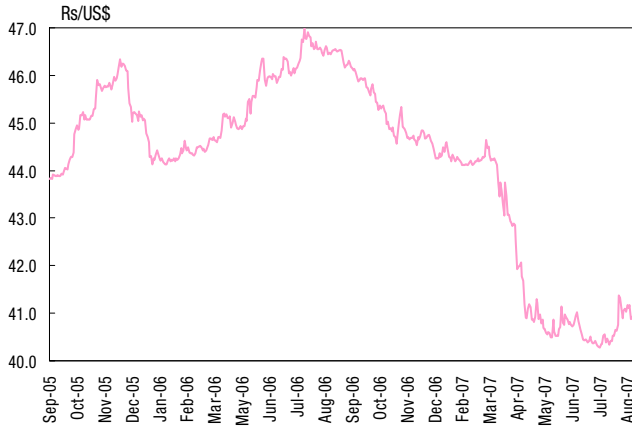
Trends in Savings and Investment (% GDP)



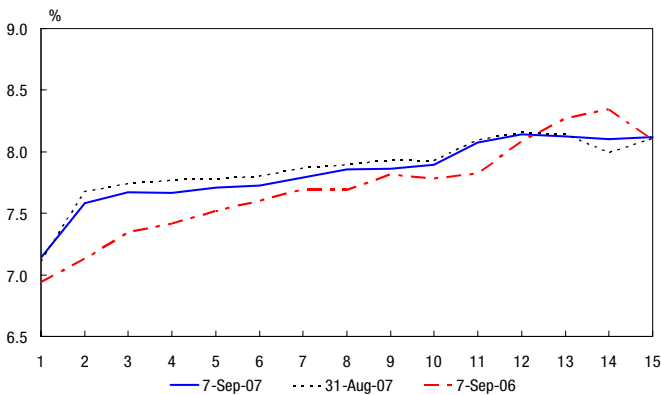


India - Markets in Pictures

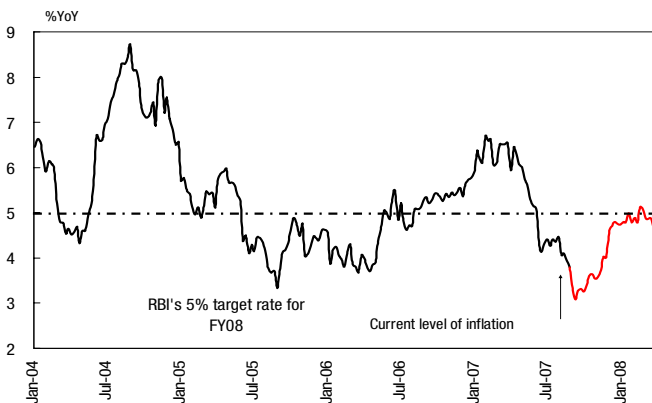
Trends in Exchange Rate - Rs/US\$



Trends in GOI Yield Curve



Trends in Inflation (% YoY)



Source: Reuters, Bloomberg

Rupee - The Week in Review

- The rupee appreciated to Rs40.69/US\$ from Rs40.88/US\$ last week.
- Intra-week, the rupee slipped to 41.00 amidst mixed signals from global investment flows, stock markets and rising crude oil prices.
- However, mid-week, corporate supply coupled with a rebound in FII purchases saw the rupee gain. We maintain our March08 estimate of Rs40/US\$.

Bonds - The Week in Review

- The benchmark 10-year yield slipped to 7.87% from 7.93% boosted by the lower inflation data, comfortable liquidity conditions and the higher than expected price cut-offs at the auction.
- Sentiment was further boosted on speculation of lower US interest rates in the coming months.
- We maintain our view that yields are likely to remain range-bound with lower inflation data likely to be offset by higher crude prices.

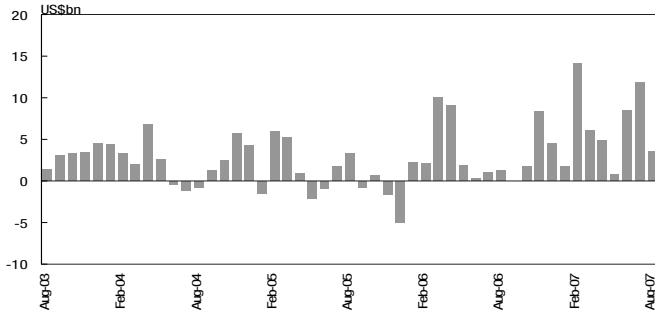
Tracking Inflation - Trends in the Wholesale Price Index

- Inflation came in lower than our as well as consensus expectations, at 3.69% for the week ended 25th Aug 2007. The ministry revised data for the week ended 30th June from 4.27% to 4.42%.
- While growth in Primary Articles was up 8.6%yoy, the Index for Manf Products rose by 4.3% and the Fuel Index contracted by 2%.
- Looking ahead, we expect inflation to remain at sub-5% levels over the coming months.



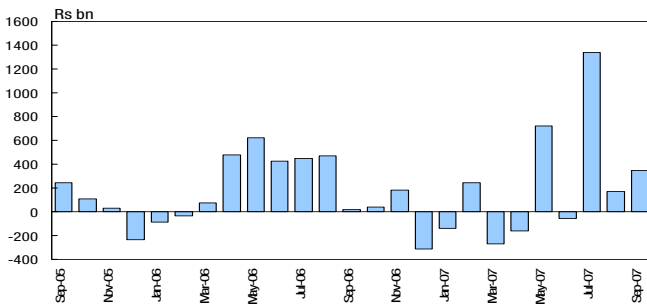
India - Markets in Pictures

Monthly Increase in Forex Reserves (US\$bn)



Total forex reserves, including gold, decreased US\$2mn for the week ended 31st Aug. Fiscal YTD, foreign currency assets have also increased by US\$30bn and currently stand at US\$222bn as compared to US\$158bn the previous year. Forex reserves including gold stand at US\$229bn.

Trends in Reverse Repos/Repos (Rs bn)



Despite auction outflows, FI inflows resulted in liquidity conditions remaining comfortable with daily average bids for reverse repos at Rs348bn v/s Rs168bn a week ago.

Trends in Commodities - Gold (US\$/Oz)



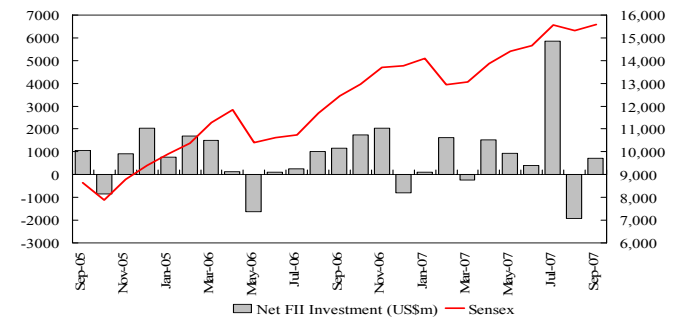
Gold ended higher at US\$700/oz up from US\$673/oz on the back of weak US jobs data, dollar weakness and higher crude prices.

Monsoons: Cumulative Rainfall from 1 June-5th Sept: 2% Above Normal

(subdivisions)	Cumulative Rainfall from June 1 to					
	4-Sep02	3-Sep-03	8-Sep-04	7-Sep-05	6-Sep-06	5-Sep-07
Excess	0	6	0	5	7	13
Normal	19	27	21	22	18	18
Total	19	33	21	27	25	31
Deficient	16	3	15	9	11	5
Scanty	1	0	0	0	0	0
No rain	0	0	0	0	0	0
Total	17	3	15	9	11	5
TOTAL	36	36	36	36	36	36

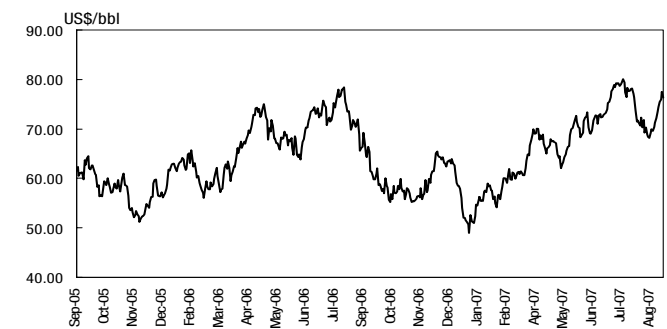
Data released by the IMD indicates that while rainfall during for the week ended 5th Sept was **10% above normal**, on a cumulative basis, rainfall from 1 Jun- 5th Sept remained just **2% above normal**. To see the regional distribution of cumulative rainfall please click for map: <http://www.imd.ernet.in/section/hydro/img/seasonal-rain.jpg>

2 Yrs - Trends in FI Flows (US\$ m)



Equities saw FI inflows to the tune of US\$707m for the trading week ended 7 Sept. Fiscal YTD, flows totaled US\$7.5bn as compared with inflows of US\$180m during the same period last year.

Trends in Commodities - Oil (US\$/bbl)



Brent rose to US\$76.33/bbl from US\$73.54/bbl due to the hurricane concerns, tensions in the Middle East and Nigeria and larger than expected drop in US crude stocks. However, toward the end of the week, its upside was capped due to weak US data.



India- Market Monitor

	Units	Latest	Previous	1M ago	3M ago	12M ago
Interest Rates						
Overnight	%	6.10	4.00	6.30	0.40	6.10
1 year Treasury Bill	%	7.52	7.49	6.58	7.80	6.96
1 year OIS	%	7.16	7.36	7.13	7.68	6.66
1 year MIFOR	%	6.65	6.55	7.03	8.32	6.85
5 year Corp AAA spread over GOI	%	1.79	1.66	1.38	1.91	0.86
10 year GOI	%	7.89	7.93	7.82	8.10	7.78
Currency & Reserves						
USD/INR		40.69	40.88	40.42	40.71	46.22
EUR/USD		1.37	1.37	1.38	1.35	1.27
USD/JPY		115.18	116.26	118.75	121.45	116.18
12 Month INR Forward Premium	%	1.31	1.15	1.82	3.01	1.30
FX Assets As On (31 Aug 07)	US\$ bn.	221.5	221.5	229.3	208.4	159.2
Money & Banking						
Credit-Deposit Ratio	%	69.7	69.2	70.5	71.6	70.3
Money Supply - M3	% YoY	20.00	21.7	21.70	21.70	19.90
Inflation - WPI (25 Aug 07)	% YoY	3.79	3.94	4.45	4.85	6.73

Source: Citigroup; RBI.

Financial Market Forecasts

Currency Forecasts and Forwards

	Range in Aug	Spot	3 Months		6 Months		12 Months	
		6 Sept	Forecast	Forward	Forecast	Forward	Forecast	Forward
Versus USD								
Japan YEN	114.17-119.66	115.15	106.65	113.72	106.78	112.54	110.00	110.53
Euro EUR	1.34-1.38	1.3655	1.3776	1.3693	1.4078	1.3709	1.4200	1.3722
India INR	40.22-41.17	40.82	40.70	40.94	40.20	41.05	39.50	41.37
China RMB	7.56-7.6	7.5373	7.3800	7.4825	7.2000	7.3935	7.0000	7.1945

Source: Reuters, Citigroup estimates.

Interest Rate Forecasts

	Range in Aug	6 Sept	3Q07	4Q07	1Q08	2Q08
US	Fed Fund Rate	5.25 - 5.25	5.25	5.00	4.50	4.50
	10-Year Treasuries	4.50 - 4.87	4.48	4.75	4.75	4.80
EU	Repo Rate	4 - 4	4.00	4.00	4.00	4.00
	10-Year Bunds	4.22 - 4.42	4.21	4.25	4.30	4.40
JP	Call Money	0.01 - 0.58	0.49	0.50	0.50	0.75
	10-Year JGBs	1.56 - 1.80	1.62	1.75	1.70	1.80
IN	Overnight Repo Rate	7.75 - 7.75	7.75	7.75	7.75	7.50
	Overnight Reverse Repo Rate	6 - 6	6.00	6.00	6.00	6.00
	91-Day T Bill	6.48 - 7.10	7.06	6.50	6.50	6.50
	10-Year Gilt	7.83 - 8.02	7.93	8.00	8.00	7.50
CN	1-year lending rate	6.84 - 7.02	7.02	7.02	7.29	7.56
	7-Day Shibor*	1.93 - 2.64	2.44	3.30	3.10	3.40
	Government bond yield (5 -Year)	3.65 - 3.78	3.68	3.65	3.70	3.85

Bloomberg, Moneyline Telerate, Citigroup estimates.

Disclosure Appendix

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