

INDIA

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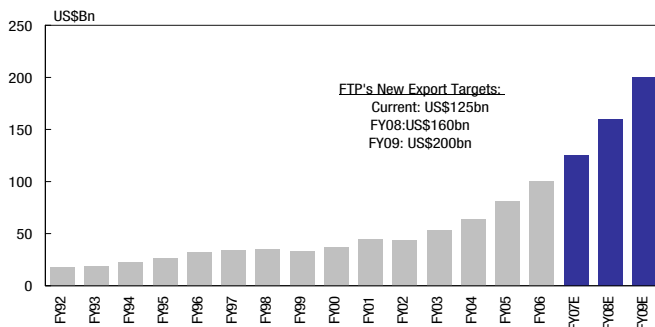
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Note Released: 23-Apr-07

CitiViews – India Market Watch

- **Spotlight on the Annual Foreign Trade Policy:** Last week, Commerce Minister Mr. Kamal Nath released the third addition to the 2004-09 Foreign Trade Policy (FTP) aimed at: (1) increasing India’s share of merchandise trade to 1.5% in 2008 from 1.1% currently; (2) encouraging employment generation; and (3) facilitating ‘inclusive growth’ by incentivising agricultural exports.
- **Export Targets for FY09 raised:** On the back of three consecutive years of 25%+ export growth with exports touching US\$125bn in FY07, the government has targeted exports rising US\$160bn in FY08 (+28%). The FY09 target has also been raised to US\$200bn, from US\$150bn earlier. Given the current backdrop of moderating growth in the US, and the base effect coming into play, we believe the targets are ambitious and expect growth to moderate to 15% in FY08.
- **How will higher targets be achieved?** Higher targets are to be achieved through a reduction of transaction costs in areas such as port handling, custom clearances and transportation arrangements as well as sector specific measures, including:
 1. **Exemption of service sector exports from service taxes.** Though service exports are not included as part of merchandise exports, the policy has said that all services rendered abroad would henceforth be exempted from service tax. These will however, hit public finances to the tune of Rs6bn annually.
 2. **Measures directed toward export incentive sectors:** These include duty-free imports of equipment for gems and jewellery as well as benefits for exporters of hi-technology products. SEZ developers would enjoy benefits such as interest payable on delayed refunding of excise duties/duty drawbacks, etc.
 3. **Measures aimed at encouraging ‘inclusive growth’** and include incentives for the agro/food-processing industry, with exporters being awarded duty credit scrips at 10% of the value of agri exports provided they use them for imports of cold storage units, reefer vans, etc. Moreover, the focus product and focus market¹ schemes have been enlarged to include more products and countries.

Merchandise Exports- Current Trends + Targets (US\$bn)



Source: DGCI&S, Ministry of Commerce, Citigroup estimates

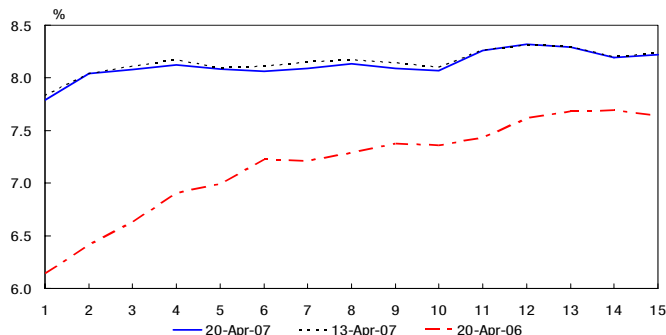
Trends in Exports as a Percent to GDP



¹Under the **Focus Product** scheme, incentives are provided for exports of industrial products that can generate employment opportunities, such as those in the leather, fish, and handloom industries; while the **Focus Market** scheme aims to encourage exports to markets where they have been comparatively low so far

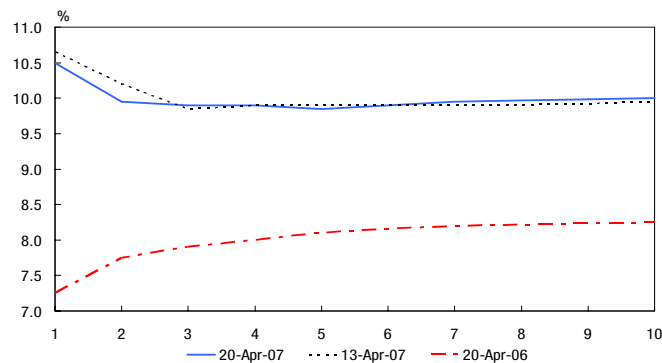
India - Markets in Pictures

Trends in GOI Yield Curve



The benchmark 10-year yield ended the week lower at 8.07% from 8.1% despite the uncertainty arising due to the upcoming annual RBI policy, as well as WPI coming in above 6%- against market expectations. Statements by FM P Chidambaram saying that he expected the rate to be around 5.7% at the next release kept yields in check.

Trends in AAA Yield Curve



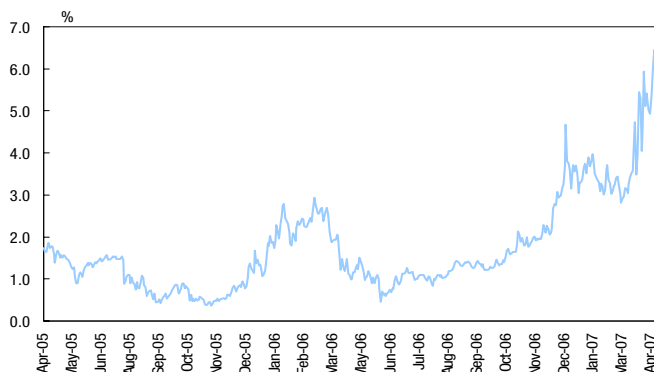
The AAA market saw minimal trading interest at the benchmark 5-year segment. The yield at the segment was quoted slightly lower at 9.9% while the credit spread was 165 bps from 168 bps in the previous week.

Trends in Exchange Rate - Rs/US\$



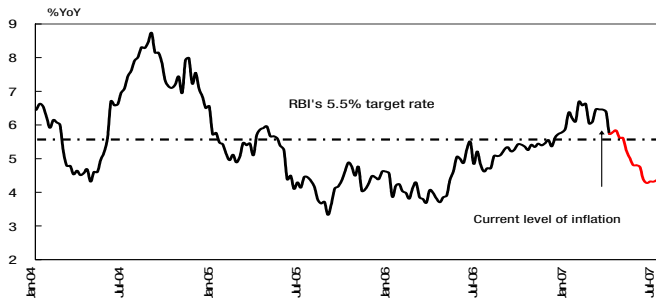
The rupee ended stronger at 41.77/US\$1 from 42.52/US\$ in the previous week. Mid week, the rupee hit a 9-year high of 41.64/US\$1 on the back of dollar liquidation following the rise in call rates edging up. We expect the rupee to trade in the 41.50-42 range in the near term.

Trends in 6 Month Premiums (%)



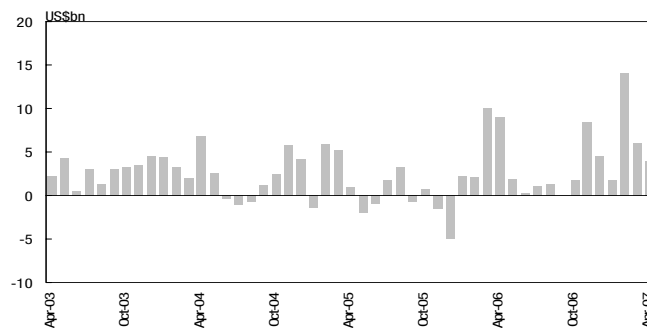
The Premium ended higher at 6.49% from 5.95% in the previous week. Tight liquidity conditions in the money market resulted in traders liquidating dollars via sell-buy swap contracts.

Trends in Inflation (% YoY)



After dipping below the 6% level in the week ending Mar 30, inflation for the week ended 7 April was up to 6.1%yoY. This was higher than expectations and due to an uptrend in Primary Articles (+12.4%). We expect inflation to remain over the RBI's 5-5.5% target range till May, and thereafter moderate to below 5.5% levels.

Monthly Increase in Forex Reserves (US\$bn)

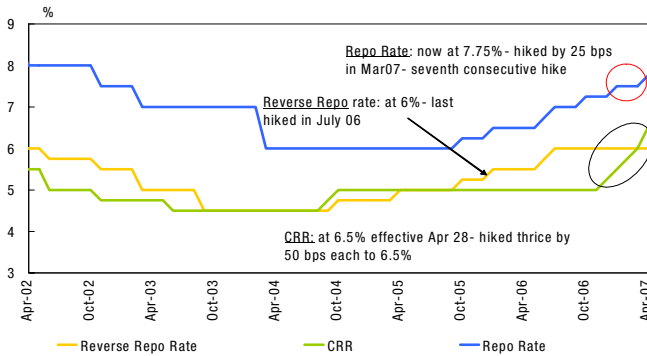


Total forex reserves, including gold, rose by US\$2.8bn for the week ended 13 April. April MTD foreign currency assets have increased by US\$3.9bn and currently stand at US\$196bn as compared to US\$149bn the previous year. Forex reserves including gold stand at US\$203bn.

Source: Reuters, Bloomberg

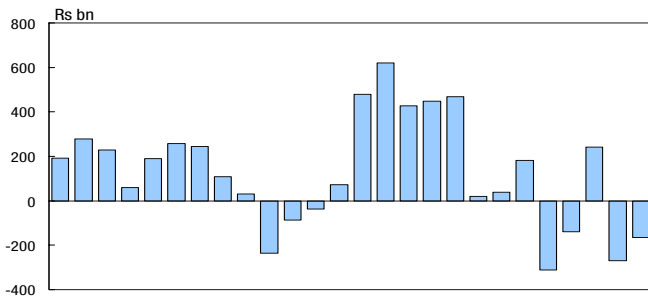
India - Markets in Pictures

RBI's Monetary Policy Preview



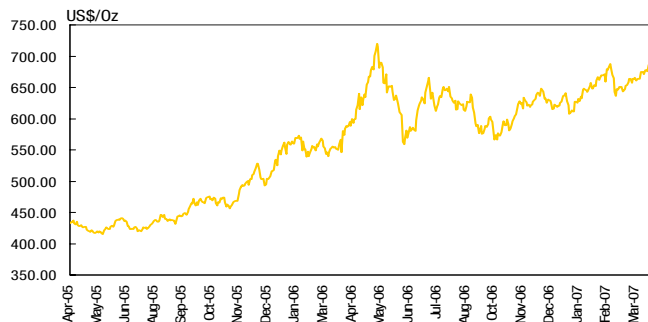
The backdrop of the RBI's April 24 monetary policy is continued buoyancy in the economy reflected in strong trends in industrial production and GDP growth. Although credit and inflation have both moderated from their highs they remain above targeted growth rates. While our macro forecasts have factored in one more rate hike, the timing is uncertain since RBI has been effecting frequent inter-policy measures. For more details click <https://www.citigroupgeo.com/pdf/SAP04603.pdf>

Trends in Reverse Repos/Repos (Rs bn)



The RBI received bids worth Rs166bn on a daily average for repos while there were hardly any bids for reverse repos reflecting the lack of surplus cash in the money market.

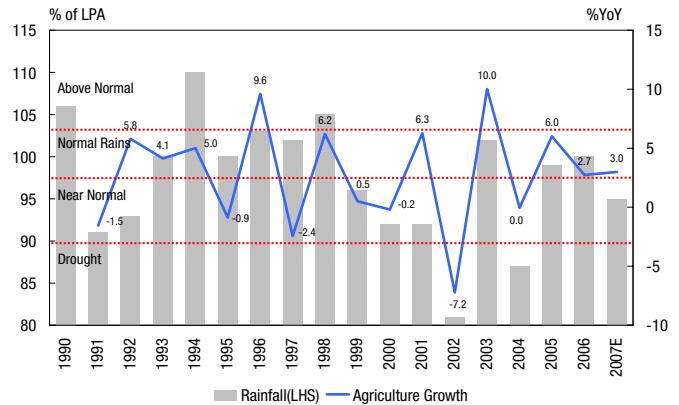
Trends in Commodities – Gold(US\$/Oz)



Gold ended higher at US\$691.35/oz from US\$685.6/oz in the previous week on the back of the weak dollar.

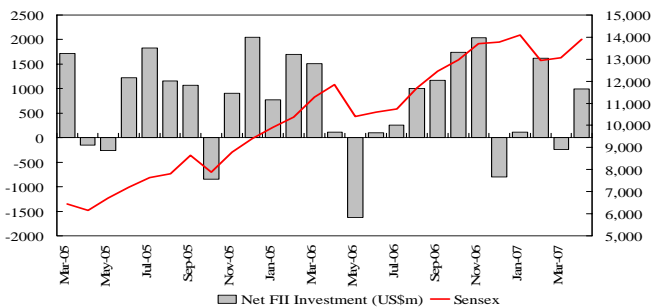
Source: Reuters; Bloomberg; Citigroup

Monsoons: IMD Issues First Forecast; Rains likely to be "Near Normal"



Based on its new statistical models, the Indian Meteorological Department's (IMD) 1st forecast for the summer rains (June-Sept) is that rainfall is likely to be 84.6cms which is 95% of its Long-Period-Average (LPA) of 89cms. (Rainfall of 90-97% of LPA is classified as "near/below normal".)

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



Equities saw FII inflows to the tune of US\$564m for the trading week ended 23th April. April MTD, total FII inflows (equity) amounted to US\$992m, as compared with outflows of US\$404m during the same period last year.

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



Brent slipped to US\$66.26/bbl from US\$68.92/bbl on the back of easing concerns over US summer supplies relaxed while strong Chinese GDP growth and news of Iran's nuclear fuel production supported prices.

India- Market Monitor

	Units	Latest	Previous	1M ago	3M ago	12M ago
Interest Rates						
Overnight	%	10.00	5.28	22.00	7.80	5.60
1 year Treasury Bill	%	7.70	7.83	7.83	7.27	6.06
1 year OIS	%	8.36	8.15	7.99	7.52	6.11
1 year MIFOR	%	10.13	9.63	8.89	8.74	6.47
5 year Corp AAA spread over GOI	%	1.58	1.17	1.48	1.23	1.03
10 year GOI	%	8.07	8.10	8.06	7.80	7.35
Currency & Reserves						
USD/INR		41.77	42.52	43.75	44.27	45.11
EUR/USD		1.36	1.36	1.33	1.30	1.23
USD/JPY		118.63	118.34	117.81	121.26	117.77
12 Month INR Forward Premium	%	4.78	3.99	3.74	3.20	1.08
FX Assets As On (13 Apr 07)	US\$ bn.	195.8	193.1	188.6	170.4	148.7
Money & Banking						
Credit-Deposit Ratio	%	74.1	74.5	73.8	74.0	72.2
Money Supply - M3	% YoY	20.7	22.0	22.1	20.4	16.2
Inflation - WPI (07 Apr 07)	% YoY	6.09	5.74	6.46	6.73	3.68

Source: Citigroup; RBI.

Financial Market Forecasts

Currency Forecasts and Forwards

	Range in Mar	Spot	1 Month		3 Months		6 Months		12 Months	
		19- Apr	Forecast	Forward	Forecast	Forward	Forecast	Forward	Forecast	Forward
Versus USD										
Japan YEN	115.98-118.12	117.96	118.00	117.50	119.00	116.59	119.00	115.27	118.00	112.93
Euro EUR	1.3099-1.3368	1.3590	1.3600	1.3606	1.3400	1.3635	1.2900	1.3672	1.2600	1.3720
India INR	42.78-44.39	41.77	42.50	42.09	41.70	42.55	43.00	43.10	42.75	43.79
China RMB	7.7273-7.7542	7.7185	7.6900	7.6920	7.4500	7.6225	7.3000	7.5145	7.1000	7.2755

Source: Reuters, Citigroup estimates.

Interest Rate Forecasts

		Range in March	19-Apr	2Q07	3Q07	4Q07	1Q08
US	Fed Fund Rate	5.25 - 5.25	5.25	5.25	5.00	5.00	5.00
	10-Year Treasuries	4.48 - 4.64	4.64	4.65	4.70	4.75	4.80
EU	Repo Rate	3.5 - 3.75	3.75	3.75	4.00	4.00	4.00
	10-Year Bunds	3.88 - 4.05	4.15	4.00	4.00	4.05	4.10
JP	Call Money	0.4 - 0.75	0.52	0.50	0.50	0.75	0.75
	10-Year JGBs	1.55 - 1.68	1.70	1.75	1.85	1.90	1.90
IN	Overnight Repo Rate	7.5 - 7.5	7.75	8.00	8.00	8.00	8.00
	Overnight Reverse Repo Rate	6 - 6	6.00	6.25	6.25	6.25	6.25
	91-Day T Bill	7.47 - 7.97	7.48	7.50	7.50	7.50	7.50
	10-Year Gilt	7.94 - 8.07	8.08	8.00	8.00	8.00	8.00
CN	1-year lending rate	6.12 - 6.39	6.39	6.66	6.66	6.66	6.66
	7-Day Shibor	1.36 - 2.2	3.45	3.00	2.60	2.80	3.00
	Government bond yield (5 -Year)	2.68 - 2.81	2.93	3.00	3.10	3.25	3.40

Source: Datastream, CEIC Data Company Limited, Bloomberg, Moneyline Telerate, Citigroup estimates.

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