

INDIA

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CitiViews – India Market Watch

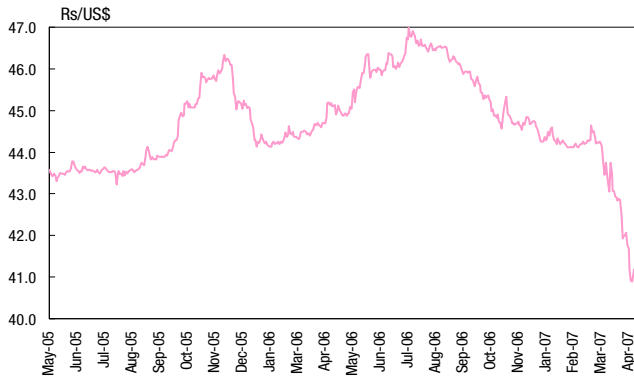
- **Spotlight on Climate Change and Carbon Trading:** The World Bank’s latest update on the carbon market indicates that carbon trading has tripled from US\$10.8bn in 2005 to US\$30bn in 2006. This is significant as it reflects initiatives taken by government’s world over to combat the rise in the level of greenhouse gases (GHG)¹, which leads to global warming and climatic changes that are detrimental to economies worldwide.
- **How does India come into the picture?** To provide a quick recap, under the Kyoto Protocol industries in developed countries can offset carbon dioxide emissions by buying carbon credits from developing countries that are generated through projects that reduce emissions. A quick update on the India Macroscope “Emission Trading – An Opportunity for India” dated 17th August 05, reveals that following China, India has emerged as one of the biggest sellers of CDM carbon credits² worldwide. India has been actively pursuing clean development policies and of the 653 projects worldwide that have been registered by the UNFCCC for trading in carbon credits, 228 are Indian.
- **Macro economic impact on India:** Besides the returns from carbon credits, India is likely to benefit from the transfer of technology, investments (both domestic and foreign) in renewable energy, energy generation, and reforestation projects. Most importantly, the Kyoto Protocol enables India to take up clean-technology projects with external assistance. Sectors in India that should benefit by implementing the CDM and carrying out carbon trading include power, iron and steel, sugar, cement, and fertilizers. Industries that are engaged in biomass co-generation, hydro, and wind energy projects also stand to gain. From a macro point of view, the benefit would be higher forex earnings to the tune of US\$2-US\$4bn from sales of carbon credits. This though small, would add to the invisible earnings (which include software exports, remittances, clinical trials etc) on the Balance of Payments.
- **Climate Change – Growing involvement of Individual and Firms:** Besides efforts made by governments world over to reduced emissions, initiatives at the individual and firm level include “carbon neutral events” which involve using recycled material and reusing items. The convention industry council gave an interesting example using the case of a five day event with 2000 delegates. It said that using crockery instead of plastic disposables would save close to 2000 pounds of plastic going into a landfill, not pre-filling water at banquets would save 520 gallons of water while re-using badges would be both environment and cost friendly.

¹ Greenhouse gases such as carbon dioxide (CO₂), methane (C₂), nitrous oxide (N₂O), hydro fluorocarbons (HFS), per fluorocarbons (PFS), and sulphur hexafluoride (SF₆) prevent solar energy from escaping into the atmosphere. This traps heat, and causes ‘global warming’ with the Intergovernmental Panel on Climate Change estimating that **temperatures will rise by as much as 5.8° by 2100**. Accompanied by a rise in sea-level and changes in weather patterns, this will have a grave impact on agriculture and water resources

² For each tonne of *carbon dioxide* reduced from the atmosphere, the KP awards one **carbon credit** to that country. **Carbon/Emissions trading** allows countries to trade these credits, so that one party can purchase credits from another in order to meet its targets. **Payment** is made either by cash, equity, debt, convertible debt or warrant, or in-kind contributions such as providing technologies to abate GHG emissions

India – Markets in Pictures

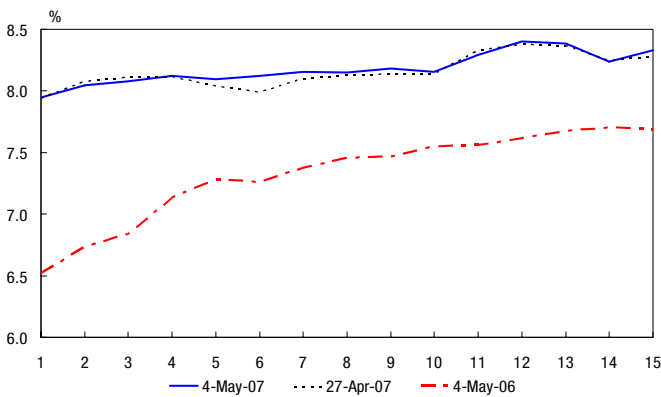
Trends in Exchange Rate - Rs/US\$



Forex Market – The week in review

- The rupee ended stronger at Rs40.86/US\$ from Rs41.09/US\$ in a short trading week. However the unit was volatile touching Rs41.45/US\$ intra-week – a result of dollar absorption by oil importers, state-run banks and fears on the possible imposition of caps on capital inflows.
- But on the back of continuation of strong inflows, the rupee bounced back from its intra-week losses and soared past the psychological mark of Rs41/\$ and is currently trading at Rs40.7/US\$. While near term movements may be choppy, we maintain our long-term rupee appreciation view

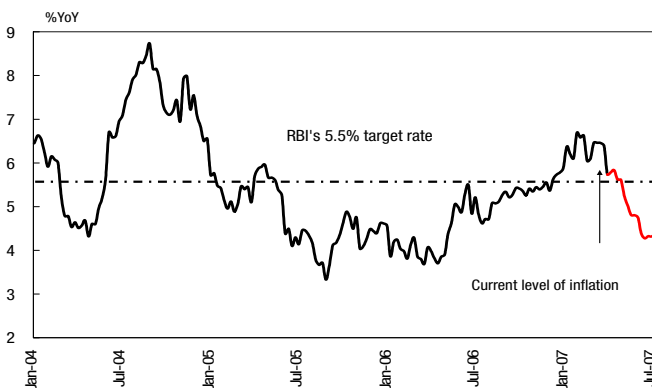
Trends in GOI Yield Curve



Bond Market – The week in review

- The benchmark 10-year yield closed at 8.16% from 8.14% a week ago. While pressure on liquidity pushed yields higher, improved cash surpluses towards the end offered some transient relief.
- Though headline inflation came in lower (WPI at 5.77% v/s 6.09%), upcoming auctions – both regular market borrowing as well as the MSS weighed on the market. Via the LAF, the RBI infused Rs85bn on a daily average

Trends in Inflation (% YoY)



Inflation dips below 6%

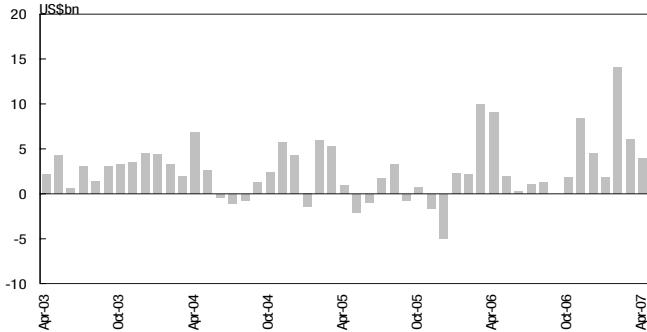
- WPI Inflation dipped below the 6% level last week coming in at 5.77% for the week ended 21 April. This was on the back of an uptrend in Primary Articles (+11.5%) and Manufactured Goods (+5.46%), while the Fuel Index was up just 1.1%yoy.
- We maintain our view that inflation will likely remain over 5.5% for the next two-three weeks, but thereafter moderate to 5% levels. This is on the back of monetary and fiscal measures as well as the base effect coming into play

Source: Reuters, Bloomberg



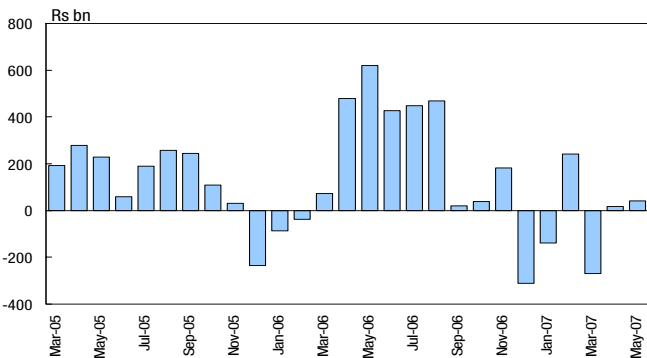
India - Markets in Pictures

Trends in Forex Reserves



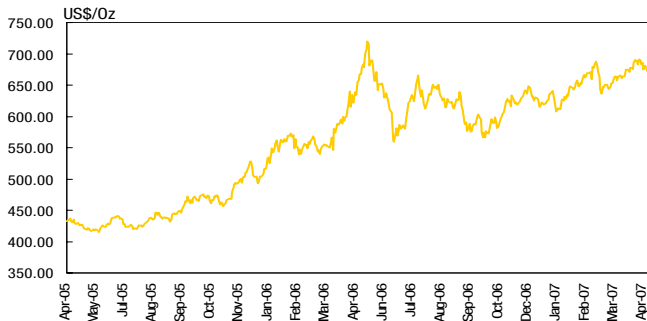
Total forex reserves, including gold, rose by US\$254mn for the week ended 27th April. Fiscal YTD, foreign currency assets have also increased by US\$4.9bn and currently stand at US\$196.8bn. Forex reserves including gold stand at US\$204bn

Trends in Reverse Repos/Repos (Rs bn)



Liquidity conditions remained tight but relatively better than the week ago as the RBI infused liquidity to the tune of Rs85bn on a daily average basis from Rs95bn a week ago. This was also reflected in a drop in both the amount and number of bids in repos

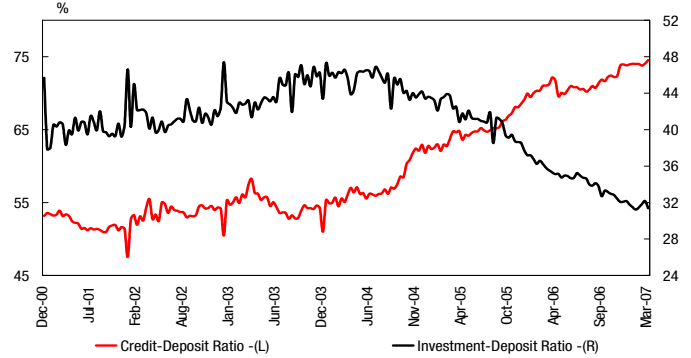
Trends in Commodities - Gold (US\$/Oz)



Gold ended higher at US\$688.75/oz from US\$680.95/oz. Despite the strong dollar early in the week and technical buying by traders, the metal failed to touch the levels of US\$700/oz

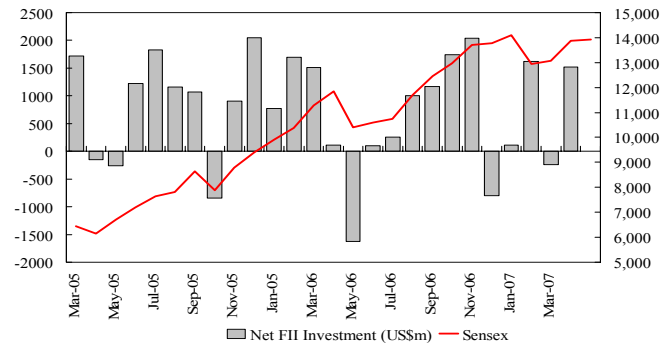
Source: Reuters; Bloomberg; Citigroup

Trends in Credit Deposit and Investment Deposit Ratio (%)



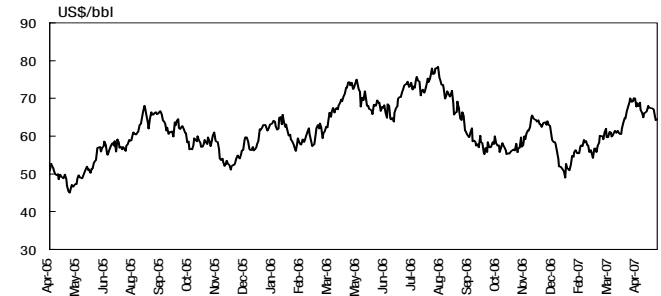
Despite robust growth in deposits, the continuation of strong trends in credit resulted in the credit-deposit ratio touching 73.2%, while the investment deposit ratio has come down to 31.2%

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



Equities saw FII outflows to the tune of US\$56mn for the trading week ended 4th May. April MTD, total FII inflows (equity) amounted to US\$1.4bn as compared with US\$221mn during the same period last year.

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



Brent fell to US\$64.49/bbl from US\$67.34/bbl. Although, violence in Nigeria and Iran's growing nuclear ambitions supported prices, oil dropped on account of technical selling and profit taking



India- Market Monitor

	Units	Latest	Previous	1M ago	3M ago	12M ago
Interest Rates						
Overnight	%	7.50	8.50	8.00	7.90	5.60
1 year Treasury Bill	%	7.75	7.70	7.98	7.70	5.90
1 year OIS	%	8.65	8.59	8.11	7.59	6.18
1 year MIFOR	%	10.41	10.66	9.80	8.66	6.82
5 year Corp AAA spread over GOI	%	1.6544	1.6652	1.21	1.32	1.03
10 year GOI	%	8.1555	8.0655	8.16	7.69	7.53
Currency & Reserves						
USD/INR		40.86	41.09	43.07	44.12	44.90
EUR/USD		1.35	1.36	1.33	1.30	1.26
USD/JPY		120.35	119.30	118.96	120.97	114.02
12 Month INR Forward Premium	%	4.85	4.82	4.11	2.90	1.38
FX Assets As On (27- Apr 07) Excludes Gold	US\$ bn.	196.87	196.63	191.92	171.98	153.59
Money & Banking						
Credit-Deposit Ratio	%	74.1	74.5	73.8	74.0	72.2
Money Supply - M3	% YoY	21.3	20.70	22.00	21.10	17.60
Inflation - WPI (07 Apr 07)	% YoY	5.77	6.09	6.39	6.73	3.70

Source: Citigroup; RBI.

Financial Market Forecasts

Currency Forecasts and Forwards

	Spot		1 Month		3 Months		6 Months		12 Months	
	Range in Apr	3-May	Forecast	Forward	Forecast	Forward	Forecast	Forward	Forecast	Forward
Versus USD										
Japan YEN	117.82 - 119.75	120.17	119.00	119.68	121.00	118.75	122.00	117.41	121.00	115.03
Euro EUR	1.33 - 1.37	1.3607	1.3600	1.3624	1.3500	1.3652	1.3200	1.3688	1.3000	1.3733
India INR	40.64 - 43.11	41.24	41.20	41.51	40.70	41.97	40.20	42.51	40.00	43.25
China RMB	7.71 - 7.73	7.7055	7.6900	7.6760	7.4500	7.6075	7.3000	7.5095	7.1000	7.2750

Source: Reuters, Citigroup estimates.

Interest Rate Forecasts

		Range in April	3-May	2Q07	3Q07	4Q07	1Q08
US	Fed Fund Rate	5.25 - 5.25	5.25	5.25	5.25	5.00	5.00
	10-Year Treasuries	4.65	4.70	4.75	4.80	4.75	4.80
EU	Repo Rate	3.75 - 3.75	3.75	4.00	4.00	4.00	4.00
	10-Year Bunds	4.07 - 4.23	4.21	4.15	4.15	4.20	4.20
JP	Call Money	0.475 - 0.595	0.52	0.50	0.50	0.75	0.75
	10-Year JGBs	1.62 - 1.71	1.63	1.75	1.85	1.90	1.95
IN	Overnight Repo Rate	7.75 - 7.75	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	7.35 - 7.97	7.35	7.50	7.50	7.50	7.50
	10-Year Gilt	7.98 - 8.18	8.18	8.00	8.00	8.00	8.00
CN	1-year lending rate	6.39 - 6.39	6.39	6.66	6.66	6.66	6.66
	7-Day Shibor	1.79 - 4.77	2.45	3.00	2.60	2.80	3.00
	Government bond yield (5 -Year)	2.8 - 3.13	3.13	3.00	3.10	3.25	3.40

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

Disclosure Appendix

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