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Financial Markets

Overview

In July, despite weakening macroeconomic fundamentals such as spiralling inflation rate, sharp decline in the index of industrial production (IIP) and more significantly, subdued first quarter corporate results which show that though the sales growth has been good, the net profits have suffered due to rising input costs, the sentiments in the stock market has been buoyant due to slide international crude oil prices after having touched a peak towards the beginning of the month and significantly due to the increased prospects of the ruling government winning the confidence vote over the nuclear deal issue which the market expected would allow the government to carry the reforms process faster ahead which were hitherto being stalled. Following the government wining the vote of confidence, the market sentiments turned bullish. The market sentiments, however, turned cautious due to the Fitch Ratings downgrading of local currency ratings due to deteriorating central government finances. The Bombay Stock Exchange's sensitive index (BSE Sensex) has risen from 13462 points to 14356 points over the month despite the foreign institutional investors (FIIs) remaining net sellers for the second consecutive month.

In the equity derivatives market, there has been sharp surge in the turnover as the spot market remained volatile and the volatility index has touched a peak of 62 points far exceeding the earlier high touched in January 2008 implied that the market participants were highly anxious about the market movements. Of late, the share of stock futures in the total derivatives turnover has been falling while that of index futures and index options have been rising.

In the gilt-edged market, the market participants remained apprehensive of stringent monetary measures due to sustained increase in domestic inflation rate. But with the increased pressure on liquidity due to two scheduled hike of 25 basis points each in cash reserve ratio (CRR) on July 5 and 19 as well as outflows due to dated securities auction and the decline in the IIP spurred expectations that the Reserve Bank of India (RBI) would adopt a soft or neutral stand. But, the RBI undertook stringent measures in its first quarter policy review by increasing the repo rate by 50 basis points from 8.50 per cent to 9.0 per cent with immediate effect on July

29 and increasing the CRR by 25 basis points to 9 per cent with effect from the fortnight beginning August 30, caught the market unawares.

In the commodity futures market, there has been sharp jump in the turnover notwithstanding the ban on few commodities. However, the major part of the trading has remained with the precious metals and energy futures. It appears that the futures market seem to relegate its stated objective of assisting the farmers and have remained concentrated in some of the globally traded commodities. There have been repeated reports of the commodity transaction tax likely to have deleterious effects on the market such as it would encourage dabba trading. However, FMC has banned a member of MCX as it indulged in dabba trading. This shows that an effective way to handle this type of trading is through effective regulatory measures.

Trends in the Equity Market

i) Primary Issues

Table 10.1: Primary Issues in the Month of July 2008

Name	Date of Issuance		Offer Price	Issue Size
	Opening	Closing	(in Rs)	(in Rs cr)
Nu Tek India Ltd	29-Jul-08	01-Aug-08	170-192	86.40
Vishal Information Technologies Ltd	21-Jul-08	24-Jul-08	140-150	41.85
Total				**128.25**

* fixed priced issue.
Source: Various media sources

There has been a sharp decline in the amounts mobilised from the primary market to Rs 128 crore in July as against Rs 651 crore in June 2008 and Rs 2,668 crore in July 2007. Due to volatile secondary market conditions, some of the public offerings have been deferred from their plans to tap the capital market. For instance, the Bangalore Metropolitan Transport Corporation (BMTC), Anil Ambani group firm Reliance Infratel, Multi Commodity Exchange (MCX) and UTI Asset Management (UTIAM).

Primary Market Reforms

Securities and Exchange Board of India (SEBI) has introduced a new method for retail investors in the primary equity markets by protecting their funds and thereby made the existing issue process more efficient. The new method is application supported by blocked amount (ASBA) -a supplementary process for applying in public issues which requires retail investors

bidding at a cut-off price to apply through self-certified syndicate banks (SCSBs), in which they have accounts. The SCSBs would accept applications from investors and block the required funds and then upload the details in the electronic bidding system. Once the basis of allotment is finalised, the amount required by the issuer will be released and the rest will be unblocked by the SCSB. Thus, the system is better suited for retail investors and is more efficient than the existing systems.

As per the data published by the SEBI on its website, the investment in ventures capital funds and foreign capital funds have increased from Rs 28,260 crore in the quarter ending December 2007 to Rs 32,379 crore in quarter ending June 2008. The bulk of the funds have been invested in the real estate sector followed by services sector and information technology (table 10.2).

Table 10.2: Industry wise Cumulative Investment Details of SEBI Registered Venture Capital Funds (VCF) and Foreign Capital Investors (FVCI)

Sectors of Economy	Dec 31, 2007 (Rs. in Crore)			March 31, 2008 (Rs. in Crore)			June 30, 2008 (Rs. in Crore)		
	VCF	FVCI	Total	VCF	FVCI	Total	VCF	FVCI	Total
Information Technology	779	1390	2169	817	1443	2260	776	1545	2321
Telecommunications	118	872	990	188	893	1081	191	866	1057
Pharmaceuticals	716	360	1076	822	598	1420	781	642	1423
Biotechnology	354	31	385	354	31	385	315	31	346
Media/ Entertainment	401	69	470	406	69	475	583	89	672
Services Sector	1134	1341	2475	1341	1090	2431	1478	1259	2737
Industrial Products	735	1312	2047	811	748	1559	1020	823	1843
Real Estate	4207	2141	6348	5054	2231	7285	4862	1424	6286
Others	8881	7868	16749	10162	9602	19764	10122	10247	20369
Total	17325*	15384	28260	19955*	16705	31682	20128*	16926	32379
	*includes Rs.4449 crore of FVCI investments in VCF			*includes Rs.4978 crore of FVCI investments in VCF			*includes Rs.4657 crore of FVCI investments in VCF		

Note: The above report is compiled on the basis of quarterly information submitted to SEBI by registered Venture Capital Funds and Foreign Venture Capital Investors.
Source: *SEBI website*.

ii) Secondary Market

Despite weakening domestic macroeconomic fundamentals, there has been buoyancy in the domestic stock market as reflected by a surge in BSE Sensex which has risen from 12962 on July 1 to 14356 on July 31 due to a falling international crude oil prices and prospects of faster economic reforms following the government winning the vote of confidence over the

nuclear deal issue. Though the FIIs have been net sellers during the month, there has been sharp rise in the secondary market turnover.

The secondary market turnover on National Stock Exchange (NSE) has increased to Rs 295,816 crore in July from Rs 264,428 crore in June. Similarly, the market capitalisation has also risen to Rs 44,32,427 crore from Rs 4103,651 crore. The total turnover on BSE has increased to Rs 123,916 crore in July from Rs 113,605 crore in June. The price to earnings (PE) ratio for the BSE Sensex has slipped from 18.22 in June to 17.06 in July.

Table 10.3: Market Turnover
(Rs in crore)

Year/ Month	BSE			NSE		
	Turnover	Avg. Turnover	Market Cap.	Turnover	Avg. Turnover	Market Cap.
2005-06	118765	5398	3022191	1569556	6253	2813201
2006-07	78028	3716	3545041	1945285	7812	3367350
2007-08	110991	6166	5138015	3551038	14148	4858122
Apr-Jun-07	272782	13177	11705247	569800	27534	11526827
Apr-Jun-08	350729	17266	20388304	813578	40049	14645304
Jul-07	125054	5684	4529772	267227	12147	4317571
Jul-08	123916	5388	4732545	295816	12862	4432427

Source: NSE and BSE

Sectoral Indices

Table 10.4: Monthly Percentage Change in the Stock Indices of BSE

Index	Base Year	June 08 Closing	July 2008 Closing	July		Percentage Change for the Month
				High	Low	
SENSEX	1978-79	13461.6	14355.8	15130.1	12514	6.64
BSE Mid-Cap	2002-03	5386.5	5567.4	5723.2	4970.5	3.36
BSE Small-Cap	2002-03	6702	6912.8	6962.9	6170	3.15
BSE 100	1983-84	7029.7	7488.5	7880	6536.9	6.53
BSE 200	1989-90	1644.2	1749.1	1836.2	1532	6.38
BSE 500	1998-99	5215.4	5525.8	5783.5	4862.3	5.95
BSE TECk	Apr 02,2001	3044	3000.4	3201.2	2759.5	-1.43
BSE PSU	1998-99	5666.4	6706.1	6910.3	5355	18.35
BSE AUTO	Feb 01,1999	3585.6	3679.5	3823.3	3332.4	2.62
BANKEX	Jan 01,2002	5916	6516.4	7467.9	5354.4	10.15
BSE CG	Feb 01,1999	10080.7	11683.8	12527	9482	15.9
BSE CD	Feb 01,1999	3477.6	3685.8	3806.7	3213.7	5.99
BSE FMC	Feb 01,1999	2080.3	2139.2	2176.3	1863.4	2.83
BSE HC	Feb 01,1999	4164.3	4162	4239.1	3891.6	-0.06
BSE IT	Feb 01,1999	4019.8	3689.6	4295.5	3490.2	-8.22
BSE METAL	Feb 01,1999	13207.3	12912.6	13341.2	11434.3	-2.23
BSE REALTY	2005	4543.5	5079	5380.6	4068.3	11.79
BSE OIL&GAS	Feb 01,1999	9009.2	9729.5	10142.7	8488.6	8
BSE -POWER	Jan 03,2005	2252.4	2574.3	2753.3	2076.6	14.29
Dollex 30		2572.3	2771.2	2951.9	2379.7	7.73
Dollex 100		1692.6	1821.5	1937.2	1567.6	7.61
Dollar 200		637.1	684.7	726.5	591.3	7.47

Source:BSE (www.bseindia.com)

Among the sectoral indices of BSE, only three indices have recorded negative gains with the IT sector suffering the most declines due to the appreciation of the rupee. During the month, the top gainers have been capital goods, power and realty indices (Table 10.4).

Similarly, all the S&P Nifty indices have registered positive gains over the month. Bank Nifty and Nifty Junior and are the major performers during the month (Table 10.5).

Table 10.5: Monthly Percentage Change in the Stock Indices of NSE

Index	Base Year	June 2008 Closing	July 2008 Closing	July		Percentage change for the month
				High	Low	
S&P CNX Nifty	1995	4040.6	4333.0	4539.5	3790.2	7.24
CNX Midcap	2003	5238.9	5537.0	5706.0	4824.8	5.69
CNX Nifty Junior	1996	6233.2	6936.8	7363.2	5756.9	11.29
Nifty Midcap 50	2004	1956.9	2123.4	2206.6	1777.3	8.51
S&P CNX Defty	1995	3258.6	3528.5	3760.7	3052.4	8.28
S&P CNX 500	1994	3203.4	3456.7	3607.4	3017.2	7.91
CNX 100		3826.3	4124.0	6468.4	4634.0	7.78
CNX IT	1996*	3999.4	3752.9	4194.8	3475.9	-6.16
BANK Nifty	2000	5027.1	5730.1	6468.4	4634.0	13.98
Memo Item						
India VIX (NSE Volatility Index)		31.0	39.1	77.7	10.2	26.16

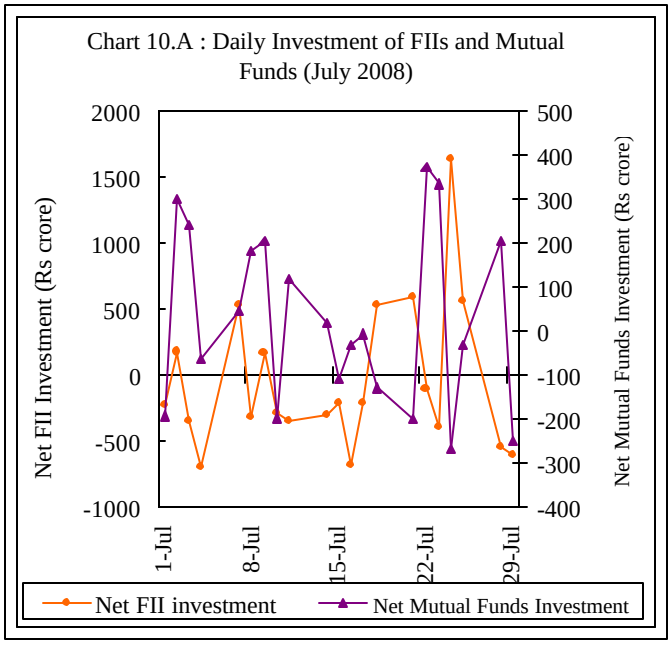
Note: *the base value has been changed from 1000 to 100 with effect from May 24, 2004

Source: NSE (www.nseindia.com)

FIIs and Mutual Funds

FIIs have been net sellers for the consecutive last three months with their aggregate investments falling from US $ 63,761 million as of end April to US $ 59,561 million as of end July. Though FIIs have been shedding their investments in equities, they have increased their exposure to debt instruments. In July, their net investment in equities has been to the extent of US $ (-) 6,768 million while that of in debt has been US $ 1,073 million.

Mutual Funds



Unlike the FIIs, mutual funds have been net buyers of equities as well as of debt in the secondary market to the extent of Rs 1,412 crore and Rs 5,789 crore, respectively.

As per the association of mutual funds of India (AMFI) data, the asset under management (AUM) has increased to Rs 529,631 crore as of end July from Rs 521,899 crore as of end June. The break-up of the AUM shows that the income schemes account for 49 per cent of the total followed by equity schemes with 26 per cent share and liquid and money market schemes for 17 per cent.

According to Crisil report, many asset management companies (AMCs) are sitting on huge piles of cash or cash equivalents, with some equity-oriented funds holding as much as 40 per cent of their assets in cash, due to downturn in the stock market which has lost over 30 per cent from its January peak. The country's largest fund house, Reliance Mutual Fund, is holding an average of over 33 per cent cash in three of its funds - Reliance Equity (39.25), Reliance Natural Resources (32.30) and Reliance Diversified Power (30.13).

Query Regarding Load

The Ministry of Corporate Affairs has asked the SEBI to examine the lower entry and exit loads charged by mutual fund houses in case of high networth individuals (HNIs). The ministry has taken cognisance of a representation made to SEBI by a public interest activist, Vijay Gokhale. Several investors opine that mutual funds have been making a distinction between subscribers based on their investment values. Gokhale has pleaded with SEBI saying that it is highly detrimental and discriminating against the interests of small investors.

New Investment Avenues

In one of the most innovative product launches globally, domestic fund houses are gearing up to roll out funds that will invest in frontier markets. Distressed by the falling spree of local equities, fund managers are looking at various avenues of diversification. At a time when emerging markets, including India, are vulnerable to global cues and are more coupled, frontier markets show less or almost no correlation. Franklin Templeton has been the first to spot an opportunity and has already filed for a MENA fund (Middle East North Africa Fund), which will invest in some of the frontier markets. Morgan Stanley Mutual Fund is also firming up plans for a fund based on frontier markets.

Comparison of FIIs and Mutual Funds Holdings

Table 10. 6: Mutual Funds Share Holding
(in per cent)

Company	Quarter ended	
	Mar 2008	**Jun 2008**
BHEL	5.57	6.71
Satyam Comp	4.88	5.56
Reliance Infra	5.04	5.16
Hindalco	3.68	4.44
HDFC	3.61	4.33
Hind Unilever	2.91	3.65
Ranbaxy Labs	3.03	3.57
Bharti Airtel	2.14	2.89
Reliance Ind	2.72	2.83

Source: Media

Even as FIIs reduced their stake in some of the leading companies during the quarter ended June 30, mutual funds were seen buying those stocks and increasing their stake. According to the shareholding pattern declared by the companies for the June quarter, foreign funds opted to sell shares in as many as eight companies, which are part of the BSE Sensex. In the case of Reliance Industries, the FIIs reduced their stake to 17.11 per cent as of June 30 against 17.83 per cent (March 30), mutual funds increased their stake from 2.72 per cent to 2.83 per cent during the same period. In Bharti Airtel, FIIs reduced their stake to 23.63 per cent in June 30 from 24.99 per cent in March. However, mutual funds raised their stake in the company from 2.14 per cent to 2.89 per cent during the same period (Table 10.6).

iii) Derivatives

Despite the increased volatility, the daily average turnover in equity derivatives segment of NSE has declined from Rs 51,622 crore in June to Rs 50,442 crore in July. The turnover in stock futures has been declining from 48 per cent in May to 33 per cent in July,

while that of index futures has remained around 32 per cent over the same period. The turnover in index futures has increased from 16 per cent to 31 per cent while that of index options has remained around 2 per cent during the same period.

Table 10.7: Business Growth of F & O Segment of NSE.

Month/ Year	Index Futures	Stock Futures	Total Futures Trading	Index Options	Stock Options	Total Options Trading	Grand Total	Average Daily Turnover *(Rs. cr.)*
	Turnover *(Rs. cr.)*	Turnover *(Rs. cr.)*	*(Rs. cr.)*	Turnover *(Rs. cr.)*	Turnover *(Rs. cr.)*	*(Rs. cr.)*	Turnover *(Rs. cr.)*	
2005-06	1513791 (31.4)	2791721 (57.9)	4305512 (89.2)	338469 (7.0)	180270 (3.7)	518739 (10.8)	4824251	19220
2006-07	2539574 (34.5)	3830967 (52.1)	6370541 (86.6)	791906 (10.8)	193795 (2.6)	985701 (13.4)	7356242	29543
2007-08	3820667 (29.2)	7548563 (57.7)	11369231 (86.9)	1362111 (10.4)	359137 (2.5)	1721247 (13.2)	616287	30814
2008-09								
Apr-08	280100 (36.5)	336901 (44.0)	617001 (80.5)	133565 (17.4)	15865 (2.1)	149430 (19.5)	766431	38322
May-08	267641 (33.5)	380161 (47.6)	647801 (81.1)	129066.5 (16.2)	21040.45 (2.6)	150107 (18.8)	797908	39895
Jun-08	377939 (47.4)	375987 (47.1)	753926 (94.5)	308709 (38.7)	21430 (2.7)	330139 (41.4)	1084064	51622
Jul-08	395380 (49.6)	382601 (48.0)	777981 (97.5)	357209 (44.8)	24985 (3.1)	382193 (47.9)	1160174	50442

Note: Figures in bracket are per cent to total.
Source: www.nseindia.com

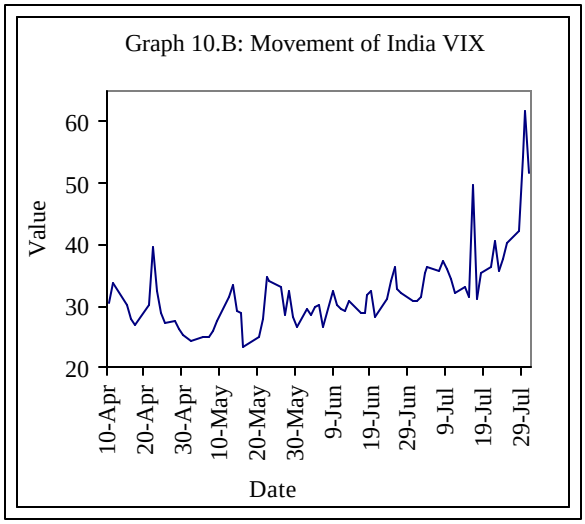
The share of FIIs in the aggregate derivative turnover has increased from 12 per cent in April 2008 to 19 per cent in July 2008, that is, their total operations inclusive of buy and sell transactions has risen from Rs 183,329 crore to Rs 214,120 crore. In July, their share in index futures has totalled Rs 127,798 crore has been the highest followed by stock futures (Table 10.8).

Table 10.8: Trends in FII Derivative
Trades in July

	Index Futures	Index Options	Stock Futures	Stock Options
No. of contracts	6184450	1631174	2966624	58833
Turnover (Amt in Rs crore)	127798	33443	51748	1131

Source: SEBI

NSE Volatility index (VIX)



The NSE VIX peaked to 61.73 – the level wherein it exceeded the earlier high of 54.4 touched on January 28. This indicates panic setting into the market. The VIX, which generally reflects the fear among market participants, is a measure of market's expectation of volatility over the near term. Usually, during periods of market volatility, market moves steeply up or down and the volatility index tends to rise.

Corporate Debt Market

Table 10.9: Profile of Major Commercial Bond Issues During July 2008.

Sr No	Issuing Company / Rating	Nature of instrument	Coupon in percent Per annum and tenor	Amount in Rs. crore
	FIs / Banks			
1	HDFC Ltd AAA by Crisil	Bonds	11.15 per cent for 3 years.	500
2	EXIM Bank Ltd AAA by Icra	Bonds	10.80 per cent for 5 years, 10.75 per cent for 3 years with put/call @ the end of 18 months.	550
3	IDFC Ltd AAA by Icra, Fitch	Bonds, NCD	11 per cent for 2 years, 10.75 per cent for 3 and 5 years.	400
	NBFCs			
1	Sundaram Finance Ltd AA+ by Crisil	NCD	12.40 cent for 2 years.	100
2	BHW Home Finance Ltd AA+ by Icra	Bonds	10.85 per cent for 5 years.	50
	Central undertaking			
1	Power Finance Corp Ltd AA by Icra, Crisil	Bonds	10.90 per cent & 10.85 per cent for 5 years & 10 years, respectively.	300
2	Power Finance Corp Ltd AAA by Icra, Crisil	Bonds	10.75 per cent, 10.70 per cent & 10.55 per cent for 3, 5 & 10 years, respectively.	250
3	Rural Electrification Corp Ltd A by Fitch, Care	Bonds	10.75 per cent for 10 years.	250
	Corporates			
1	Tata Sons Ltd AAA by Crisil,	Bonds	10.80 per cent for 5 years	500
			Total	**2900**

Total for July-07 (a year ago): Rs 5,401 crore. Total for June-08 (a month ago): Rs 1,900 crore
The amount shown in brackets above denotes the greenshoe option of the issue.
Source: Various Media Sources

Despite the looming uncertainties, the mobilisations through the primary corporate bond market increased to Rs 2,900 crore in July as compared with Rs 1,900 crore in June. Typically issuers prefer to adopt a wait and watch stand ahead of the review of credit policy, but this year, it appears that the issuers perceived that the RBI would adopt strong measures and hence preferred to tap the market ahead of the review (Table10.9).

There has been sharp increase in the rates of interest offered on certificate of deposits (CDs) and Commercial Papers (CPs). The rates ruled around 4-6.25 per cent at the lower end for them in July 2007, which range around 10.50-10.70 per cent in July 2008. The interest rates on CPs are 15-20 basis points higher than the CD rates for corresponding maturities.

Efforts to Ease Entry of FIIs in Corporate Bond

The finance ministry has been in favour of allowing higher investment by foreign portfolio investors in local corporate bonds rather than consistently raising the limit for Indian firms to borrow from the overseas loan and capital markets. Increasing the allocation for investment in local corporate bonds and cutting down on the entitlements for Indian firms to borrow abroad would mean shifting the currency risk on to foreign investors. According to a senior government official, the ministry had suggested that instead of an annual ceiling of over US $ 20 billion for overseas borrowings, foreign portfolio investors should be allowed to invest between US $ 15 billion and US $ 20 billion in corporate bonds in India.

Fitch Ratings for Municipal Corporations

The Fitch Ratings has assigned ratings to 13 municipal corporations including Greater Mumbai'AA(ind)', Navi Mumbai'AA(ind) Pune ‘AA-(ind)' which indicates very high credit quality and low credit risk. The capacity of these cities to repay their financial commitments is robust and they are not vulnerable to any unforeseeable events, the rating agency said in a statement. The ratings assigned to municipalities under the Jawaharlal Nehru National Urban

Renewal Mission are aimed at developing a municipal bond market and help local bodies to find resources for undertaking developmental works.

Improve Tradability of Convertible Bonds

The finance ministry has proposed a mechanism to improve the tradability of domestic convertible bonds, under which the equity option can be traded separately. According to market players, this will enable a portion of the debenture to be traded separately, even at a discount, and address the needs of different classes of investors.

Oil Bonds

With state-owned oil marketing companies strapped for cash on account of selling products at subsidised rates, the oil ministry approached the finance ministry seeking oil bonds in advance for the second and third quarters of the current fiscal 2008-09. The oil ministry has suggested that the second and third quarter oil bonds be issued based on the actual under-recoveries in the first quarter of the fiscal.

Further, the central bank's facility, which supports the oil firms to buy crude oil and keep their refineries running have appealed to the petroleum ministry to keep the window open. But, the RBI Governor Y V Reddy said the central bank might stop buying oil bonds directly from IOCL, BPCL and HPCL.

Exchangeable Bonds

The finance ministry wants the central bank to permit corporate houses to use Foreign Currency Exchangeable Bonds (FCEBs) for import of capital goods. The ministry said RBI's proposal to limit the use of the instrument only for financing overseas acquisitions by Indian companies is "too restrictive." Exchangeable bonds are instruments that allow a holding company or the parent company of a group to raise funds from the overseas markets for use by any of the group companies. The bonds will then be converted into shares of the company for which funds were raised.

American Depository Receipts (ADRs) and Global Depository Receipts (GDRs)

The finance ministry has proposed a material change to its policy on pricing of issue of shares in the case of global depository receipts and foreign currency convertible bonds. In August 2005, the Government amended the "Issue of Foreign Currency Convertible Bonds and Ordinary Shares Scheme, 1993", price restrictions were imposed on issue of global depository receipts ("GDRs") and foreign currency convertible bonds ("FCCBs").

The corporates have complained that the existing pricing norms of ADRs and GDRs, their offerings may not find many takers in the current bearish market. As per the current regulations, companies have to price their issue at the higher point of the preceding six months' average price or last 15 days' average price before the issue. The finance ministry has proposed to shorten the period of trading used to compute the price at which equity shares could be issued in global markets. Under the existing norms, both the averages — six months and 15 days — are calculated from one month prior to the date on which the company's shareholders decide to consider the issue. This norm is designed to ensure that there is no price manipulation by the issuer in the domestic market. The ministry also wants to remove this requirement that the closing prices should be calculated one month before shareholders decide to raise capital abroad.

Government Securities Market

i) Primary Market

Central Dated Securities

In July, the government mobilised Rs 16,000 crore through two instances. (Table10.10). In the first case, on July 4, the government re-issued 8.24 per cent 2018 and 8.28 per cent 2032 for notified amounts of Rs 6,000 crore and Rs 4,000 crore, respectively, through price-based auctions using multiple price method. The cut-off yield for the 10-year paper was set higher at

9.13 per cent as against the ruling secondary market yield of 8.80 per cent as well as that set in the previous month at 8.26 per cent. The cut-off yield set on 24-year paper crossed 10 per cent and was set at 10.03 per cent. In the second instance, the government changed the maturity period of the security to 10 years instead of 15-19 year maturity period as per the scheduled calendar of issuances. The cut-off yield was set lower at 9.08 per cent as against that set earlier during the month.

Table10.10: Details of Central Government Market Borrowing
(Amount in Rs Crore)

Date of Auction	Nomenclature of Loan	Type of Auction	Notified Amount	Competitive Bids Received		Competitive Bids Accepted		Indicative YTM at cut-off price (in per cent)	Devolvement on Primary Dealers (Rs crore)
				Number	Amount	Number	Amount		
04-Jul-08	8.24 per cent 2018	Normal	6000	292	12154.5	192	5989.6	9.13 per cent (Rs.94.28)	NIL
04-Jul-08	8.28 per cent 2032	Normal	4000	156	6501.7	106	3996	10.03 per cent (Rs.84.30)	NIL
20-Jul-08	8.24 per cent 2018	Normal	6000	214	12428.5	115	5983.9	9.08 per cent (Rs. 94.63)	778.64

Source: RBI Press Releases

Treasury Bills

Table 10.11: Auctions of Treasury Bills
(Rs crore)

Date of Auction	Notified Amt	Bids Received		Bids Accepted		Range of Yield	Avg. Yield Price
		No.	Total Face Value Competitive	No.	Total Face Value Competitive		
91-Day Treasury Bills							
8-Apr	14500	407	25369	212	12000	6.94-7.44	7.26
8-May	13000	492	34482	270	13000	7.31-7.48	7.4
8-Jun	8500	297	17013	181	8500	7.56-8.73	8.01
8-Jul	10000	431	23546	145	7000	8.81-9.11	9
182-Day Treasury Bills							
8-Apr	3500	129	4758	30	1000	7.19-7.60	7.55
8-May	3500	221	9733	75	3500	7.45-7.58	7.55
8-Jun	1000	93	2759	35	1000	7.68-9.16	8.42
8-Jul	3000	167	8155	67	3000	9.32-9.34	9.33
364-Day Treasury Bills							
8-Apr	4000	197	9433	99	4000	7.37-7.69	7.53
8-May	4500	275	13741	110	4500	7.55-7.66	7.61
8-Jun	2000	147	5596	59	2000	7.61-8.25	7.93
8-Jul	5000	371	17751	89	5000	9.17-9.56	9.39

Source: Weekly Statistical Supplement, RBI

The average yield across the treasury bills (TBs) has increased substantially in sync with the rise in short-term money market rates. The yield on 91-TBs has jumped from 7.26 per cent in April to 9 per cent in July. Similarly, the yield of 182-day TBs and 364-day TBs has

increased from 7.55 per cent to 9.33 per cent and 7.53 per cent to 9.39 per cent, respectively, over the same period (Table 10.11).

ii) Secondary Market

Due to a number of factors mentioned earlier such as strained liquidity situation, looming inflationary concerns and impending review of the credit policy, the weekly average secondary market turnover ranged lower. The yields on short-term securities continued to rule above 10-year benchmark, despite the RBI setting a higher cut-off yield in the auction held on July 4, thus resulting in a narrow negative spread.

As per the inter-category data published by CCIL for NDS reported trades, foreign banks have been the dominant buyers in dated securities in July, while in June, public sector banks have been the major buyers followed by others. The share of co-operative banks has increased to 3.5 per cent in July from 0.4 per cent in June (Table 10.12).

Table 10.12: Inter-Category Wise NDS Reported Outright Trade of Central Govt (Buy side) July 2008

Buyer Category	Sellers									Total	Per cent of Total Market share
	Foreign Banks	Public Sector Banks	Others	Private Sector Banks	Primary Dealers	Coop Banks	Mutual Funds	Ins. Cos	FIs		
Foreign Banks	48.59	5.75	0.25	7.96	26.58	5.92	4.94	0	0	100	32.65
Public Sector Banks	16.09	12.21	52.31	10.18	7.76	0.87	0.58	0	0	100	27.73
Others	0	98.87	0	1.02	0	0.11	0	0	0	100	14.67
Private Sector Banks	53.18	1.53	0	12.87	13.51	18.4	0.5	0	0	100	11.21
Primary Dealers	35.43	0	0	18.3	9.8	22.33	14.14	0	0	100	7.98
Coop Banks	52.99	11.52	0	5.53	13.61	11.75	4.61	0	0	100	3.5
Mutual Funds	39.13	8.7	0	4.35	34.78	13.04	0	0	0	100	1.85
Ins.Cos	60	0	0	0	40	0	0	0	0	100	0.41
FIs	0	0	0	0	0	0	0	0	0	0	0

Source: CCIL Rakshitra – August 2008

Money Market

Due to active liquidity management measures of the RBI, money market rates firmed up in response to the impounding of liquidity through two hikes in CRR effected during the month, but ruled in a narrow range above the repo rate due to the liquidity support extended through Liquidity Adjustment Facility (LAF) window. The average call rate has increased from 6.06 in April to 8.76 in July.

Table 10.13: Comparison of Call, Overnight CBLO and Repo rates

Week Ending	Weighted Average Rates (in per cent)			Daily Average Volumes (Rs. crore)		
	Call	Overnight CBLO	Repo	Call	Overnight CBLO	Repo
Apr-08	6.06	5.00	5.45	11311	38828	14966
May-08	6.63	6.13	6.29	11080	36326	14729
Jun-08	7.75	7.34	7.55	12592	35774	11262
Jul-08	8.76	7.97	8.22	14118	23669	8592

Source: CCIL Rakshitra

Reverse Repo and Repo under RBI's LAF

Table10.14: Repo/Reverse Repo Amount Tendered under RBI's LAF*

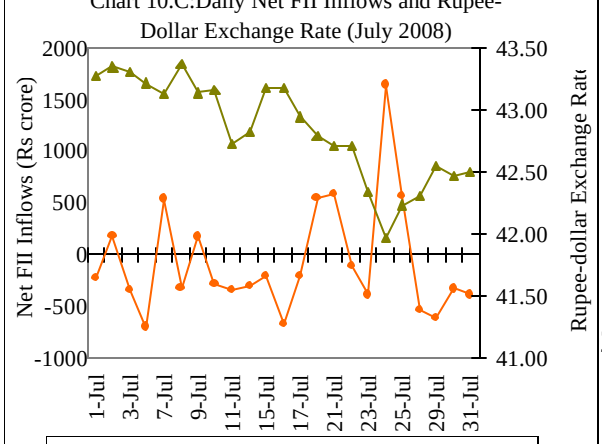
(Amount in Rs Crore)

Month	Repo		Reverse Repo		Outstanding Amount
	Tendered	Accepted	Tendered	Accepted	
Apr-06	1490	1490	833380	833380	47805
May-06	0	0	1171890	1171890	62030
Jun-06	0	0	982675	982675	44670
Jul-06	0	0	982675	982675	44670
Apr-07	166175	166175	174000	22919	-15960
May-07	151005	151005	305420	28983	2992
Jun-07	19370	19370	1432535	54979	-8895
Jul-07	0	0	1954710	56941	3000
Apr-08	400	400	566830	566830	4270
May-08	69520	69520	355035	355035	-9600
Jun-08	299415	299415	105080	105080	-22505
Jul-08	647630	647630	25695	25695	-2985

* Includes Second LAF Auctions under Repo and Reverse Repo.
With effect from August 06,2007 RBI has withdrawn Second LAF auctions.
Source: RBI Weekly Statistical Supplement (WSS)

The RBI modulated the liquidity through a dynamic mix of absorptions through increases in CRR while simultaneously supporting the market by profuse injection of short-term liquidity. In view of the deficit situation, the RBI, in July, injected the highest ever amount of Rs 6,83,435 through its repo window, far exceeding the amount of Rs 3,29,930 crore injected in March 2007.

Chart 10.C:Daily Net FII Inflows and Rupee-Dollar Exchange Rate (July 2008)



Foreign Exchange Market

After a gap of three months, the rupee appreciated against dollar by 78 paise due to the special market operations (SMO) carried

out by the RBI, sharp fall in international crude oil prices after having touched a peak early during the month, easing of political uncertainty, encouraging buoyancy in the domestic stock markets, interventions by the RBI and arbitraging between off-shore and on-shore markets.

However, the outflows to an extent of US $ 5,181 had marginal impact on the rupee's appreciation. But, with the widening of current account deficit as well as the revision of India's local currency outlook to negative by Fitch Ratings, indicating the fiscal deterioration at the central government level, affected the sentiments adversely.

Table 10.15: Exchange Rate for Rupee.

Countries	30-Jun-08	31-Jul-08	%Change
Euro	67.71	66.33	-2.1
Japanese Yen*	40.37	39.35	-2.6
British Pound	85.54	84.15	-1.7
US Dollar	42.95	42.49	-1.1
Swiss Franc	42.20	40.56	-4.1
Chinese Yuan	6.26	6.21	-0.8
Indonesian Rupiah*	0.47	0.47	0.1
South Korean Won*	4.12	4.21	2.3
Malaysian Ringgit	13.15	13.02	-1.0
Pakistan Rupee	0.63	0.59	-5.8
Singapore Dollar	31.54	31.07	-1.5
South African Rand	5.50	5.80	5.2
SriLanka Rupee	0.40	0.40	-0.9
Thai Baht	1.28	1.27	-0.9
Hongkong Dollar	5.51	5.45	-1.1

Source: -www.imf.org,
*Hong Kong dollar: - www.fxstreet.com, * For 100 units*

As shown in Table 10.15, the Indian rupee has appreciated against the euro, Japanese yen, British pound and US dollar while it has exhibited mixed trends against the south-east Asian countries.

Table 10.16:Sale/ Purchase of U.S Dollar by the RBI (US $ Million)

Month	Foreign Currency			Outstanding Net Forward Sales (-) / Purchase (+) at the end of the month	Total	
	Purchase (+)	Sale (-)	Net		Short Positions (-)	Long Positions (+)
Jul-07	11428	-	(+) 11428	-	0	0
Aug-07	1815	-	(+) 1815	-	0	0
Sep-07	11867	-	(+) 11867	-	0	0
Oct-07	12544	-	(+) 12544	(+) 4990	0	4990
Nov-07	7827	-	(+) 7827	(+) 7553	0	7553
Dec-07	2731	-	(+) 2731	(+) 8238	0	8238
Jan-08	13625	-	(+) 13625	(+) 16629	0	16629
Feb-08	3884	-	(+) 3884	(+) 16178	0	16178
Mar-08	4302	1493	(+) 2809	(+) 14735	0	15320
2008-09						
Apr-08	4325	-	(+) 4325	(+) 17095	0	17095
May-08	1625	1477	(+) 148	(+) 15470	0	15470
Jun-08	1770	6999	(-) 5229	(+) 13700	0	13700

(+): Implies Purchase including purchase leg under swaps and outright forwards. (-): Implies Sales including sale leg under swaps and outright forwards.
Source: RBI website.

With the appreciation of the rupee, the RBI operations in the spot and forward market have declined over the months. The spot purchases have declined from US $ 13625 million in January 2008 to US $ 1770 million in June. The forward long positions have increased from US $ 4990 million in October 2007 as RBI preferred to operate in the forward market along with the spot market to a high of US $ 17095 million in April 2008. However, since then forward positions have

been unwounded as the outstanding forward positions have slipped to US $ 13700 million in July 2008 (Table 10.16).

Currency Derivatives

As per the data culled from the unaudited first quarter results of 120 companies, they have set aside Rs 8,900 crore for currency fluctuations, exotic derivative products and mark-to-market (MTM) losses to hedge their exports. These very companies had gained Rs 3,040 crore from such products during the corresponding quarter of the previous financial year. These companies also saw their net profits decline by 7.1 per cent for the quarter under review compared to a net profit growth of 45.7 per cent in the same quarter of the previous year. They did post a 51 per cent rise in net sales, but the cost of production rose at a higher pace of 57.1 per cent. As a result, operating margins fell by 467 basis points to 12.24 per cent.

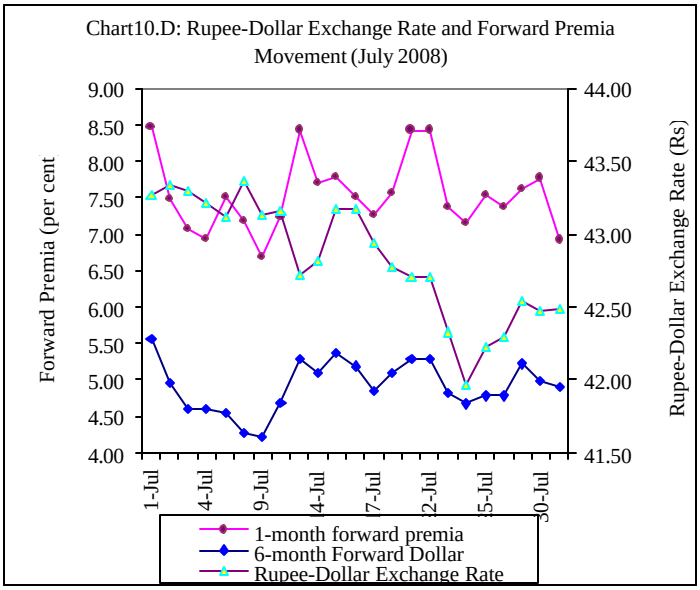
Volatile Capital

The RBI, in its presentation to the visiting parliamentary standing committee on finance chaired by Ananth Kumar, has given a detailed account of the volatile capital over the past five years on July 28, 2008. In 2003-04, the composition of volatile capital as a percentage of reserve accretion was 40.7 per cent, while in 2004-05 it rose to 50.1 per cent. An interesting aspect is, in 2005-06, such volatile flows even exceeded the total reserve accretion. In fact, that year, while total accretion to the country's forex reserves stood at US $ 15.5 billion, volatile capital flows were to the tune of US $16.19 billion, translating into 107.6 per cent of total reserves accretion. Thereafter, it fell to 37.2 per cent in 2006-07. During 2007-08, in the total forex reserves accretion of US $ 92.16 billion, volatile capital flows were pegged at US $ 47.08 billion, or 51.08 per cent. RBI, submitted that there is no definition of volatile capital flows, but can be derived as total capital flows minus stable flows.

Currency Futures

The SEBI has allowed NSE and MCX to start exchange trade currency futures platform on their exchanges on fulfilment of their conditions laid down by the Regulators.

The forward premia in July reflected the rising interest rate differentials on account of higher domestic interest rates and CRR hikes (Chart 10.D).



The total forex settlement volume on CCIL has increased both in rupee terms and in dollar terms; it has risen from Rs 13,67,491 crore in June to Rs 15,57,982 crore in July similarly in dollar terms, it has increased from US $ 3,22,263 million to US $ 3,65,468 million. The daily average turnover has risen from US $ 15.3 billion to Rs 17.4 billion, during the same period (Table 10.17).

Commodities Futures Market

Table 10.18: Monthly Turnover Of Commodity Exchanges
(Amount in Rs. Crore)

Commodity Exchange	Apr-Jul 09 Turnover	May-08 Turnover	Jun-08 Turnover	July-08 Turnover
1. Multi Commodity Exchange of India Limited, Mumbai (MCX)	1414164 (85.5)	309669 (85.1)	360647 (87.2)	464268 (86.1)
2. National Multi-Commodity Exchange of India Limited, Ahmedabad (NMCE)	11066 (0.7)	2915 (0.8)	2142 (0.5)	2151 (0.4)
3. National Commodity & Derivatives Exchange Ltd. Mumbai (NCDEX)	210089 (12.7)	47195 (13.0)	47263 (11.4)	68280 (12.7)
4. Chamber of Commerce, Hapur	4747 (0.3)	1533 (0.4)	931 (0.2)	1226 (0.2)
5.National Board of Trade, Indore (NBT)	8868 (0.5)	1504 (0.4)	1280 (0.3)	1129 (0.2)
Total *	1654444	363961	413552	539116

Note: * Total includes the monthly turnover of the remaining 18 commodity exchanges.
Figures in brackets denotes percentage share in the total turnover.
Source: FMC (www.fmc.gov.in)

The turnover of commodity futures markets has jumped in July 2008 to Rs 5,39,116 crore from 2,81,949 in July 2007 following a shift of traders' interest from agricultural products to non-agri commodities. A bearish stock market and the government's decision not to

impose a ban on more commodity futures also led to a surge in volumes in the commodity markets. Commodity traders got a boost after the UPA government won the vote of confidence. They have turned bullish with the exit of the Left parties – the main political parties opposing the futures trade — from the government.

Commodity-wise Turnover

Table10.19: Commodity-wise Turnover

Commodity	Jun-08		Jul-08	
	Trading on all exchanges (Rs. Cr)	Percentage to total turnover	Trading on all exchanges (Rs. Cr)	Percentage to total turnover
Metal				
Gold	133073	32.2	203391	37.7
Silver	65926	15.9	101813	18.9
Copper	26823	6.5	32365	6.0
Zinc	8771	2.1	13989	2.6
Nickel	3963	1.0	4052	0.8
Lead	5108	1.2	9674	1.8
Crude Oil	114467	27.7	110683	20.5
Agricultural Products				
Pepper	2649	0.6	3735	0.7
Jeera	4302	1.0	5339	1.0
Gaur seed	9250	0.3	18460	3.4
R/M seed	12430	3.0	12775	2.4
Soy Bean	6714	1.6	8605	1.6
Turmeric	6286	1.5	6848	1.3

Source: FMC (www.fmc.gov.in)

The commodity futures market which began for the purpose of helping the farmers to hedge and play an active role in price discovery. However, of late, bulk of the transactions has been in precious and non precious metals and the share of agricultural commodities has fallen. The share of precious metals in the total turnover has been about 57 per cent while that of major agricultural commodities has been just 10.4 per cent. Due to sharp fall in the international crude oil prices, the share of crude oil in the total trading has declined from 28 per cent in June to 21 per cent in July. There has been a substantial increase in the trading in Gaur seeds from 0.3 per cent in June to 3.4 per cent in July.

Movement of Prices

Following the sharp fall in the global crude oil prices, there has been an decline in the prices of major commodities such as gold, silver as well as metals such as zinc, copper, nickel. In the case of Nickel, the prices have from Rs1,052 per KG in the first fortnight of June to Rs 791 in second fortnight July. The price movements in the spot and near month futures market show interesting movements in the case of crude oil prices. The spot as well as the futures

prices of crude oil ruled above Rs 6,000 per barrel in the second fortnight of June which rose to Rs 6,217 in the spot market but in the futures market it slipped to Rs 5,964 in the first fortnight of July.

Table 10.20: Movement of Prices in Major Commodities

Commodities	Price per Unit	1st Fortnight Ending June		2nd Fortnight Ending June		1st Fortnight Ending July		2nd Fortnight Ending July	
		Spot	Near Month Futures	Spot	Near Month Futures	Spot	Near Month Futures	Spot	Near Month Futures
Metal									
Gold	10 gms	12088	12115	12936	12879	13596	13560	12530	12618
Silver	1 kg	23408	23439	24545	24260	26229	26481	24423	24720
Copper	1 kg	339.2	339.25	366.4	368.85	354.2	352.25	341.14	343.55
Zinc	1 kg	79.3	81.1	80.4	80.4	82.35	80.45	81	81
Nickel	1 kg	1052	1036	931	931	895.5	901.6	791.7	791.7
Lead	1 kg	77.25	77	74.55	74.55	84.95	86	94.75	94.75
Crude Oil	Per barrel	5781	5772	6000	6078	6217	5964	5384	5278
Natural Gas	1mmBtu	541.2	541.9	564.7	573.8	512.1	493.7	392.8	388.3
Agricultural Product									
R/M seed	20 kg	639.6	651.1	655.55	653.05	659	652.7	635.65	634.15
Turmeric	100 kg	3985	4079	4197.4	4480	4393.35	4749	4571.6	4552
Gaur seed	100 kg	1770	1736	1822.85	1825	1911.95	1943	1910.4	1969
Soy Bean	100 kg	2579	2593.5	2724	2750	2754	2970	2643	2632.5
Jeera	100 kg	11040.4	11693	11597.9	12054	12356.8	12671	12967.25	13050
Pepper	100 kg	14611.5	14268	14199.9	13787	14311.75	14072	14395.4	14034

Source: FMC (www.fmc.gov.in)

ATF futures

MCX has launched the Aviation Turbine Fuel (ATF) futures contract on July 08, 2008 and on the first day itself the volumes touched Rs 34.8 crore. MCX is the second commodity exchange in the world to launch ATF futures after the Tokyo Commodity Exchange. According to MCX official, the launch of ATF futures on MCX, aviation companies can hedge their ATF requirement plus refiners can hedge their refinery margins by crack spread. Bharat Petroleum Corporation, Hindustan Petroleum Corporation, Indian Oil Corporation, National Aviation Company of India, Go Airlines and Jet Airways have already evinced interest in hedging on the MCX platform. India's consumption of ATF has increased by almost 77 per cent in 2007-8 compared with 2000-01. ATF accounts for around 40 per cent of an airline's input costs. Moreover, they can settle contracts in rupees instead of dollars, thus limiting currency risks.

Fourth National Exchange

The Ministry of Consumer Affairs has given the approval to the proposal of Indiabulls and MMTC to set up the country's fourth national-level commodity exchange to facilitate trade in commodities across all sectors. The exchange has been proposed to be set up in Gurgaon on the outskirts of the national capital.

Special Margin on Mentha

MCX increased the special margin on all net long positions of mentha oil contracts to 17.5 per cent from 7.5 per cent with effect from July 15, 2008. According to the exchange circular, the margin increase is a risk management measure. MCX imposed a 7.5 per cent special margin on July 13, 2008.

Views of Parliamentary Committee

The Parliamentary Standing Committee on Agriculture has recommended against the continuation of futures trading, especially in agricultural commodities, citing speculative trading as the main cause for an artificial rise in prices. Yet, the government has allowed its trading. A Parliament Standing Committee panel on agriculture has recommended in Lok Sabha that futures trade in agricultural commodities should be discouraged as speculative trade leads to artificial rise in prices. In its 41st report, the panel said that though futures offers a good hedging mechanism, it has not benefited small farmers in India so far. The committee has also called for expediting the setting up of a stronger forward markets regulator for commodities, which would have powers on the lines of SEBI. As per the report, 82 per cent of the farming community in India is constituted of small and marginal farmers who are resource-poor and not aware of the pros and cons of the speculative price discovery in forward market trading, hence unable to take its advantage.

Decline in Turnover

A sustained fall in prices of four agriculture commodities-futures trade in which were suspended in May-could lead to revoking of the suspension. The government suspended futures trade in potato, refined soyoil, chickpea (chana), and rubber on May 6, for four months, to control surging inflation. However, data collected from various sources showed that barring potato, prices of most other commodities have not shown a definite declining trend. Potato, the only commodity, whose prices have declined after futures were suspended for four months, has dropped by almost 19 per cent since May, while prices of all the other three commodities have shown a rising trend. Rubber prices have risen by around 14.23 per cent since May, while refined soyoil has risen by around 19 per cent, chana went up by around 2 per cent since May.

According to B C Khatua, the government is not contemplating a ban on future trade in any more commodities as eight of them on which such trade was suspended have not helped in checking rising prices, and gave enough evidence that futures market is not responsible for the prices rise. There is market talk that steel futures may be banned because the sector has been one of the main contributors of high inflation over the last few months. There were also representations from various stakeholders to ban maize futures after a 30-35 per cent rise in prices over the last two months.

Singapore Mercantile Exchange (SMX)

On July 09, 2008, the Financial Technologies India Ltd (FTIL) promoter of the country's biggest commodity bourse MCX, announced setting up of an electronic exchange in Singapore, called SMX, which would offer trading in metals, currencies, carbon credits and agricultural items. According to Ang Swee, chairman, SMX, the new exchange will add to the stature of Singapore as global financial centre and more investments will flow into Singapore, as it becomes one stop financial and trading hub.

Single Commodity Exchanges

The Forward Markets Commission (FMC) is unlikely to derecognise any of the defunct single-commodity exchanges, which have seen no trade since either inception or after the emergence of national online trading platforms. The regulator, which had formed a committee of directors comprising FMC officials to study the prospects of single commodity exchanges, has submitted the report to FMC Chairman B C Khatua, which is not encouraging. According to Kewal Ram, member, FMC, the regulator is going soft on single-commodity exchanges as they are rich in domain expertise and, importantly, help keep futures trading alive in India. Therefore, harsh action against them would not be prudent at this point.

On July 22, 2008, the National Multi-Commodity Exchange (NMCE) has taken a decision to set a 30-day deadline for the BSE to comply with the stake acquisition norms and make payments as per the mutually agreed guidelines. However, the commodity exchange's board has agreed to allow a short period of extension to BSE, if it shows adequate interest to pay the acquisition amount to NMCE. While according to Jagdish Capoor, the new chairman of BSE, the deal may be honoured within a couple of weeks, after the clarification of legal issues.

Widening Investor Base

The politically influential sugar cooperatives of Maharashtra, have started taking position in leading commodity futures exchanges alarmed by the likely fall in sugar production in the 2008-09 and 2009-10 crop marketing seasons. Of the more than 150 sugar co-operatives in Maharashtra, six have already begun futures trading for six months at the MCX and National Commodity and Derivatives Exchange (NCDEX).

Expectation of No Extension of Ban

According to FMC Chairman B C Khatua, the Centre may not extend the ban on the futures trading of soyoil, rubber, chickpea and potato beyond September. He said that there were no linkages between the commodity prices and ban on futures trading. While according to commerce secretary GK Pillai, Centre may extend the ban on futures trading in four agricultural commodities and expected to retain export curbs on rice and wheat for at least three months. In May, agriculture minister Sharad Pawar had stated that the ban on non-basmati rice

exports would continue until November, by when the government would know the output from the summer-sown paddy crop.

Commodities Transactions Tax (CTT)

According to experts, the proposed CTT has resulted in rampant 'dabba' (illegal) trading in commodities. As per market estimates, the dabba trading volumes top the combined volumes of official trading. Dabba' trades are dealings that happen outside the exchange without any documentary evidence to relate such transactions. Analysts estimate that the biggest dabba 'bazar' (market) is of guarseed, which is traded up to 20 times more than that in the official mechanism. Jeera comes second with an estimated trade of 7-8 times more than the volume generated on commodity exchanges. Pepper and other agri commodities trade 4-5 times more.

An ICRIER report said that, a higher transaction tax is likely to defeat the very purpose of commodity markets by forcing farmers and hedgers to exit due to greater cost. The study, released by economic think tank Icrier said that international experience shows trading volume goes down either due to increase or imposition of transaction tax. Further, no other major futures trading markets have CTT. The report pointed out a negative relation between high transaction cost and trading volume for five selected commodities — gold, copper, crude, soyoil and chana — and said higher the cost, greater the volatility.

FMC's Penal Actions

The FMC has suspended Altos Advisory Services Pvt. Ltd., Chennai, member of MCX and NMCE from both the exchanges prohibited it from entering into any forward contracts for the sale or purchase in its own name or through another member for a period of 3 years. The member was found to be indulging in futures trading outside the exchanges in various commodities and was settling trades of clients on the basis of prices being disseminated by the domestic exchanges including the foreign ones such as NYMEX etc and thereby jeopardizing not only the interests of the legitimate trade but also endangering the interests of its own clients.