V. FINANCIAL MARKETS

In the assessment of risk in the global financial markets, the focus shifted from sovereign debt crisis to concerns regarding the slowdown in economic recovery. This change in assessment of risk of the global investors impacted Indian financial markets through two different channels, viz. appreciation of the Indian Rupee and rise in equity prices due to sharp increase in portfolio flows. The transmission of higher policy interest rates increasingly became effective, albeit with a lag. The deficit liquidity conditions impacted various segments of financial markets viz. CPs, CDs, CBLO, Treasury Bills, government securities and bank deposits. Activities in CPs market picked up in the post Base Rate scenario as corporates explored alternative sources of finance. Housing prices in major cities witnessed a rising trend.

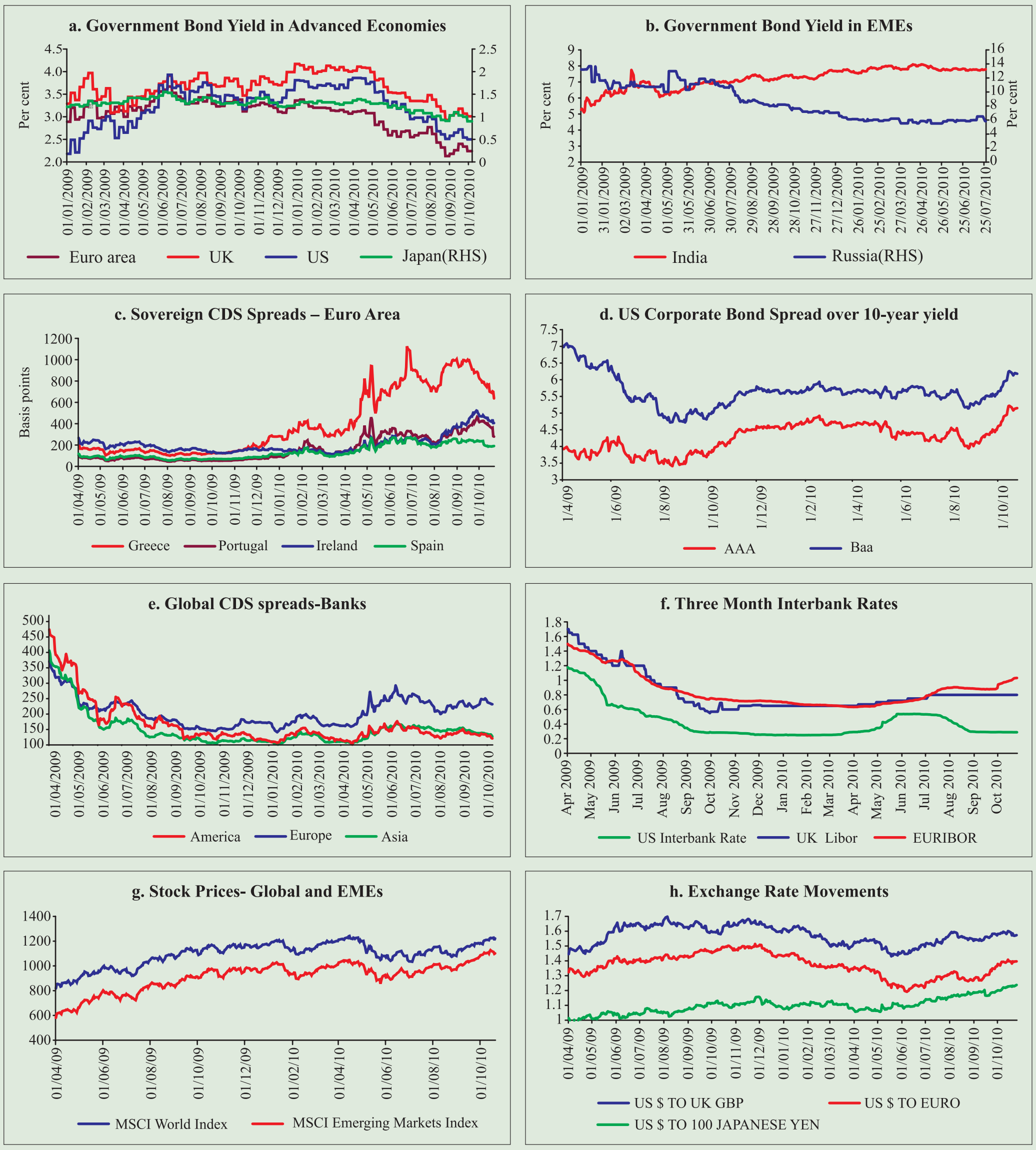
V.1 The financial markets in advanced economies had started to price in uncertainties related to the sovereign debt crisis in the Euro area and its possible spillover impact on the banking sector, when renewed concerns regarding slowdown in recovery adversely affected the investor confidence. The financial markets in emerging market economies (EMEs), however, showed signs of further strengthening mainly on account of their strong growth potential *vis-à-vis* advanced economies. As a result, capital flows to EMEs strengthened, thereby exerting pressure on currencies to appreciate and asset prices to remain upbeat. The US dollar depreciated against most of the major currencies, most notably against the Japanese Yen. Currency markets remained volatile and received greater market attention based on expectations about country specific policy responses to deal with the costs of appreciating exchange rate.

V.2 The Indian financial markets remained largely stable, with range-bound turnover and decline in volatility. Call rates gradually firmed up, in step with changes in policy rates and deficit liquidity conditions. The LAF corridor was narrowed with a view to containing volatility. Both CPs and CDs markets witnessed higher issuances, as lenders (through CDs) and borrowers (through CPs) scouted for cheaper funds against the backdrop of sustained increase in policy rates. The yield in G-Sec market hardened in the initial part of the second quarter of 2010-11 reflecting hike in policy rates, tight liquidity conditions and high inflation. Thereafter, the yields softened as liquidity conditions improved and concerns over Euro area receded. The Indian Rupee appreciated against the US dollar and the Indian stock prices rose on the back of substantial portfolio inflows. The quarterly House Price Index of the Reserve Bank suggests that prices in the housing market, especially in Tier I cities continued to show signs of acceleration, even as prices in Tier II cities registered some moderation.

International Financial Markets

V.3 The concerns relating to sovereign debt crisis, which adversely affected the global financial market conditions since end 2009, considerably receded by the beginning of the third quarter of 2010. By end-July, however, concerns relating to the global growth outlook and its implications for asset prices assumed centre stage. Increasing evidence of slowdown in economic recovery in the US and other advanced economies led to lower inflation expectations and falling bond yields (Chart V.1a). The spread between corporate bond yield and G-sec yield widened, especially after September 2010 (Chart V.1d). Increasing concerns relating to slowdown in the US and other advanced economies led to depreciation of the US dollar against all major currencies, especially against the Japanese Yen (Chart V.1h).

Chart V.1: Indicators of Global Financial Market Developments



Source: The IMF, the Federal Reserve of St. Louis, the Bloomberg and the Datastream.

V.4 Asset prices in EMEs registered significant gains as portfolio flows to these economies revived on the possibility of better returns in these countries. Their currencies also witnessed appreciation pressures (TableV.1).

V.5 The developments in the global financial markets spilled over to the Indian markets, particularly the equity and foreign exchange market. With deterioration in the outlook for growth in the advanced economies, there was a substantial increase in capital inflows led by FIIs. This contributed to significant increase in stock prices, besides leading to appreciation of exchange rate of the rupee against the US dollar. Improved global credit market conditions, and the widening interest rate differential facilitated higher access to ECBs by corporates. Financial markets in India, besides reflecting the global trend, were largely conditioned by the domestic growth-inflation outlook, monetary policy stance and the fiscal position.

Domestic Financial Markets

V.6 Strong domestic macroeconomic fundamentals and expectation of sustained high growth provided the necessary comfort to the markets. The transaction volumes in the markets remained range bound although the spreads/volatility generally declined (Table V.2 and Chart V.2).

Money Market

V.7 The money market remained orderly during the second quarter of 2010-11. The call rate firmed up, starting from end-May 2010 due to the tightening of liquidity conditions on account of 3G/BWA auctions and advance tax payments. The call rate hovered around the upper bound of the LAF corridor till July 2010 as deficit liquidity conditions persisted due to the high Central Government cash balances. The call rate declined towards the end of August and early September with the easing of liquidity conditions. As the transmission of higher policy interest rates increasingly became

Table V.1: Currency and Stock Price Movement in EMEs

(Per cent)

Items	End-March 2009 @	End-March 2010 @	End-Oct 27 2010*	Items	End-March 2009 @	End-March 2010 @	End-Oct 27 2010*
1	2	3	4	1	2	3	4
Appreciation (+)/Depreciation (-) of Currency per US Dollar				**Stock Price Variations**			
Argentine Peso	-14.8	-4.2	-2.0	Brazil (Bovespa)	-32.9	71.9	0.3
Brazilian Real	-23.8	24.6	5.4	China (Shanghai Composite)	-31.7	31.0	-3.6
Chinese Yuan	2.7	0.14	2.0				
Indian Rupee	-21.6	12.9	1.4	India (BSE Sensex)	-37.9	80.5	14.5
Indonesian Rupiah	-20.4	27.0	2.1	Indonesia (Jakarta Composite)	-41.4	93.7	30.5
Japanese Yen	2.0	5.2	14.2				
Malaysian Ringgit	-12.6	11.4	5.3	Malaysia (KLSI)	-30.1	51.3	13.5
Mexican Peso	-24.8	14.0	-0.5	Russia (RTS)	-66.4	128.0	0.7
Russian Ruble	-30.7	14.9	-3.5	Singapore (Straits Times)	-43.5	69.9	8.2
South Korea Won	-28.0	21.7	1.2	South Korea (KOSPI)	-29.2	40.3	12.8
Thai Baht	-11.4	9.8	7.9	Taiwan (Taiwan Index)	-39.2	52.0	4.7
Turkish Lira	-21.7	10.1	-23.2	Thailand (SET Composite)	-47.2	82.6	24.9

@: Year-on-year variation. * Variation over End-March.
Source: Bloomberg, IFS, IMF.

Table V.2: Domestic Financial Markets at a Glance

Year/Month	Call Money Market		Govt. Securities Market		Forex Market			Liquidity Management		Stock Markets			
	Daily Turnover (₹crore)	Call Rates* (Per cent)	Daily Turnover^ (₹ crore)	10-Year Yield@ (Per cent)	Daily Inter-bank Turnover (US$ mn)	Exchange rate@ (₹/ US$)	RBI's net purchase (+)/sale (-) (US$ mn)	MSS Out-standing# (₹ crore)	Average Daily LAF (₹ crore)	Daily BSE Turnover (₹ crore)	Daily NSE Turnover (₹ crore)	BSE Sensex**	CNX Nifty**
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2008-09	**22,436**	**7.06**	**10,879**	**7.54**	**34,812**	**45.92**	**-34,922†**	**1,48,889**	**2,885**	**4,498**	**11,325**	**12303**	**3713**
2009-10	**15,924**	**3.24**	**14,426**	**7.23**	**30,107**	**44.95**	**-2,635†**	**23,914**	**1,00,015**	**5,651**	**16,959**	**15585**	**4658**
Apr-09	21,820	3.28	15,997	6.55	27,796	50.06	-2,487	75,146	1,01,561	5,232	15,688	10911	3360
May-09	19,037	3.17	14,585	6.41	32,227	48.53	-1,437	45,955	1,25,728	6,427	19,128	13046	3958
Jun-09	17,921	3.21	14,575	6.83	32,431	47.77	1,044	27,140	1,23,400	7,236	21,928	14782	4436
Jul-09	14,394	3.21	17,739	7.01	30,638	48.48	-55	22,159	1,30,891	6,043	18,528	14635	4343
Aug-09	15,137	3.22	9,699	7.18	27,306	48.34	181	19,804	1,28,275	5,825	17,379	14415	4571
Sep-09	16,118	3.31	16,988	7.25	27,824	48.44	80	18,773	1,21,083	6,211	18,253	16338	4859
Oct-09	15,776	3.17	12,567	7.33	28,402	46.72	75	18,773	1,01,675	5,700	18,148	16826	4994
Nov-09	13,516	3.19	17,281	7.33	27,599	46.57	-36	18,773	1,01,719	5,257	16,224	16684	4954
Dec-09	13,302	3.24	14,110	7.57	27,439	46.63	0	18,773	68,522	4,671	13,948	17090	5100
Jan-10	12,822	3.23	12,614	7.62	32,833	45.96	0	9,944	81,027	6,162	17,813	17260	5156
Feb-10	13,618	3.17	12,535	7.79	34,040	46.33	0	7,737	78,661	4,125	12,257	16184	4840
Mar-10	17,624	3.51	8,544	7.94	32,755	45.50	0	3,987	37,640	4,751	13,631	17303	5178
Apr-10	16,374	3.49	14,242	8.01	36,821	44.50	0	2,737	57,150	4,696	13,828	19679	5295
May-10	16,786	3.83	24,225	7.56	40,243	45.81	0	922	32,798	3,940	12,937	16845	5053
Jun.-10	14,258	5.16	21,300	7.59	36,953	46.57	0	317	-47,347	4,204	13,005	17300	5188
July.-10	18,954	5.54	13,691	7.69	33,978	46.84	0	254	-46,653	4,225	12,661	17848	5360
Aug.-10	15,916	5.17	16,919	7.93	36,193	46.57	–	0	-1,048	5,131	14,182	18177	5457
Sept.-10	17,212	5.50	16,215	7.96	37,249	46.06	–	0	-24,155	5,185	15,708	19353	5811

* : Average of daily weighted call money borrowing rates. ^: Average of daily outright turnover in Central Government dated securities.

@ : Average of closing rates. #: Average of weekly outstanding MSS. **: Average of daily closing indices.

† : Cumulative for the financial year. P: Provisional. – : Not available.

LAF : Liquidity Adjustment Facility. MSS: Market Stabilisation Scheme. BSE: Bombay Stock Exchange Limited.

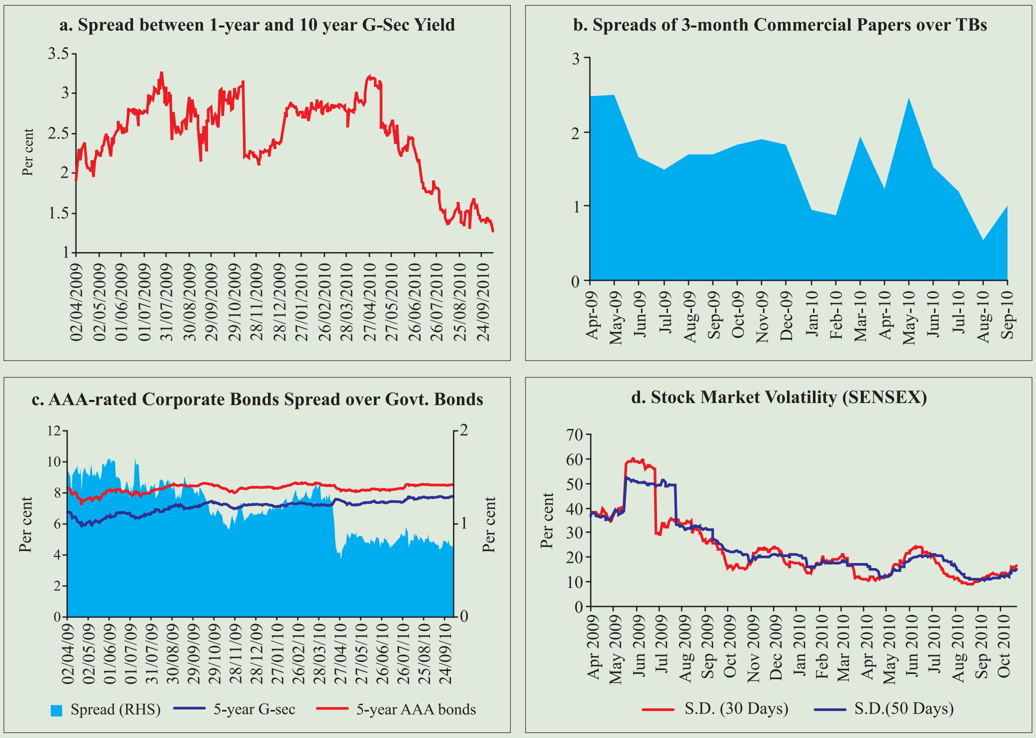
NSE : National Stock Exchange of India Limited.

Note: In column 10, (-) indicates injection of liquidity, while (+) indicates absorption of liquidity.

effective and the liquidity conditions tightened, the call rate again firmed up from the middle of September 2010, and breached the upper bound of the informal LAF corridor. With a view to containing volatility in the call rate, the LAF corridor was reduced from 150 bps to 100 bps in two stages since July 2010(Chart V.3). The call rate has hovered around the upper bound of the informal corridor during October 2010.

V.8 Rates in the collateralised segments continued to move in tandem with the call rate, *albeit* below it, during the second quarter of 2010-11. Transaction volumes in the collateralised borrowing and lending obligation (CBLO) and market repo segments remained high during this period reflecting active market conditions (TableV.3). As in the previous quarter, banks continued to remain the major borrowers in the collateralised segment whereas mutual funds (MFs) remained the major lenders of funds in that segment. The share of MFs in the total lending in the collateralised segment declined during June-August 2010 from the level in April-May 2010. The collateralised segment of the money market continued to remain the predominant segment, accounting for more than 80 per cent of the total volume during the second quarter of 2010-11.

Chart V.2: Spread and Volatility in Domestic Financial Markets



V.9 The average fortnightly issuance of certificates of deposit (CDs) remained higher during the second quarter as compared with the previous quarter. The higher issuance of CDs is reflective of banks' efforts to raise bulk deposits at lower cost as deposit interest rates started moving northward. In line with the movement of

Chart V.3: Money Market Interest Rates

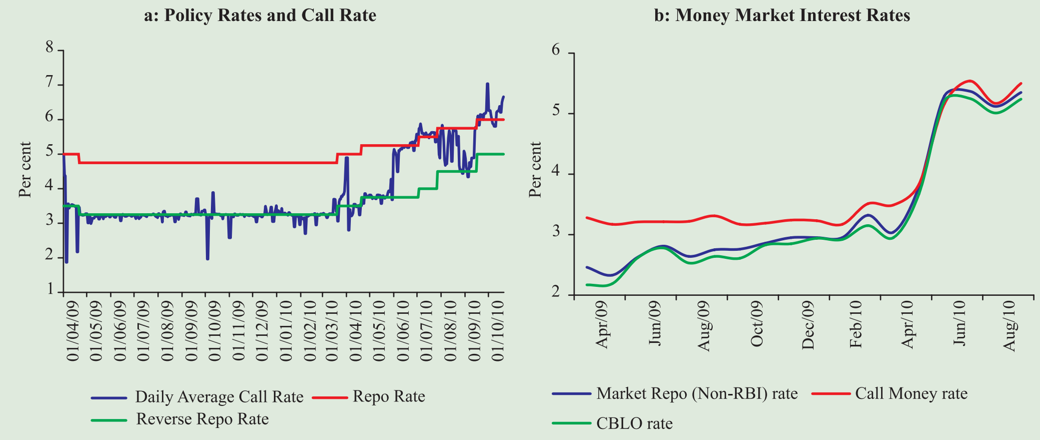


Table V.3: Activity in Money Market Segments

(₹ crore)

Year/Month	Average Daily Volume (One Leg)						Commercial Paper		Certificates of Deposit	
	Call	Market Repo	CBLO	Total (Col.2 to 4)	Money Market Rate (%)*	Term Money	Outstanding	WADR (%)	Outstanding	WADR (%)
1	2	3	4	5	6	7	8	9	10	11
Apr-09	10,910	20,545	43,958	75,413	2.41	332	52,881	6.29	2,10,954	6.48
May-09	9,518	22,449	48,505	80,472	2.34	338	60,740	5.75	2,18,437	6.20
Jun-09	8,960	21,694	53,553	84,207	2.69	335	68,721	5.00	2,21,491	4.90
Jul-09	7,197	20,254	46,501	73,952	2.83	389	79,582	4.71	2,40,395	4.96
Aug-09	7,569	23,305	57,099	87,973	2.62	461	83,026	5.05	2,32,522	4.91
Sep-09	8,059	27,978	62,388	98,425	2.73	381	79,228	5.04	2,16,691	5.30
Oct-09	7,888	23,444	58,313	89,645	2.70	225	98,835	5.06	2,27,227	4.70
Nov-09	6,758	22,529	54,875	84,162	2.87	191	1,03,915	5.17	2,45,101	4.86
Dec-09	6,651	20,500	55,338	82,489	2.91	289	90,305	5.40	2,48,440	4.92
Jan-10	6,411	14,565	50,571	71,547	2.97	404	91,564	4.80	2,82,284	5.65
Feb-10	6,809	19,821	63,645	90,275	2.95	151	97,000	4.99	3,09,390	6.15
Mar-10	8,812	19,150	60,006	87,968	3.22	393	75,506	6.29	3,41,054	6.07
Apr-10	8,187	20,319	50,891	79,397	3.03	423	98,769	5.37	3,36,807	5.56
May-10	8,393	17,610	42,274	68,277	3.72	330	1,09,039	6.85	3,40,343	5.17
Jun-10	7,129	9,481	31,113	47,723	5.22	447	99,792	6.82	3,21,589	6.37
Jul-10	9,477	12,011	29,102	50,590	5.33	385	1,12,704	6.93	3,24,810	6.69
Aug-10	7,958	15,553	45,181	68,692	5.05	281	1,26,549	7.32	3,41,616	7.17
Sept-10	8,606	15,927	53,223	77,756	5.29	617	1,12,003	7.82	3,37,322	7.34

CBLO: Collateralised Borrowing and Lending Obligation. WADR: Weighted Average Discount Rate.
*: Weighted average rate of call, market repo and CBLO.

rates in other money market segments, the weighted average discount rate (WADR) of CDs increased. The average fortnightly issuance of Commercial Paper (CPs) also remained higher during the second quarter as compared with the previous quarter. ‘Leasing and Finance’ and manufacturing corporates were major issuers of CPs (Table V.4). The higher issuance of CPs suggests efforts by the commercial sector to raise resources from alternative sources of finance in the face of tight liquidity conditions. The WADR in CPs also increased during the quarter.

Table V.4: Major Issuers of Commercial Paper

(₹ crore)

End of Period	Leasing and Finance		Manufacturing		Financial Institutions		Total Outstanding
	Amount	Share (%)	Amount	Share(%)	Amount	Share(%)	
1	2	3	4	5	6	7	8 (=2+4+6)
Mar-09	27,183	62	12,738	29	4,250	10	44,171
Jun-09	34,437	50	23,454	34	10,830	16	68,721
Sep-09	31,648	40	31,509	40	16,071	20	79,228
Dec-09	36,027	40	42,443	47	11,835	13	90,305
Mar-10	39,477	52	22,344	30	13,685	18	75,506
Jun-10	42,572	43	43,330	43	13,890	14	99,792
Sep-10	58,098	52	40,486	36	13,420	12	1,12,003

Government Securities Market

V.10 Reflecting the policy of front loading of market borrowings during the first half of the year, the Government of India has completed 63 per cent of its borrowing programme for 2010-11, ensuring that there is no crowding-out in the latter half of the year when the private credit demand is normally robust. While the average maturity of debt issuances increased during 2010-11 (up to September 2010), the weighted average yield also firmed up as compared to the corresponding period of the previous year (Table V.5). In case of borrowings by the states, 18 states have raised ₹49,362 crore on a gross basis during the first half of the year, which constituted about 32 per cent of the gross allocation for 27 States under the scheme of borrowings for 2010-11 as compared with 53.5 per cent during the corresponding period of 2009-10.

V.11 The prevalence of tight liquidity conditions on account of outflow following the 3G/BWA auctions and the rise in policy rates have resulted in an upward movement in the primary market yields for short and medium term securities, while some softening was observed at the longer end during the second quarter in anticipation of reduction in governments' market borrowings.

V.12 Taking into account the need for fiscal consolidation and other additional revenues generated so far for financing the fiscal deficit, the net market borrowings of the Government of India have been scaled down by ₹10,000 crore as per the indicative borrowing calendar issued for the second half of 2010-11. Based on the demand pattern of the market participants as also the scope for issuance of securities in different maturities, the maturity profile of dated securities is set to be elongated in the calendar. As regards the States borrowings, about one third of the gross allocations for the States have been raised till the end of the second quarter. Taking into account the comfortable cash balances of the State Governments and the borrowing programme adopted by the States so far, it appears that there may be a moderation in their borrowings during the current financial year. It is expected that the calibrated strategies adopted in the borrowing programme of the

Table V.5: Issuances of Central and State Government Dated Securities

	2007-08	2008-09	2009-10	2009-10$	2010-11$
1	2	3	4	5	6
Central Government					
Gross amount raised (₹ crore)	1,56,000	2,61,000	4,18,000	2,95,000	2,84,000
Devolvement on Primary Dealers (₹ crore)	957	10,773	7,219	6,050	3,563
Bid-cover ratio (Range)	1.6-4.8	1.2-4.5	1.4-4.3	1.4-3.6	1.4-3.9
Weighted average maturity (years)	14.9	13.8	11.2	10.9	11.3
Weighted average yield (per cent)	8.1	7.7	7.2	7.1	7.8
State Governments					
Gross amount raised (₹ crore)	67,779	1,18,138	1,31,122	63,212	49,362
Cut-off yield	7.9-8.9	5.8-9.9	7.0-8.6	7.0-8.4	8.1-8.6
Weighted average yield (per cent)	8.3	7.9	8.1	7.9	8.3

$: Up to September 30.

Table V.6: Treasury Bills in the Primary Market

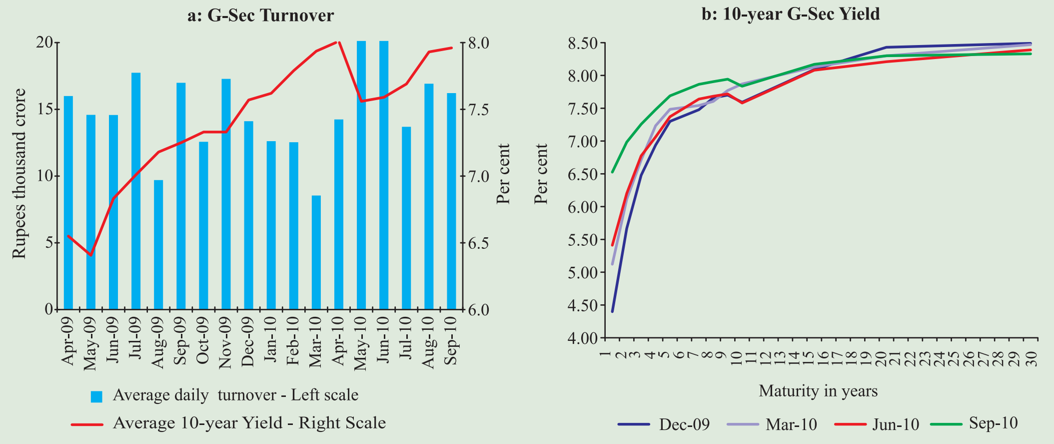
Year/ Month	Notified Amount (₹crore)	Average Implicit Yield at Minimum Cut-off Price (Per cent)		
		91-day	182-day	364-day
1	2	3	4	5
2008-09	**2,99,000**	**7.10**	**7.22**	**7.15**
2009-10	**3,80,000**	**3.57**	**4.00**	**4.37**
2010-11 (up to Sept. 30, 2010)	**1,49,500**	**5.27**	**5.56**	**5.74**
Apr-10	36,000	4.14	4.64	5.07
May-10	36,000	4.39	4.76	4.92
Jun-10	15,000	5.29	5.31	5.49
Jul-10	13,000	5.51	5.86	5.99
Aug-10	33,000	6.15	6.41	6.48
Sept-10	16,500	6.10	6.41	6.59

Government of India and the State Governments would ensure its completion in a non-disruptive manner.

V.13 The yield on 91-day Treasury Bills firmed up by 81 basis points between June and September 2010, whereas the yield on both 182-day and 364-day Treasury Bills increased by 110 bps during the same period (Table V.6). Keeping in view the comfortable cash balance of the Government of India, the Reserve Bank, in consultation with the GoI, scaled down the notified amount of Treasury Bills during the second quarter. In addition, an amount of ₹9,614 crore was bought back by the Government as part of the cash management operations during the quarter.

V.14 During Q2 of 2010-11, the G-Sec yields generally hardened till the third week of August 2010 amidst intermittent easing. The hardening of yields was mainly on account of hike in policy rates, tight liquidity conditions and high inflation. Thereafter, the yields declined as liquidity conditions improved and concerns over Euro area receded. Although liquidity conditions tightened towards the middle of September against the backdrop of quarter-end advance tax outflows, the increase in the investment limits of FIIs in the government securities and corporate bonds and lower than budgeted borrowing programme for the second half of the current fiscal year provided fillip to the market (Chart V.4). During the month of October 2010, the yields have risen on account of inflationary concerns and tight liquidity conditions.

Chart V.4: Turnover and Yield in Government Securities Market



Credit Market

V.15 The spreads on corporate bonds over the government bond yield declined further in Q2 of 2010-11 over the levels in Q1 of 2010-11, partly reflecting further reduction in risk perception for corporates due to improved growth outlook as well as lower inflationary expectations (Chart V.2c).

V.16 As part of the calibrated exit, Reserve Bank increased its repo rate by 125 bps, reverse repo by 175 bps and CRR by 100 bps during February-September 2010. In response to these policy rate changes, 72 SCBs raised their deposit rates in the range of 25-125 bps during February-October 15, 2010 across various maturities (Table V.7). On the lending side, the benchmark prime lending rates (BPLR) of SCBs remained unchanged between July 2009 and July 2010. Thereafter, several SCBs increased their BPLR in the range of 25-75 bps during July-September, 2010.

V.17 In line with hike in policy rates, several banks increased their Base Rates by 10-50 basis points by October 2010. As many as 53 banks with a share of 94 per cent in total bank credit have fixed their Base Rates in the range of 7.50-8.50 per cent, indicating convergence in the Base Rates announced by banks.

Foreign Exchange Market

V.18 The Indian rupee exhibited two-way movement against major international currencies during Q2 of 2010-11. It

Table V.7: Deposit and Lending Rates of Banks

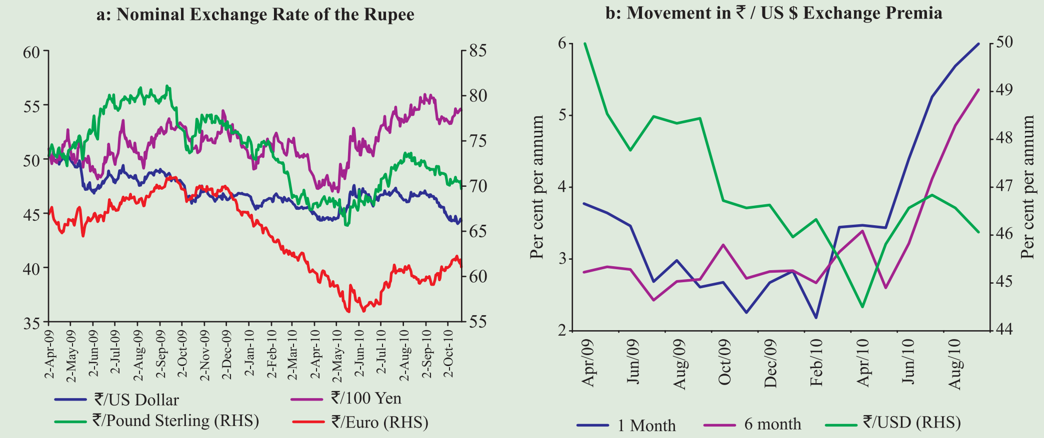
(Per cent)

	Sep 2009	Dec 2009	Mar 2010	Jun 2010	Oct 15, 2010
1	2	3	4	5	6
1. Domestic Deposit Rate					
Public Sector Banks					
Up to 1 year	1.00-7.00	1.00-6.25	1.00-6.50	1.00-6.25	1.00-7.00
> 1year-3 years	6.50-8.00	6.00-7.25	6.00-7.25	6.00-7.25	7.00-7.75
> 3 years	7.00-8.50	6.25-7.75	6.50-7.75	6.50-7.75	7.00-8.00
Private Sector Banks					
Up to 1 year	2.00-7.50	2.00-6.75	2.00-6.50	2.00-6.50	2.50-7.25
> 1year-3 years	6.00-8.75	5.25-7.50	5.25-7.75	6.25-7.50	6.50-8.25
> 3 years	6.00-9.00	5.75-8.00	5.75-8.00	6.50-8.00	6.50-9.00
Foreign Banks					
Up to 1 year	1.80-8.00	1.25-7.00	1.25-7.00	1.25-7.00	1.25-7.30
> 1year-3 years	2.25-8.50	2.25-7.75	2.25-8.00	3.00-8.00	3.00-8.00
> 3 years	2.25-9.50	2.25-8.50	2.25-8.75	3.00-8.50	3.00-8.25
2. BPLR/Base Rate					
1. Public Sector Banks	11.00-13.50	11.00-13.50	11.00-13.50	11.00-13.50	7.50-8.50#
2. Private Sector Banks	12.50-16.75	12.50-16.75	12.50-16.75	12.50-16.75	7.00-9.00#
3. Foreign Banks	10.50-16.00	10.50-16.00	10.50-16.00	10.50-16.00	5.50-9.00#
3. Actual Lending Rate*					
1. Public Sector Banks	3.50-17.50	3.25-18.00	3.25-18.00	3.25-18.00	–
2. Private Sector Banks	4.10-26.00	3.50-25.84	3.00-28.00	2.80-26.00	–
3. Foreign Banks	2.76-25.50	3.50-22.00	3.60-23.00	3.60-25.00	–

* : Interest rate on non-export demand and term loans above ₹ 2 lakh excluding lending rates at the extreme five per cent on both sides.

\# Base Rate system replaced BPLR system with effect from July 1, 2010.

Chart V.5: Exchange Rates



appreciated against the US Dollar, while depreciated against the Pound Sterling, Euro and Japanese Yen. During the quarter, the rupee exhibited depreciating trend against the US dollar up to the third week of July 2010 and thereafter remained largely range bound during August 2010. The Rupee has generally appreciated since the first week of September 2010 on the back of pick-up in capital inflows and strengthening of growth outlook (Chart V.5a). The 1-month as well as 3-month forward premia increased during the quarter (Chart V.5b).

V.19 The turnover in both inter-bank and merchant segments of the forex market declined during July 2010 and recovered thereafter since August 2010 (Chart V.6).

Equity and Housing Markets

V.20 Stock prices continued the bullish trend during July-September on the back of strong FII investments in equities. India, along with other EMEs experienced strong portfolio inflows as interest rate differential between these countries and advanced economies turned more lucrative. Strong macroeconomic fundamentals in the Indian markets, buoyancy in the industrial and services sector as also possibility of further increase in rural demand on expected better performance of the agricultural sector were some of the pull factors responsible for the FII inflows. As at end-September 2010, the Sensex and the Nifty both registered gains of 14.5 per cent and 14.9 per cent, respectively, over end-March 2010 (Table V.8).

Chart V.6: Daily Average Turnover in Foreign Exchange Market

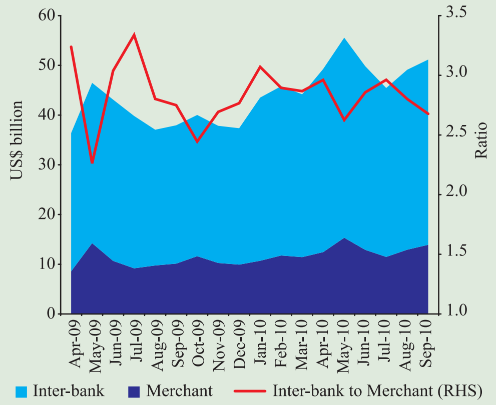


Table V.8: Key Stock Market Indicators

Indicator	BSE 2008-09	BSE 2009-10	BSE 2009-10 (Apr-Sept)	BSE 2010-11 (Apr- Sept)	NSE 2008-09	NSE 2009-10	NSE 2009-10 (Apr-Sept)	NSE 2010-11 (Apr-Sept)
1	2	3	4	5	6	7	8	9
1. BSE Sensex/S&PCNX Nifty								
(i) End-period	9709	17528	17127	20069	3021	5249	5084	6030
(ii) Average	12366	15585	14298	17866	3731	4658	4284	5361
2. Coefficient of Variation	24.2	11.9	12.5	4.9	23.2	11.3	11.6	4.9
3. Price-Earning Ratio (end-period)*	13.7	21.3	22.2	23.8	14.3	22.3	22.9	25.5
4. Price-Book Value Ratio	2.7	3.9	4.1	3.8	2.5	3.7	3.8	3.8
5. Market Capitalisation to GDP Ratio (per cent)@	55.4	98.9	91.6	102.7	52.0	96.4	85.9	100.3

*: Based on 30 scrips included in the BSE Sensex and 50 scrips included in the S&P CNX Nifty. @: As at end-period.
Source: Bombay Stock Exchange Ltd. (BSE) and National Stock Exchange of India Ltd. (NSE).

V.21 The activity in the primary segment of the domestic capital market continued to display signs of buoyancy during April-September 2010. The resources raised through public issues increased marginally during April-September 2010 as compared to the corresponding period last year (Table V.9). Mobilisation of resources through private placement (₹92,787 crore) also increased by 20.5 per cent during April-June 2010. The resource mobilisation by mutual funds was lower during April-September 2010 as compared to previous year due to constrained liquidity conditions and withdrawal of money by banks and corporates from mutual funds for the 3G/ BWA auction.

V.22 The FIIs were net buyers and mutual funds turned net sellers during April-October 2010. Net FII investment in Indian equities, which was subdued during April-June 2010 increased significantly during July-October 2010, encouraged by strong growth prospects of the Indian economy and improved global

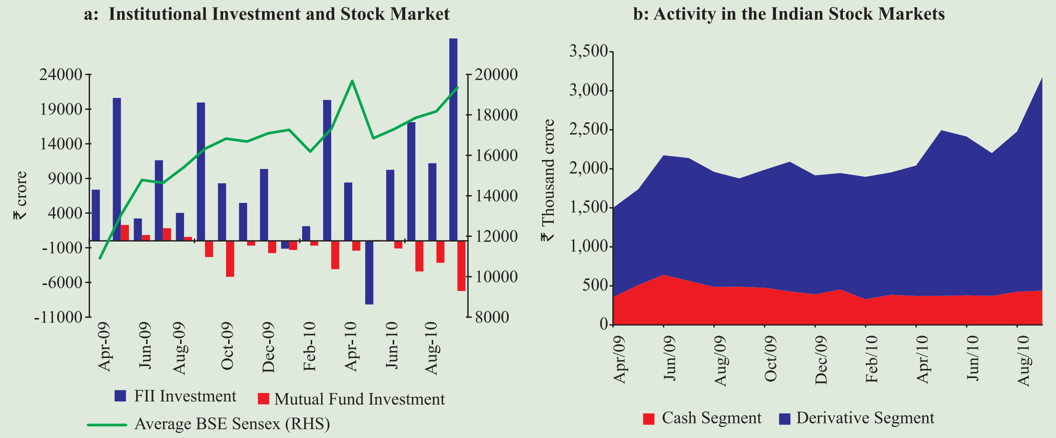
Table V.9: Resource Mobilisation from Capital Market

(₹ crore)

Category	2008-09 (Apr-Mar)	2009-10 (Apr-Mar)	2009-10 (Apr-Sept)	2010-11 (Apr- Sept)
1	2	3	4	5
A. Prospectus and Rights Issues*	14,671	32,607	13,617	14,058
1. Private Sector (a+b)	14,671	25,479	6,814	13,475
a) Financial	466	326	0.00	3,420
b) Non-financial	14,205	25,153	6,814	10,055
2. Public Sector	–	7,128	6,803	583
B. Euro Issues	4,788	15,967	12,645	7,443
C. Mutual Fund Mobilisation(net)@	-28,296	83,080	1,12,427	-452
1. Private Sector	-34,017	54,928	83,864	18,744
2. Public Sector #	5,721	28,152	28,563	-19,196

*: Excluding offer for sale. @: Net of redemptions. #: Including UTI Mutual fund.
Note: Data exclude funds mobilised under Fund of Funds Schemes.
Source: Mutual Fund data are sourced from Securities and Exchange Board of India.

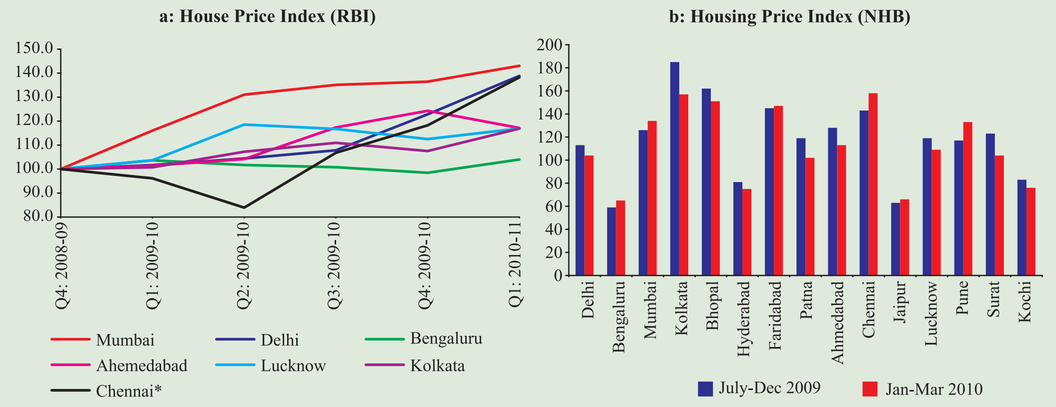
Chart V.7: Movement in Stock Prices and Turnover



liquidity conditions (Chart V.7a). The FII investments in stock markets resulted in buoyant market conditions as well as increase in turnover in both cash and derivative segments (Chart V.7b).

V.23 The quarterly House Price Index (HPI) for various centres based on data collected from the Department of Registration and Stamps (DRS) suggests that property prices are picking up in most tier I cities though some slowdown is witnessed in tier II cities (Chart V.8a). According to these data, prices in Mumbai in the last three quarters are showing moderate growth, while prices in Delhi are growing at a faster rate, which partly reflects activities relating to the Commonwealth Games. The number of transactions in Mumbai, which had registered a sharp rise in Q3 of 2009-10 seem to have reached a plateau. Housing prices in Bengaluru, which were almost flat for the past one and half years, are showing some signs of increase. This was also corroborated by the trends on NHB Residential Price Index (Chart V.8b).

Chart V.8: Trends in Housing Markets



*Chennai index is Property Price Index containing both residential and commercial properties

V.24 The growing risk perceptions and uncertainty in the global markets impacted Indian financial markets through two different channels *viz.* pressure for appreciation of the Indian Rupee and rise in equity prices due to sharp rise in portfolio flows. Despite global market uncertainties, domestic markets functioned normally, with stable volumes and lower volatility. The transmission of higher policy rates were visible in higher issuances of CDs, CPs as also higher yields on TBs and G-Sec and even in deposit rates. Lending rates have also started to move up, with a lag. In the Base Rate environment, there have been signs of corporates increasing their dependence on the CPs market. Banks have also used the CDs route to mobilise bulk deposits. Given the outlook for possible significant large increase in portfolio flows to EMEs in the near term, their impact on exchange rate and asset prices will have to be closely monitored because of their implications for domestic inflation and external competitiveness.