

V. Financial Markets

International Financial Markets

During the first quarter of 2007-08 (April-June), short term as well as long-term interest rates hardened in major advanced economies. Global equity markets recorded further gains, while in the currency markets the US dollar depreciated against major currencies. Emerging market spreads narrowed to new historical lows during the quarter, reversing the trend witnessed during the global sell-off during late February 2007.

Short-term rates hardened in a number of economies (Table 36), moving broadly in tandem with policy rates. Several central banks such as Bank of England, European Central Bank, People's Bank of China, Reserve Bank of New Zealand, South African Reserve Bank, Norges Bank (Norway), Sveriges Riksbank (Sweden) and Swiss National Bank raised their policy rates during the quarter ended June 2007 to contain inflation and stabilise inflationary expectations. Short-term rates eased in a few emerging market economies (EMEs) such as Brazil and Thailand, as central banks in these countries continued to cut policy rates to support growth.

Long-term Government bond yields increased in major advanced economies during the first quarter of 2007-08, reversing the decline observed during February 2007. The rise in yields could be attributed to higher short-term rates and upward revision in growth expectations. During 2007-08 (up to July 18, 2007), 10-year yields increased by 38 basis points in the US, 51 basis points in the UK, 52 basis points in the euro area and 23 basis points in Japan (Chart 26).

Table 36: Short-term Interest Rates

(Per cent)					
Region/Country	At end of				
	March 2005	March 2006	March 2007	June 2007	July 2007 *
1	2	3	4	5	6
Advanced Economies					
Euro Area	2.15	2.80	3.91	4.16	4.22
Japan	0.02	0.04	0.57	0.63	0.66
Sweden	1.97	1.99	3.21	3.42	3.43
UK	4.95	4.58	5.55	5.92	6.00
US	2.90	4.77	5.23	5.27	5.19
Emerging Market Economies					
Argentina	4.56	9.63	9.63	9.25	9.50
Brazil	19.25	16.54	12.68	11.93	11.93
China	2.25	2.40	2.86	3.08	3.14
Hong Kong	2.79	4.47	4.17	4.43	4.41
India	5.37	6.11	7.98	7.39	4.50
Malaysia	2.82	3.51	3.64	3.62	3.62
Philippines	7.25	7.38	5.31	6.19	6.38
Singapore	2.06	3.44	3.00	2.55	2.50
South Korea	3.54	4.26	4.94	5.03	5.07
Thailand	2.64	5.10	4.45	3.75	3.75

* : As on July 19, 2007.

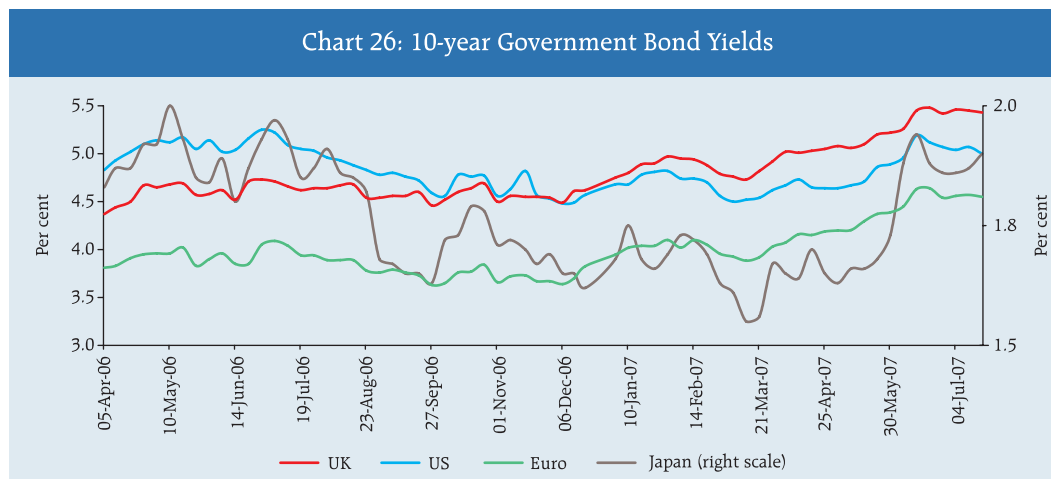
Note : Data for India refer to 91-day Treasury Bills rate and for other countries 3-month money market rates.

Source : The Economist.

Global equity markets recorded further gains during the first quarter of 2007-08, despite rise in long-term yields. Upward revision in growth expectations, robust corporate earnings, buoyant merger and acquisition activity, and increased risk appetite buoyed equity markets in major economies (Chart 27). The MSCI World and

MSCI emerging markets indices on July 18, 2007 were higher by 8.8 per cent and 23.9 per cent, respectively, over their levels at end-March 2007. These gains were led by stock markets in South Korea (34.1 per cent), Brazil (29.4 per cent), Hungary (28.1 per cent), Indonesia (27.4 per cent) and Thailand (27.0 per cent).

Chart 26: 10-year Government Bond Yields





In the foreign exchange market, the US dollar depreciated against the major currencies during the first quarter of 2007-08. The US dollar, however, recorded some appreciation against the Japanese yen (Table 37).

One of the key downside risks to the global economy is the possibility of a sharper slowdown in the US housing

market. Over the past year, home sales and construction have slowed substantially and house prices have decelerated. Conditions in the sub-prime mortgage sector have deteriorated significantly in view of the rise in the delinquencies on adjustable-rate loans. These developments are also leading to reassessment of credit risks in other segments such as lower quality corporate bonds. Further deterioration in sub-prime delinquencies could lead to an abrupt rise in risk premium across products and markets. Such developments could lead to greater volatility in capital flows to EMEs. Such volatility could be exacerbated by the growing dominance of players such as hedge funds in the volume of cross-border flows. Increased speculative activity by hedge funds is also getting reflected in higher global commodity prices. Rapid growth in the hedge funds activity is a cause of concern among the regulators as these funds are largely unregulated and are governed by opaque investment partnerships.

Furthermore, private equity funds have also emerged as a key source of capital flows

Table 37: Appreciation (+)/Depreciation (-) of the US dollar *vis-à-vis* other Currencies

Currency	(Per cent)		
	End-March 2006 @	End-March 07 @	July 20, 2007 *
1	2	3	4
Euro	7.1	-9.1	-3.5
Pound Sterling	8.5	-11.4	-4.6
Japanese Yen	9.4	0.2	3.9
Chinese Yuan	-3.1	-3.4	-2.2
Russian Rubble	-0.6	-6.1	-2.3
Turkish Lira	-2.0	3.2	-9.1
Indian Rupee	2.2	-2.5	-7.5
Indonesian Rupiah	-4.3	0.5	-0.5
Malaysian Ringgit	-3.0	-6.2	-0.8
South Korea Won	-4.7	-3.7	-2.6
Thai Baht	-0.7	-9.9	-4.3
Argentine Peso	5.4	0.7	0.2
Brazilian Peso	-18.1	-6.4	-9.8
Mexican Peso	-2.6	1.3	-2.2
South African Rand	-0.5	17.2	-5.4

@ : Year-on-year variation.

* : Variation over end-March 2007.

to the EMEs. Private equity funds are highly leveraged, and their operations so far have been enabled by still benign long-term rates and compression of risk premia. Private equity flows to the EMEs could also witness large retrenchment on the back of further monetary tightening in major economies, reassessment of risks by investors or through other shocks which lead to higher margin calls. The consequent volatility in global financial markets could lead to large swings in capital flows and exchange rates and could have adverse impact on the real economy.

Domestic Financial Markets

Indian financial markets remained generally orderly for the most part of the first quarter of 2007-08 except for some volatility in overnight interest rates. Swings in cash balances of the Governments and capital flows were the main drivers of liquidity conditions in the financial markets and imparted some volatility to overnight interest rates (Table 38). The call money rate softened during the quarter and remained below the reverse repo rate on many occasions. Interest rates in the collateralised

Table 38: Domestic Financial Markets at a Glance

Year/ Month	Call Money		Government Securities		Foreign Exchange			Liquidity Management			Equity			
	Average Daily Turnover (Rs. crore)	Average Call Rates* (Per cent)	Average Turnover in Govt. Securities (Rs. crore)+	Average 10-Year Yield@ (Per cent)	Average Daily Inter-bank Turnover (US \$ million)	Average Exchange Rate (Rs. per US \$)	RBI's net Foreign Currency Sales (-)/ Purchases (+) (US \$ million)	Average 3-month Forward Premia (Per cent)	Average MSS Outstanding# (Rs. crore)	Average Daily Reverse Repo (LAF) Outstanding (Rs. crore)	Average Daily BSE Turnover (Rs. crore)	Average Daily NSE Turnover (Rs. crore)	Average BSE Sensex**	Average S&P CNX Nifty**
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2004-05	14,170	4.65	4,826	6.22	8,892	44.93	20,847 ##	1.66	46,445	35,592	2,050	4,506	5741	1805
2005-06	17,979	5.60	3,643	7.12	12,738	44.27	8,143 ##	1.60	58,792	10,986	3,248	6,253	8280	2513
2006-07	21,725	7.22	4,863	7.78	17,852	45.25	26,824 ##	2.14	37,698	21,973	3,877	7,812	12277	3572
Jan 2006	17,911	6.83	3,094	7.15	16,713	44.40	0	2.60	40,219	-15,386	3,966	7,472	9540	2893
Feb 2006	13,497	6.95	2,584	7.32	15,798	44.33	2,614	2.85	33,405	-13,532	3,688	7,125	10090	3019
Mar 2006	18,290	6.58	2,203	7.40	17,600	44.48	8,149	3.11	29,652	-6,319	5,398	9,518	10857	3236
Apr 2006	16,909	5.62	3,685	7.45	17,712	44.95	4,305	1.31	25,709	46,088	4,860	9,854	11742	3494
May 2006	18,074	5.54	3,550	7.58	18,420	45.41	504	0.87	26,457	59,505	4,355	9,155	11599	3437
Jun 2006	17,425	5.73	2,258	7.86	15,310	46.06	0	0.73	31,845	48,610	3,131	6,567	9935	2915
Jul 2006	18,254	5.86	2,243	8.26	14,325	46.46	0	0.83	36,936	48,027	2,605	5,652	10557	3092
Aug 2006	21,294	6.06	5,786	8.09	15,934	46.54	0	1.22	40,305	36,326	2,867	5,945	11305	3306
Sep 2006	23,665	6.33	8,306	7.76	18,107	46.12	0	1.31	40,018	25,862	3,411	6,873	12036	3492
Oct 2006	26,429	6.75	4,313	7.65	16,924	45.47	0	1.67	41,537	12,983	3,481	6,919	12637	3649
Nov 2006	25,649	6.69	10,654	7.52	20,475	44.85	3,198	2.07	38,099	9,937	4,629	8,630	13416	3869
Dec 2006	24,168	8.63	5,362	7.55	19,932	44.64	1,818	3.20	38,148	-1,713	4,276	8,505	13628	3910
Jan 2007	22,360	8.18	4,822	7.71	21,065 P	44.33	2,830	4.22	39,553	-10,738	4,380	8,757	13984	4037
Feb 2007	23,254	7.16	4,386	7.90	20,050 P	44.16	11,862	3.71	40,827	648	4,676	9,483	14143	4084
Mar 2007	23,217	14.07	2,991	8.00	24,231 P	44.03	2,307	4.51	52,944	-11,858	3,716	7,998	12858	3731
Apr 2007	29,689	8.33	4,636	8.10	28,131 P	42.15	2,055	6.91	71,468	-8,937	3,935	8,428	13478	3947
May 2007	20,476	6.96	4,442	8.15	24,843 P	40.78	4,426	4.58	83,779	-6,397	4,706	9,885	14156	4184
Jun 2007	16,826	2.42	6,250	8.20	30,122 P	40.77	N.A.	2.59	83,049	1,689	4,512	9,221	14334	4222

* : Average of daily weighted call money borrowing rates.

@ : Average of daily closing rates.

** : Average of daily closing indices.

LAF : Liquidity Adjustment Facility.

MSS : Market Stabilisation Scheme.

NSE : National Stock Exchange of India Ltd.

Note : In column 11, (-) indicates injection of liquidity, while (+) indicates absorption of liquidity.

+ : Average of daily outright turnover in Central Government dated securities.

: Average of weekly outstanding MSS.

: Cumulative for the financial year.

BSE : Bombay Stock Exchange Limited.

N.A. : Not available.

P : Provisional.

segment of the overnight money market also softened and remained below the call rate during the quarter. In the foreign exchange market, the Indian rupee appreciated *vis-a-vis* all major currencies (US dollar, Euro, Pound sterling and Japanese yen) during the first quarter. Yields in the Government securities market hardened up to mid-June 2007 and declined thereafter. Banks' deposit and lending rates rose further during the first quarter; however, there was some softening in deposit rates in July 2007. The stock markets remained buoyant and the benchmark indices reached record highs. The primary market segment of the capital market witnessed increased activity in June 2007.

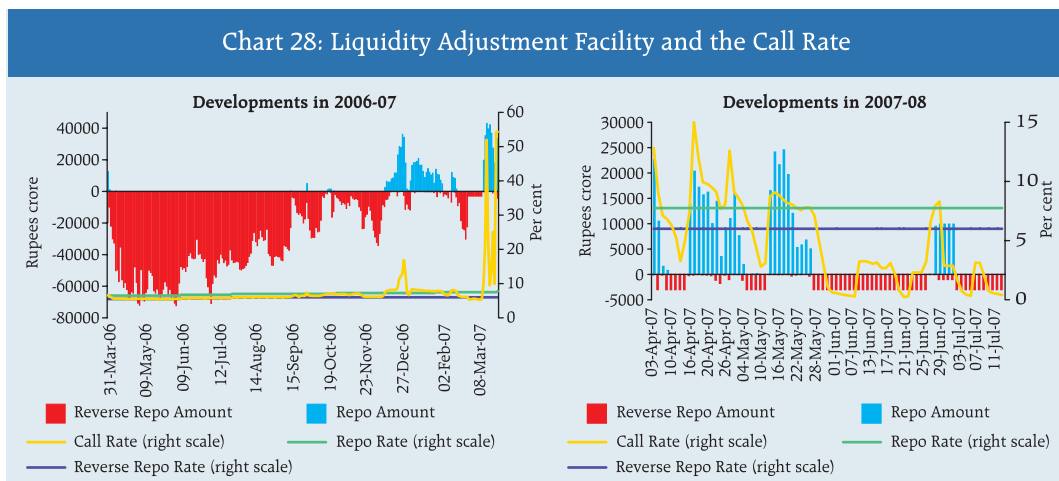
Money Market

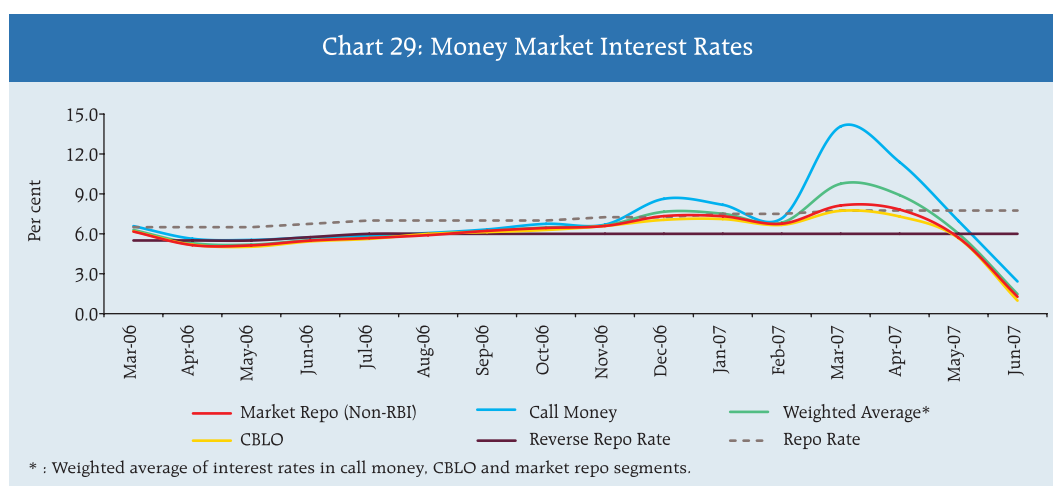
Money market rates eased during the first quarter of 2007-08 from the elevated levels witnessed in the second half of March 2007. The various interest rates in the money market, however, exhibited volatility during the first quarter, moving in tandem with the evolving liquidity conditions. The daily average call rate,

which had reached an intra-year high of 54.32 per cent on March 30, 2007, moderated in the first week of April 2007 on the back of easier liquidity conditions following a decline in cash balances of the Central Government (Chart 28). The call rate moved below the reverse repo rate in early April 2007. With the first stage of hike in the cash reserve ratio (CRR) becoming effective on April 14, 2007 and the Government raising resources as part of its market borrowing programme, the call rate again edged higher and exceeded the repo rate during the second half of April 2007 and most of May 2007. Beginning end-May 2007, the call rate eased significantly and, on a number of occasions in June 2007, it was below one per cent. The call rate reached 0.23 per cent on June 21, 2007 and has remained low since then, except for a couple of days towards end-June 2007. The call rate averaged 2.42 per cent during June 2007 as compared with 6.96 per cent during May 2007. The call rate was 0.21 per cent on July 26, 2007.

Interest rates in the collateralised segments of the money market – the market

Chart 28: Liquidity Adjustment Facility and the Call Rate





repo (outside the LAF) and the Collateralised Borrowing and Lending Obligation (CBLO) – declined in line with call rates, and continued to remain below the call rate during the first quarter of 2007-08 (Chart 29). During April-June 2007, interest rates averaged 5.90 per cent, 4.17 per cent and 4.66 per cent in the call, CBLO and market repo segments, respectively (5.63 per cent, 5.21 per cent and 5.26 per cent, respectively, a year ago). The weighted average rate in all the three money market segments combined together was 4.78 per cent during April-June 2007 (5.34 per cent a year ago).

The average daily volume in the money market segments – call market, market repo (outside the LAF) and CBLO – during April-June 2007 was 21.3 per cent higher than that in the same period of 2006. The collateralised market – market repo (outside the LAF) and CBLO – remained the predominant segment of the money market, and accounted for about 70 per cent of the total volume during April-June 2007 (Table 39). Mutual funds, financial institutions and nationalised banks are the major lenders in

the CBLO market with nationalised banks, primary dealers and non-financial companies being the major borrowers. In the market repo segment, mutual funds are the major provider of funds, while foreign banks, private sector banks and primary dealers are the major borrowers.

Certificates of Deposit

The outstanding amount of certificates of deposit (CDs) increased from Rs.93,272 crore at end-March 2007 (4.8 per cent of aggregate deposits of issuing banks) to Rs. 99,287 crore (5.3 per cent) by June 8, 2007. The flexibility of return that can be offered by banks to attract bulk deposits has made CDs the preferred route for mobilising resources, especially for private sector banks. Mutual funds are the major investors in the CDs due to their tradability and liquidity. The weighted average discount rate (WADR) of CDs stayed firm till mid-May 2007 but declined to 9.31 per cent by mid-June 2007.

Commercial Paper

Issuances of commercial papers (CPs) increased in the first quarter of 2007-08.

Table 39: Activity in Money Market Segments

(Rupees crore)									
Year/Month	Average Daily Volume (One Leg)				Term Money Market	Commercial Paper		Certificates of Deposit	
	Call Money Market	Repo Market (Outside the LAF)	Collateralised Borrowing and Lending Obligation (CBLO)	Total (2+3+4)		Outstanding	WADR (per cent)	Outstanding	WADR (per cent)
1	2	3	4	5	6	7	8	9	10
2004-05	7,085	4,284	3,349	14,718	263	11,723	5.34	6,052	–
2005-06	8,990	5,296	10,020	24,306	417	17,285	6.46	27,298	–
2006-07	10,863	8,419	16,195	35,477	506	21,621	8.08	63,746	8.23
Jan 2006	8,956	6,149	12,817	27,922	545	16,431	7.29	34,521	6.45
Feb 2006	6,749	6,024	17,081	29,854	407	15,876	8.02	34,487	7.68
Mar 2006	9,145	7,991	17,888	35,024	669	12,718	8.59	43,568	8.62
Apr 2006	8,455	5,479	16,329	30,263	447	16,550	7.30	44,059	7.03
May 2006	9,037	9,027	17,147	35,211	473	17,067	6.89	50,228	7.17
Jun 2006	8,713	10,563	13,809	33,085	628	19,650	7.10	56,390	7.19
Jul 2006	9,127	9,671	15,670	34,468	432	21,110	7.34	59,167	7.65
Aug 2006	10,647	7,764	15,589	34,000	510	23,299	7.31	65,621	7.77
Sep 2006	11,833	9,185	14,771	35,789	568	24,444	7.70	65,274	7.80
Oct 2006	13,214	9,721	16,964	39,899	466	23,171	7.77	65,764	7.73
Nov 2006	12,825	9,374	16,069	38,268	348	24,238	7.88	68,911	7.99
Dec 2006	12,084	7,170	15,512	34,766	481	23,536	8.52	68,619	8.28
Jan 2007	11,180	6,591	15,758	33,529	515	24,398	9.09	70,149	9.22
Feb 2007	11,627	7,794	19,063	38,484	467	21,167	10.49	72,795	9.87
Mar 2007	11,608	8,687	17,662	37,957	739	17,838	11.33	93,272	10.75
Apr 2007	14,845	7,173	18,086	40,104	440	18,759	10.52	95,980	10.55
May 2007	10,238	8,965	20,810	40,013	277	22,024	9.87	99,715	9.87
Jun 2007	8,413	10,294	20,742	39,450	308	25,500 *	9.13	99,287 @	9.31

– : Not available. * : June 15, 2007. @ : June 8, 2007.
WADR : Weighted Average Discount Rate.

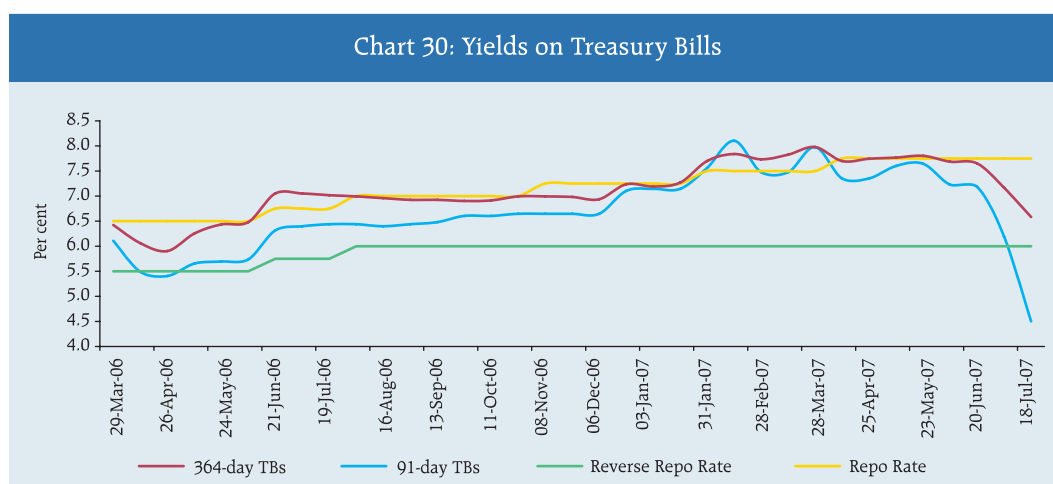
Outstanding CPs rose from Rs.17,838 crore at end-March 2007 to Rs. 25,500 crore as on June 15, 2007 (Table 39). The WADR on CPs which had hardened to 11.33 per cent during the fortnight ended March 31, 2007 stayed firm at around 10.50 per cent till mid-May before declining to 9.13 per cent during the fortnight ended June 15, 2007 in tandem with the moderation in other money market rates. The discount rate on CPs was in the range of 7.00-10.80 per cent during the fortnight ended June 15, 2007 (10.25-13.00 per cent during the fortnight ended March 31, 2007). Leasing and finance companies remained the major issuers of CPs (Table 40).

Table 40: Commercial Paper – Major Issuers

(Rupees crore)			
Category of Issuer	End of		
	March 2006	March 2007	June 2007 *
1	2	3	4
Leasing and Finance	9,400 (73.9)	12,569 (70.5)	17,341 (68.0)
Manufacturing	1,982 (15.6)	2,754 (15.4)	4,068 (15.9)
Financial Institutions	1,336 (10.5)	2,515 (14.1)	4,091 (16.1)
Total	12,718 (100.0)	17,838 (100.0)	25,500 (100.0)

* : June 15, 2007.

Notes : Figures in parentheses are percentage shares in the total outstanding.



Treasury Bills

The primary market yields on Treasury Bills (TBs) softened during the first quarter of 2007-08, especially in June 2007, reflecting the trends in money market segments as well as fall in domestic

inflation rate (Chart 30). The yield spread between 364-day and 91-day TBs was 28 basis points in June 2007, marginally higher than that in March 2007 (22 basis points) (Table 41). The primary market yields of Treasury Bills softened further during July 2007 (up to July 20, 2007).

Table 41: Treasury Bills in the Primary Market

Month	Notified Amount (Rupees crore)	Average Implicit Yield at Minimum Cut-off Price (Per cent)			Average Bid-Cover Ratio		
		91-day	182-day	364-day	91-day	182-day	364-day
1	2	3	4	5	6	7	8
2004-05	1,38,500 @	4.91	—	5.16	2.43	—	2.52
2005-06	1,55,500 @	5.68	5.82	5.96	2.64	2.65	2.45
2006-07	1,86,500 @	6.64	6.91	7.01	1.97	2.00	2.66
Jan 2006	5,000	6.25	6.22	6.21	2.86	2.83	2.72
Feb 2006	5,000	6.63	6.74	6.78	3.04	2.07	2.71
Mar 2006	6,500	6.51	6.66	6.66	4.17	3.43	3.36
Apr 2006	5,000	5.52	5.87	5.98	5.57	4.96	2.02
May 2006	18,500	5.70	6.07	6.34	1.88	1.84	1.69
Jun 2006	15,000	6.14	6.64	6.77	1.63	1.35	2.11
Jul 2006	16,500	6.42	6.75	7.03	1.82	1.55	3.12
Aug 2006	19,000	6.41	6.70	6.96	2.03	2.71	3.48
Sep 2006	15,000	6.51	6.76	6.91	1.35	1.80	2.92
Oct 2006	15,000	6.63	6.84	6.95	1.31	1.20	2.02
Nov 2006	18,500	6.65	6.92	6.99	1.33	1.22	2.49
Dec 2006	15,000	7.01	7.27	7.09	1.19	1.29	3.34
Jan 2007	19,000	7.28	7.45	7.39	1.02	1.35	1.74
Feb 2007	15,000	7.72	7.67	7.79	2.48	2.56	3.16
Mar 2007	15,000	7.68	7.98	7.90	2.08	2.15	3.87
Apr 2007	14,000	7.53	7.87	7.72	2.87	3.36	3.16
May 2007	18,500	7.59	7.70	7.79	2.33	2.57	2.33
Jun 2007	35,000	7.39	7.76	7.67	3.23	4.11	3.97

@ : Total for the financial year.

Notes : 1. 182-day TBs were reintroduced with effect from April 2005.

2. Notified amounts are inclusive of issuances under the Market Stabilisation Scheme (MSS).

Foreign Exchange Market

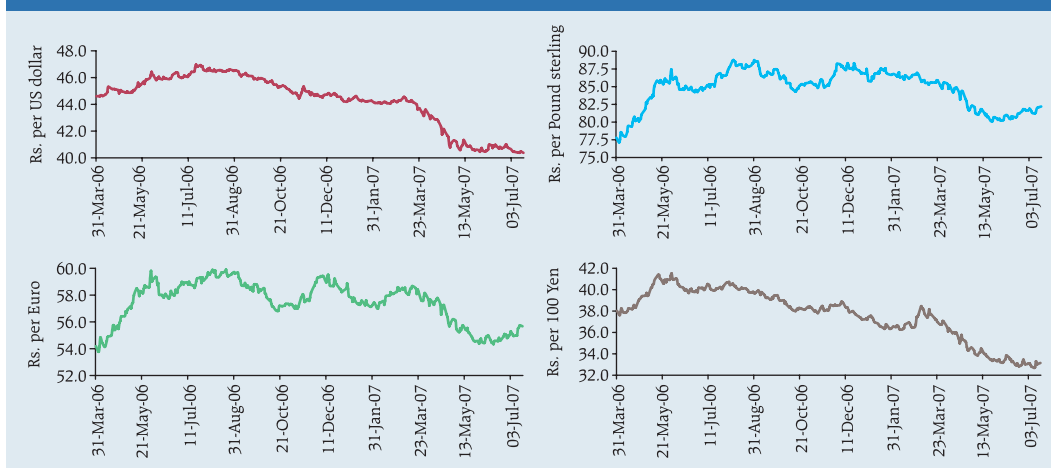
During the first quarter of 2007-08, the Indian rupee appreciated *vis-à-vis* the US dollar. During 2007-08 (up to July 26, 2007), the Indian rupee moved in a range of Rs.40.24-43.15 per US dollar (Chart 31). Reflecting a variety of factors such as large capital inflows, weakening of the US dollar *vis-à-vis* other major currencies in international markets and the widening of the daily trading band of yuan against the US dollar (0.5 per cent from 0.3 per cent effective May 21, 2007), the Indian rupee appreciated from Rs.43.60 per US dollar as at end-March 2007 to reach a level of Rs.40.46 per US dollar as on May 29, 2007. Since then, the rupee has been largely range-bound. The exchange rate of the rupee was Rs.40.28 per US dollar on July 26, 2007. At this level, the Indian rupee appreciated by 8.2 per cent *vis-à-vis* the US dollar over its level on March 31, 2007. Over the same period, the rupee appreciated by 3.7 per cent against the Pound sterling, 5.3 per cent against the Euro and 10.8 per cent against the Japanese yen.

The nominal effective exchange rate (NEER) of the Indian rupee (six-currency trade-based weights) appreciated by 7.3 per cent between March 2007 and July 26, 2007. Over the same period, the real effective exchange rate (REER) of the Indian rupee (six-currency trade-based weights) appreciated by 7.7 per cent (Table 42). The 36-currency NEER and REER of the Indian rupee appreciated by 3.5 per cent and 2.9 per cent, respectively, between March 2007 and April 2007.

Forward premia declined during the first quarter of 2006-07, mirroring the decline in domestic overnight interest rates. The one-month forward premia declined from 6.99 per cent in March 2007 to 2.10 per cent in June 2007, while the six-month forward premia declined from 3.80 per cent to 2.79 per cent over the same period (Chart 32).

The average daily turnover in the foreign exchange market increased to US \$ 38.2 billion during April-June 2007 from US \$ 23.6 billion in the corresponding period of 2006. While the inter-bank turnover

Chart 31: Movement of Rupee vis-a-vis Major Currencies



**Table 42: Nominal and Real Effective Exchange Rate of the Indian Rupee
(Trade-Based Weights)**

Year/Month	Base : 1993-94 (April-March) = 100			
	6-Currency Weights		36-Currency Weights	
	NEER	REER	NEER	REER
1	2	3	4	5
1993-94	100.00	100.00	100.00	100.00
2000-01	77.43	102.82	92.12	100.09
2001-02	76.04	102.71	91.58	100.86
2002-03	71.27	97.68	89.12	98.18
2003-04	69.97	99.17	87.14	99.56
2004-05	69.58	101.78	87.31	100.09
2005-06	72.28	107.30	89.84	102.34
2006-07 (P)	68.93	105.46	86.04	98.50
Mar 2006	72.45	107.41	89.52	101.25
Apr 2006	71.04	105.75	87.88	98.12
May 2006	68.79	103.48	85.58	96.35
Jun 2006	68.21	103.06	85.26	96.48
Jul 2006	67.59	102.25	84.37	95.64
Aug 2006	67.08	102.14	83.76	95.54
Sep 2006	67.84	104.75	84.80	97.91
Oct 2006	69.11	107.25	86.33	99.89
Nov 2006	69.34	107.82	86.65	100.30
Dec 2006	68.82	106.39	86.05	99.20
Jan 2007 (P)	69.77	107.70	87.20	100.86
Feb 2007 (P)	69.88	107.71	87.29	100.77
Mar 2007 (P)	69.70	107.41	87.26	100.94
Apr 2007 (P)	72.18	111.59	90.32	103.83
May 2007 (P)	74.64	115.34	–	–
Jun 2007 (P)	74.83	115.39	–	–
July 26, 2007 (P)	74.80	115.66	–	–

– : not available. P : Provisional. NEER : Nominal Effective Exchange Rate. REER : Real Effective Exchange Rate.

Note: Rise in indices indicates appreciation of the Indian rupee and *vice versa*.

increased from US \$ 17.1 billion to US \$ 27.7 billion, the merchant turnover increased from US \$ 6.5 billion to US \$ 10.5 billion

(Chart 33). The ratio of inter-bank to merchant turnover at 2.6 during April-June 2007 was the same as a year ago.

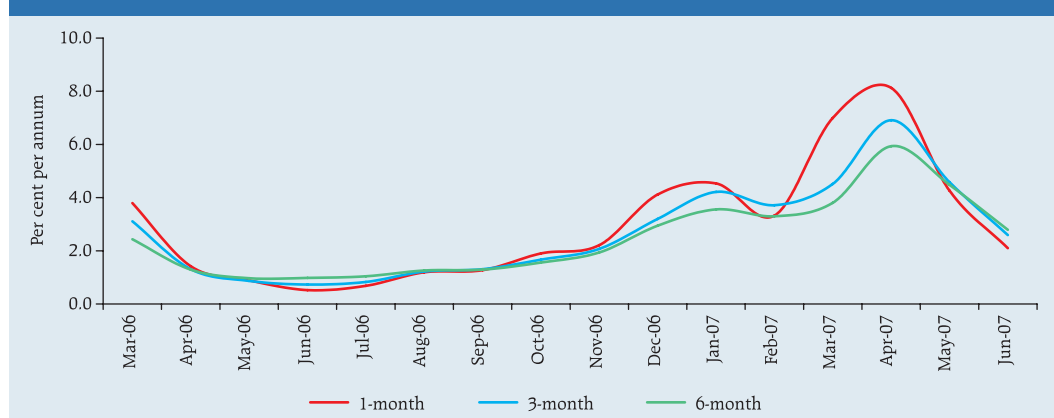
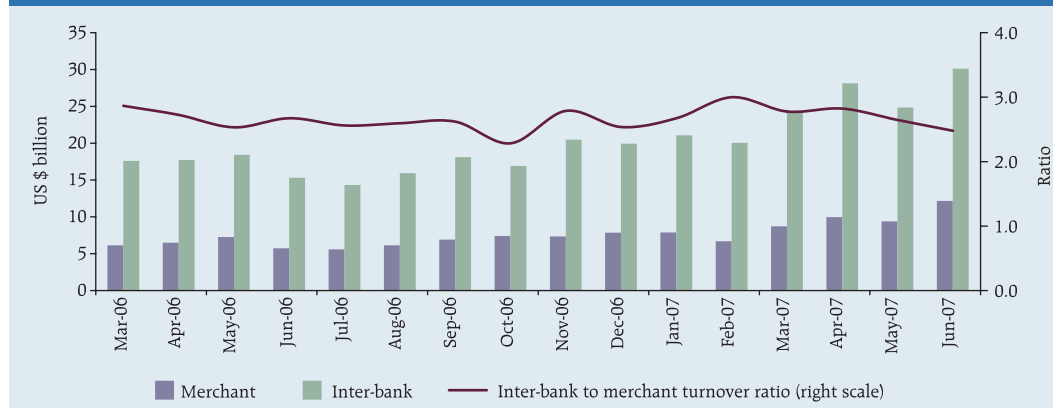
Chart 32: Movement in Forward Premia

Chart 33: Turnover in Foreign Exchange Market



Credit Market

The deposit and lending rates of scheduled commercial banks (SCBs) increased further during the first quarter of 2007-08. However, there was some softening in deposit rates in July 2007, particularly at the short-end of the maturity spectrum. Interest rates of public sector

banks (PSBs) on deposits of maturity of one year to three years were placed in the range of 7.25-9.60 per cent in July 2007 as compared with 7.25-9.50 per cent in March 2007, while those on deposits of maturity of above three years were placed in the range of 7.75-9.60 per cent in July 2007 as compared with 7.50-9.50 per cent in March 2007 (Table 43 and Chart 34).

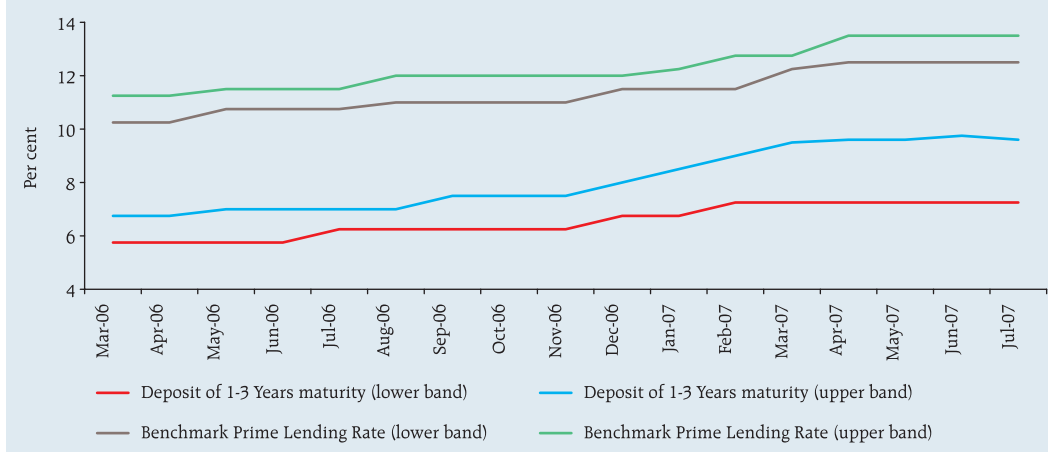
Table 43: Deposit and Lending Rates

(Per cent)						
Interest Rate	March 2004	March 2005	March 2006	March 2007	June 2007	July 2007 #
1	2	3	4	5	6	7
1. Domestic Deposit Rate						
Public Sector Banks						
Up to 1 year	3.75-5.25	2.75-6.00	2.25-6.50	2.75-8.75	2.75-8.75	2.75-8.50
More than 1 year and up to 3 years	5.00-5.75	4.75-6.50	5.75-6.75	7.25-9.50	7.25-9.75	7.25-9.60
More than 3 years	5.26-6.00	5.25-7.00	6.00-7.25	7.50-9.50	7.75-9.75	7.75-9.60
Private Sector Banks						
Up to 1 year	5.00-6.50	3.00-6.25	3.50-7.25	3.00-9.00	3.00-9.50	1.00-9.25
More than 1 year and up to 3 years	5.00-6.50	5.25-7.25	5.50-7.75	6.75-9.75	6.75-10.25	6.75-10.25
More than 3 years	5.25-7.00	5.75-7.00	6.00-7.75	7.75-9.60	7.50-10.00	7.50-10.00
Foreign Banks						
Up to 1 year	2.75-7.75	3.00-6.25	3.00-6.15	3.00-9.50	0.25-9.00	0.25-8.50
More than 1 year and up to 3 years	3.25-8.00	3.50-6.50	4.00-6.50	3.50-9.50	3.50-9.50	2.50-9.00
More than 3 years	3.25-8.00	3.50-7.00	5.50-6.50	4.05-9.50	4.05-9.50	2.50-9.50
2. Benchmark Prime Lending Rate						
Public Sector Banks	10.25-11.50	10.25-11.25	10.25-11.25	12.25-12.75	12.50-13.50	12.50-13.50
Private Sector Banks	10.50-13.00	11.00-13.50	11.00-14.00	12.00-16.50	13.00-17.25	13.00-17.25
Foreign Banks	11.00-14.85	10.00-14.50	10.00-14.50	10.00-15.50	10.00-15.50	10.00-15.50
3. Actual Lending Rate*						
Public Sector Banks	4.00-16.00	2.75-16.00	4.00-16.50	4.00-17.00	—	—
Private Sector Banks	4.50-22.00	3.15-22.00	3.15-20.50	3.15-25.50	—	—
Foreign Banks	3.75-23.00	3.55-23.50	4.75-26.00	5.00-26.50	—	—

— : Not available. # : As on July 25, 2007.

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

Chart 34: Deposit and Lending Rates - Public Sector Banks



The weighted average benchmark prime lending rate (BPLR) of public sector banks increased from 10.7 per cent in March 2006 and 12.4 per cent in March 2007 to 13.1 per cent in July 2007. The weighted average BPLR of private sector banks increased from 12.4 per cent in March 2006 and 14.1 per cent in March 2007 to 14.9 per cent in July 2007. The weighted average BPLR of foreign banks

rose from 12.7 per cent in March 2007 to 13.9 per cent in July 2007.

Government Securities Market

The yields in the Government securities market initially hardened during the first quarter of 2007-08, partly reflecting global trends and announcement of an unscheduled auction (Chart 35).

Chart 35: Yields on Central Government Securities

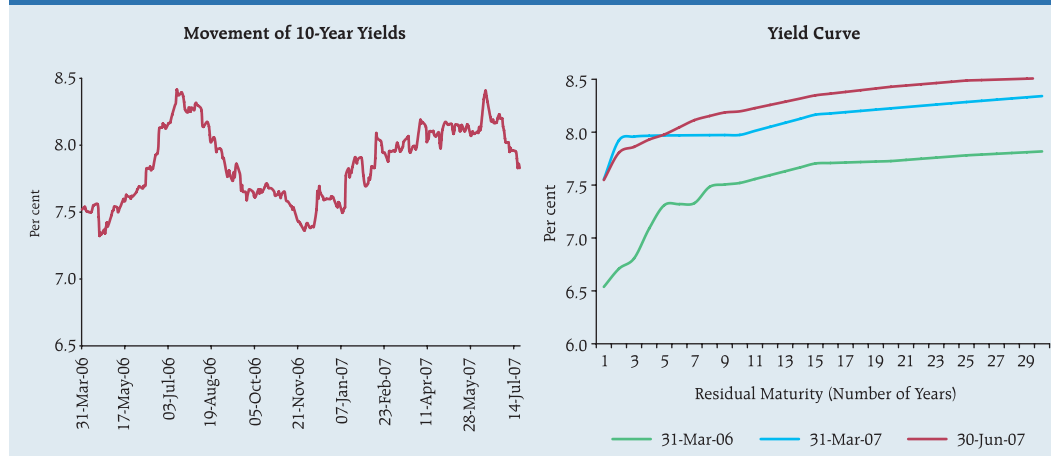
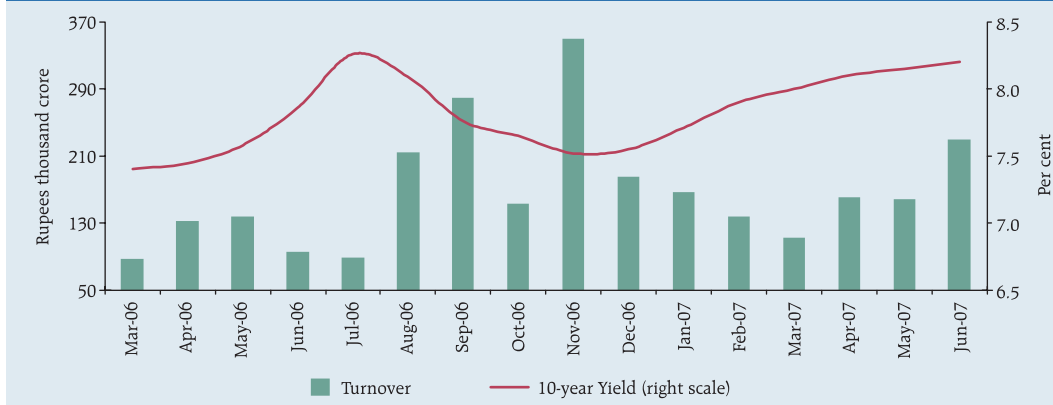


Chart 36: Government Securities Turnover and Yields (Monthly Average)



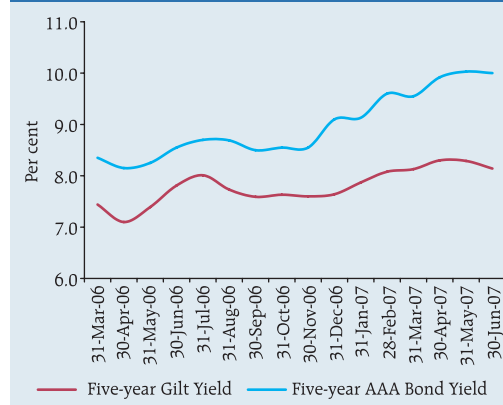
Subsequently, yields eased from mid-June 2007 onwards. The 10-year yields moved in a range of 7.80-8.41 per cent during 2007-08 (up to July 26, 2007). The 10-year yield was 7.89 per cent as on July 26, 2007, 8 basis points lower than that at end-March 2007.

The spread between 1-10 year yields was 65 basis points at end-June 2007 as compared with 42 basis points at end-March 2007. The spread between 10-year and 30-year yields was 31 basis points at end-June 2007 (37 basis points at end-March 2007).

The daily turnover in the Government securities market averaged Rs. 5,109 crore during April-June 2007, which was 25.6 per cent higher than that in the preceding quarter (Chart 36).

The yield spread between 5-year AAA-rated bonds and 5-year Government securities widened to 186 basis points at end-June 2007 from 142 basis points at end-March 2007 (Chart 37).

Chart 37: Yield Spreads



Equity Market

Primary Market

Resources raised through the domestic public issues aggregated Rs.23,851 crore during April-June 2007, an increase of 124.1 per cent over the corresponding period of 2006 (Table 44). The average size of public issues increased from Rs.426 crore during April-June 2006 to Rs.994 crore during April-June 2007. All the 24 public issues during

Table 44: Mobilisation of Resources from the Primary Market

(Amount in Rupees crore)				
Item	2006-07 (April-June)		2007-08 (April-June) P	
	No. of Issues	Amount	No. of Issues	Amount
1	2	3	4	5
A. Prospectus and Rights Issues*				
1. Private Sector (a+ b)	25	10,642	23	23,324
a) Financial	1	15	1	10,063
b) Non-financial	24	10,627	22	13,261
2. Public Sector (a+ b+ c)	–	–	1	527
a) Public Sector Undertakings	–	–	1	527
b) Government Companies	–	–	–	–
c) Banks/Financial Institutions	–	–	–	–
3. Total (1+ 2)	25	10,642	24	23,851
<i>of which:</i>				
(i) Equity	25	10,642	24	23,851
(ii) Debt	–	–	–	–
B. Private Placement				
	2005-06		2006-07	
1. Private Sector	946	41,190	1,539	84,387
a) Financial	375	26,463	649	51,321
b) Non-financial	571	14,727	890	33,066
2. Public Sector	169	55,283	139	61,184
a) Financial	137	39,165	108	49,026
b) Non-financial	32	16,119	31	12,158
3. Total (1+ 2)	1,115	96,473	1,678	1,45,571
<i>of which:</i>				
(i) Equity	1	150	1	57
(ii) Debt	1,114	96,323	1,677	1,45,514
<i>Memo:</i>				
C. Euro Issues	21	5,786	3	1,251

P : Provisional. * : Excluding offers for sale. – : Nil/Negligible.

April-June 2007 were in the form of equity, of which, 20 were initial public offerings (IPOs) accounting for 54.8 per cent of total resource mobilisation.

Mobilisation of resources through private placement increased by 50.9 per cent to Rs.1,45,571 crore during 2006-07 over the previous year (Table 44). This was mainly on account of more than doubling of resources mobilised by private sector entities to Rs.84,387 crore, while resources raised by public sector entities increased by only 10.7

per cent. Resource mobilisation by financial intermediaries (both from public sector and private sector) increased by 52.9 per cent to Rs.1,00,347 crore accounting for 68.9 per cent of total resource mobilisation during 2006-07 (68.0 per cent a year ago).

Resources raised through euro issues - American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) - by Indian corporates during April-June 2007 at Rs.1,251 crore were lower than the corresponding period of previous year.

Table 45: Resource Mobilisation by Mutual Funds

Mutual Fund	April-March		April-June			
	2006-07		2006-07		2007-08	
	Net Mobilisation @	Net Assets #	Net Mobilisation @	Net Assets #	Net Mobilisation @	Net Assets #
1	2	3	4	5	6	7
Private Sector	79,038	2,62,079	43,039	2,11,225	48,542	3,29,421
Public Sector *	14,947	64,213	9,013	54,309	2,908	71,421
Total	93,985	3,26,292	52,052	2,65,534	51,450	4,00,842

@ : Net of redemptions. # : End-period. * : Including UTI Mutual fund.

Note : Data exclude funds mobilised under Fund of Funds Schemes.

Source : Securities and Exchange Board of India.

During April-June 2007, net mobilisation of resources by mutual funds was Rs.51,450 crore, a decline of 1.2 per cent over the corresponding period of 2006 (Table 45). Bulk of the net mobilisation of funds (55.0 per cent of total) was under debt-oriented schemes followed by liquid/money market-oriented schemes (36.2 per cent). Growth/equity-oriented schemes accounted for 4.7 per cent of the net mobilisation of funds.

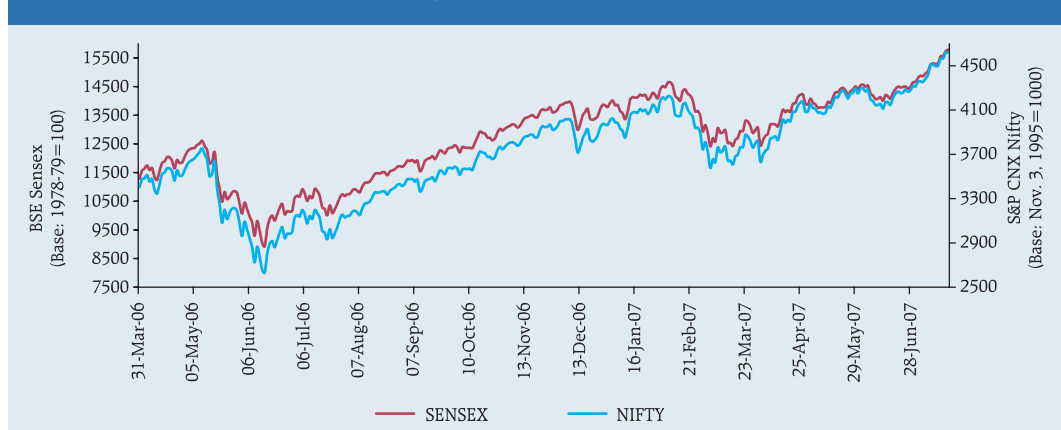
Secondary Market

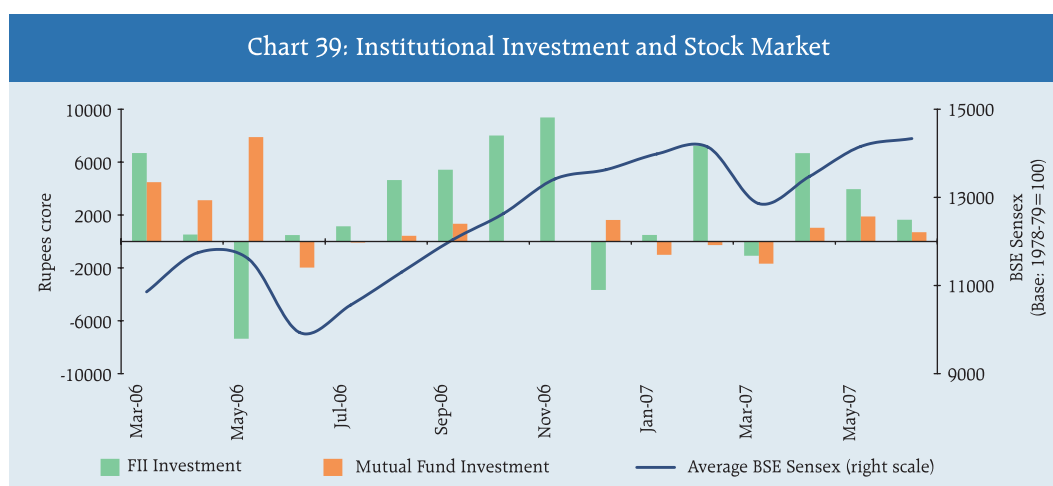
The domestic stock markets recorded gains during the first quarter of 2007-08 (Chart 38). Liquidity support from foreign

institutional investors (FIIs) and mutual funds, buoyant growth and strong corporate profitability provided support to the domestic stock markets. During 2007-08 (up to July 26, 2007), the BSE Sensex moved in a range of 12455-15795 with a record high of 15795 on July 24, 2007. The S&P CNX Nifty also reached a record high of 4621 on July 24, 2007. The BSE Sensex closed at 15776 on July 26, 2007, an increase of 20.7 per cent over end-March 2007.

Profits after tax of sampled companies increased by 45.2 per cent during 2006-07 (24.2 per cent during 2005-06) (see Table 11). According to the data released by the

Chart 38: Indian Stock Markets





Securities and Exchange Board of India (SEBI), FIIs have invested Rs.36,438 crore (US \$ 8.8 billion) in the Indian stock markets during 2007-08 so far (up to July 25, 2007) as against net sales of Rs.6,084 crore (US \$ 1.3 billion) during the corresponding period of the previous year (Chart 39). Mutual funds have made net investments of Rs.1,759 crore during 2007-08 so far (up to July 25, 2007) as compared with net investments of Rs.8,538 crore during the corresponding period of the last year.

The gains in the domestic stock markets during 2007-08 (up to July 24, 2007) were led by capital goods, metal, banking, oil and gas, PSU and consumer durables stocks (Table 46).

Reflecting the upward trend in stock prices, the price-earnings (P/E) ratios of the 30 scrips included in the BSE Sensex rose from 20.3 at end-March 2007 to 21.1 by end-June 2007 (Table 47). The market capitalisation of the BSE increased by 17.6

Table 46: BSE Sectoral Stock Indices

Sector	Variation (per cent)		
	End-March 2006@	End-March 2007@	July 24, 2007 \$
1	2	3	4
Auto	101.2	-8.5	5.3
Bankex	36.8	24.3	27.7
BSE 500	65.2	9.7	24.6
BSE Sensex	73.7	15.9	20.8
Capital Goods	156.0	11.1	51.7
Consumer Durables	115.4	11.1	18.2
Fast Moving Consumer Goods	109.9	-21.3	6.0
Health Care	51.2	-5.4	3.5
Information Technology	49.2	21.6	1.3
Metal	40.3	-4.3	45.7
Oil and Gas	61.1	30.5	27.9
Public Sector Undertakings	44.0	-3.2	23.1

@ : Year-on-year variation. \$: Variation over end-March 2007.

Source : Bombay Stock Exchange Limited.

Table 47: Stock Market Indicators

Indicator	BSE				NSE				
	2005-06	2006-07	Apr-June		2005-06	2006-07	Apr-June		
			2006	2007			2006	2007	
			4	5			8	9	
1	2	3	4	5	6	7	8	9	
1. BSE Sensex / S&P CNX Nifty									
(i) End-period	11280	13072	10609	14651	3403	3822	3128	4318	
(ii) Average	8280	12277	11032	13998	2513	3572	3263	4121	
2. Coefficient of Variation	16.7	11.1	9.0	3.6	15.6	10.4	9.6	3.9	
3. Price-Earning Ratio (end-period)*	20.9	20.3	19.4	21.1	20.3	18.4	18.4	20.6	
4. Price-Book Value Ratio*	5.1	5.1	4.4	4.8	5.2	4.9	4.7	5.4	
5. Yield* (per cent per annum)	1.2	1.3	1.5	1.1	1.3	1.3	1.5	1.1	
6. Number of Listed Companies	4,781	4,821	4,793	4,842	1,069	1,228	1,099	1,283	
7. Cash Segment Turnover (Rupees crore)	8,16,074	9,56,185	2,55,320	2,72,782	15,69,556	19,45,285	5,29,831	5,69,800	
8. Derivative Segment Turnover (Rupees crore)	9	59,007	19	50,357	48,24,174	73,56,242	20,37,019	21,46,272	
9. Market Capitalisation (Rupees crore) @	30,22,191	35,45,041	27,21,678	41,68,272	28,13,201	33,67,350	25,24,659	39,78,381	

* : Based on 30 scrips included in the BSE Sensex and 50 scrips included in the S&P CNX Nifty. @ : End-period.

Source : Bombay Stock Exchange Ltd. (BSE) and National Stock Exchange of India Ltd. (NSE).

per cent between end-March 2007 and end-June 2007. The volatility in the stock market declined during April-June 2007. The combined turnover of BSE and NSE in the

cash and derivative segments during April-June 2007 was higher by 7.3 per cent and 7.8 per cent, respectively, than the corresponding period of 2006.