GILT NEWS

for the fortnight ended 09 April, 2010

Economy & Financial Markets Review

Domestic Developments

Government borrowings for H1 of FY 2010-11 set at Rs. 2,87,000 crore

Food inflation for week ended 27th March'10 up at 17.7%

Y-o-Y bank credit and deposit growth rate at 16.75% and 17.02% respectively

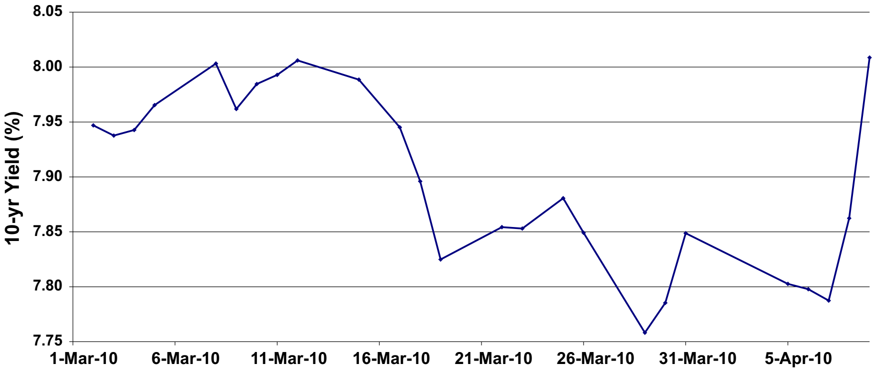
International Developments

Spate of robust economic data releases drive up US treasury yields

Benchmark 10-yr US treasury yield firms up by 3 bps to end the fortnight at 3.88%

Crude oil price ends the fortnight at USD 84.92 as against previous closing of USD 80.00 a barrel

10-year Yield Rises Sharply in View of Huge Debt Supply Amid Rate Hike Concerns



G-sec Market

Weak demand in first auction of the new fiscal drive up yield at the close of fortnight

Government borrows Rs. 12,000 crore, Rs. 448 crore devolved on Primary Dealers

Yield on 6.35% GOI 2020 firms up by 16 bps to end the fortnight at 8.01%

Money Market

After firming up considerably at year end, overnight rates mellow down on resumption of lending by banks

RBI absorbs funds to the tune of Rs. 63,875 crore on a daily average basis during the fortnight

Call and CBLO rates end the fortnight at 3.30% and 1.19% respectively

MACROECONOMIC INDICATORS

(Rs. Billion)

	As on 26th March'10	Variation over the fortnight	Variation over LRF of March	YOY % growth
Aggregate Deposits	44,866	836	6,525	17.02
Bank Credit	32,404	1,155	4,648	16.75
Non - food Credit	31,919	1,165	4,626	16.95
Banks Investment in G-Sec	13,827	(43)	2,163	18.54
Broad Money M3	55,833	1,010	8,062	16.71
Reserve Money 02/04	11,570	513	17	24.47
Market Stabilisation Scheme Outstanding 02/04	27	0		
Forex Reserves (USD bn) 02/04	279	0.9	0	9.38
Credit - Deposit Ratio	72.22			
LAF Repo Rate (%)	5.00			
LAF Reverse Repo Rate (%)	3.50			
Cash Reserve Ratio (%)	5.75			

Forex Market

Robust capital inflows in rising equities push rupee to 18 month high

Rupee ends the fortnight at 44.29/USD vis-à-vis previous fortnight's level of 45.24/USD

Fortnightly average of 3M & 6M fwd annualized premia at 3.35% & 3.29% as against previous fortnight's level of 3.24% & 3.12% respectively

Equity Market

Benchmark index touches two year high of 18,000 points

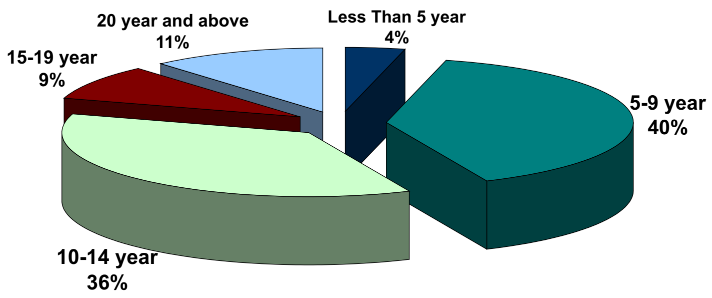
Sensex and Nifty rise by 1.6% & 1.5% respectively on continued capital inflows

DOMESTIC DEVELOPMENTS

Government Borrowings for H1 Lower than Expected at Rs. 2,87,000 crore

The borrowing schedule for the first half of FY 2010-11 came off as respite for the debt market as the front loading turned out to be a little lower than market expectations at Rs. 2,87,000 crore. The amount is also lower than Rs. 2,95,000 crore borrowed through issuance of dated securities in corresponding period last fiscal. The borrowing calendar was not only bullish in terms of the auction amount but also in respect to the maturity composition and mix of securities. According to the calendar, bond issuances worth Rs. 11,000 crore to Rs. 15,000 crore will hit the market every week. 80% of the borrowing would be conducted via issuance of short and medium dated securities leaving lower borrowings at the longer end of the curve. The borrowings have also been planned in conjunction with redemptions. However, unlike the previous year where the borrowings were cushioned by MSS de-sequestering and OMO buyback auctions, the entire government borrowings for FY 2010-11 may have to be absorbed by the market. Nevertheless, huge redemption inflow amounting to Rs. 1,14,323 crore may provide support to huge borrowing program.

Maturity Composition of Borrowing Calendar for H1



Food Inflation Rises to 17.7%

Food inflation for the week ended 27th March'10 rose steeply to 17.7% from 16.35% a week earlier as pulses, milk and fruits turned dearer. The index of food articles rose to 287.3 points from 284.7 points in the previous week. On annual basis, prices of pulses and milk have risen by 33% and 21% respectively. Considering sharp rise in inflation, RBI had hiked the repo and reverse repo rates by 25 bps each and more rate hikes are expected to prevent inflation from spreading to non food components. The fuel index grew by 12.71% while the primary articles index rose by 14.5% on an annual basis. Sharp surge in crude oil prices may further result in hardening of domestic inflation.

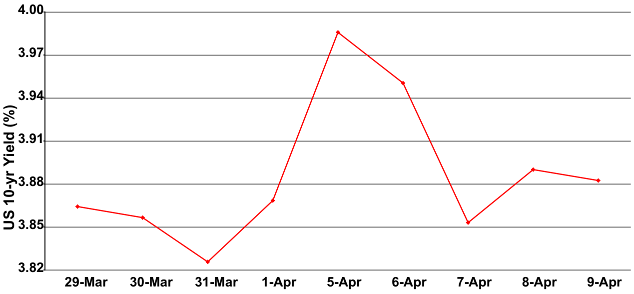
The fuel index grew by 12.71% while the primary articles index rose by 14.5%

Banks Disburse a Whopping Rs. 1,155 billion during the Fortnight

On back of record rise in bank credit amounting to Rs. 1,155 billion in fortnight ended 26th March'10, the y-o-y credit growth rate was pushed to 16.75%. The credit target for FY 2009-10 was set at 16%. The disbursals have been heavy as banks scrambled to meet year end targets. Industrial activity also boosted the pick up in credit which had reached Rs. 32,404 billion as on 26th March'10. On the other hand, banks also mobilized deposits aggregating Rs. 836 billion during

Rs. 836 billion deposits mobilised during the fortnight

Robust Economic Data Releases Diminish Demand for Safe Haven Treasuries

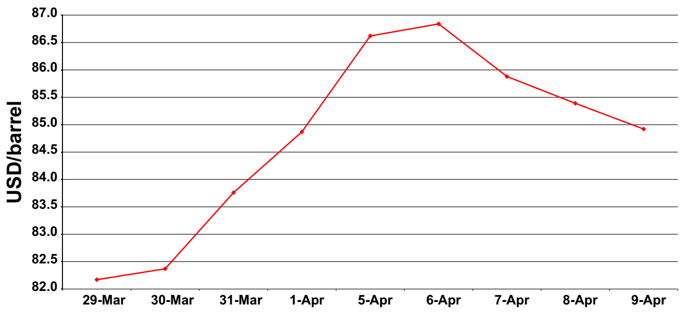


Global Economic Calendar

Date	Event
15-Apr	US Initial Jobless Claims, Apr 11 (460k)
15-Apr	US Industrial Production, Mar (0.1%)
22-Apr	US Existing Home Sales, Mar (5.02 M)

*[Figures in () are prior readings]

Weak Dollar & Strong Signals of Economic Recovery Drive Up Crude Oil Price to 18 Month Highs



the fortnight to a total outstanding of Rs. 44,866 billion. The annual growth rate of deposits stands at 17.02%. Bank investments in G-sec dipped marginally by Rs. 43 billion to Rs. 13,827 billion.

INTERNATIONAL DEVELOPMENTS

US Treasuries

US treasury yields continued to chart upwards as improving economic condition and large size of US federal borrowings kept demand for safe assets subdued. Yields headed upwards after US consumer confidence rose for the fifth successive month. Signal of improvement in US manufacturing and decline in initial jobless claims also pressurized treasuries. 10-yr yield headed towards 3.90% mark as robust US employment data triggered strong selling in treasuries. Also record sale of USD 82 billion of treasury notes in the second week of the fortnight also kept players sidelined. Strong expansion in US service industry at the fastest pace in four years and sharp surge in pending home sales further added to signs of revival in economic condition. US 10-yr yield surged sharply reaching the 4% mark in reaction to the strong data releases. However, yields at the highest level in nearly a year induced value buying. Yields fell after USD 40 billion auction of three year papers witnessed strong demand from players. After easing briefly, yields rose again at the end of the fortnight as heavy supplies weighed on sentiments. Yield on 10-yr paper closed the fortnight at 3.88% as against previous fortnight's close of 3.85%.

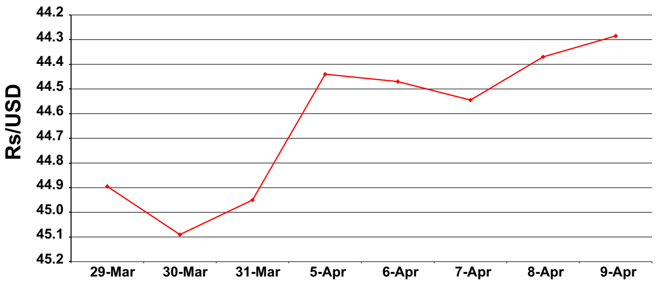
International Crude Oil

Crude oil rallied during the fortnight nearing USD 87 a barrel on back of spate of robust economic data releases in the world's biggest economy US. A weak dollar in the beginning of the fortnight triggered the rally pushing oil prices up by almost four dollars. Rise in manufacturing output in US and Euro area gave strong signals towards improvement in global economic conditions. Oil prices rose past USD 86 a barrel for the first time in nearly 18 months bolstered by robust US employment data In March US payrolls rose by an impressive 1,62,000, the highest in past three years. Sharp expansion in US service industry too boosted sentiments. However the strong rally of a week was halted after US stockpiles were reported to be much higher than estimates. Prices slid further as rise in US jobless claims turned traders cautious. Crude closed the fortnight lower at USD 84.92 a barrel on speculation that US stockpiles will rise.

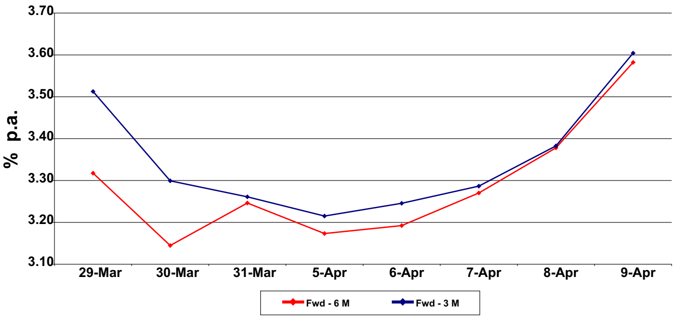
FOREX MARKET

Indian rupee rallied smartly during the fortnight as continued capital inflows and broad dollar weakness

Rupee Strengthens Sharply on Consistent Capital Inflows



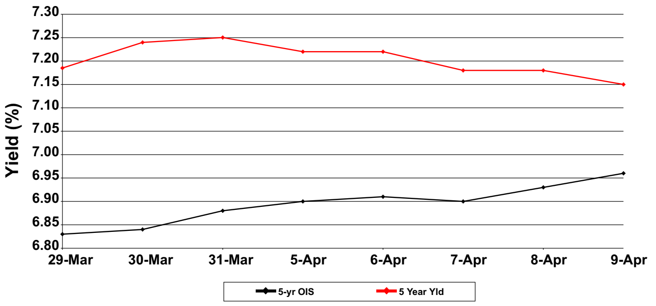
Annualised USD/INR Fwd Premia



Major Stock Indices

	26-Mar-10	9 -Apr-10	% change during the fortnight
Indian Indices			
Sensex	17,167	17,933	1.63%
Nifty	5,137	5,362	1.51%
Banking	10,341	10,896	2.45%
Healthcare	5,061	5,348	0.27%
FMCG	2,795	2,859	0.64%
IT	5,338	5,329	-3.38%
PSU	9,072	9,129	2.01%
Auto	7,573	7,816	2.52%
Capital Goods	13,784	14,459	2.73%
World Indices			
Dow Jones	10,625	10,997	1.36%
Nikkei	10,751	11,204	1.89%
FTSE	5,626	5,771	1.19%

5-Yr OIS And G-Sec Rates



pushed the domestic unit to nearly 18 month high. Rupee opened the fortnight on a strong note as dollar weakened after Euro leaders agreed to provide financial aid to support the ailing Greek economy. Though the gains were erased partially on month end dollar buying by importers, rupee strengthened sharply with the start of the new fiscal as exporters sold dollars and domestic equity markets scaled two-year peak. Strong capital inflows in rising domestic equities accentuated rise in rupee value. Rupee took a breather and declined on likely intervention by the central bank. However the domestic currency reverted back on talks of revaluation of Yuan. Rupee closed the fortnight on a strong note as gains in domestic stock market and dollar losses in overseas market boosted confidence in the domestic unit. Rupee closed the fortnight at 44.29/USD as against previous fortnight's closing of 45.24/USD.

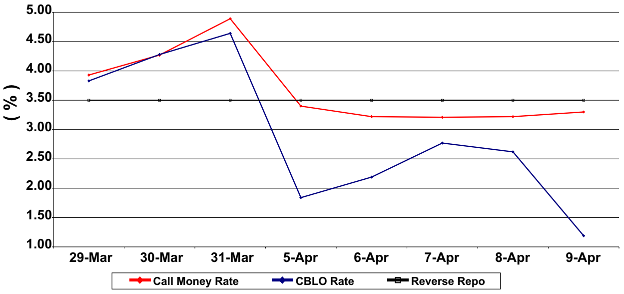
EQUITY MARKET

Domestic stock markets witnessed a strong rally during the fortnight backed by heavy capital inflows amid positive global cues. Optimism over financial aid to the ailing Greek economy spurred buying in global equities in the beginning of the fortnight. After declining on profit booking by players, equity markets inched up consistently buoyed by expectation of strong corporate earnings. Robust outlook of the Indian economy also raised hopes of attracting capital inflows. Strong car and cement sales figure further added to the euphoria. Positive comments from government officials regarding growth prospects of the Indian economy also underpinned sentiments. The benchmark index Sensex crossed the crucial 18,000 mark on continued optimism over Indian markets. However the rally was snapped and Sensex plunged by a whopping 256 points in tandem with sell off in global equities on expectation of credit default by Greece. On the last trading day, equity markets rebounded smartly on aggressive buying by foreign funds in expectation of robust earning growth. On back of the rally, Sensex and Nifty registered a rise of 1.63% and 1.51% respectively during the fortnight. Globally also, Dow Jones gained 1.36% over the previous fortnight.

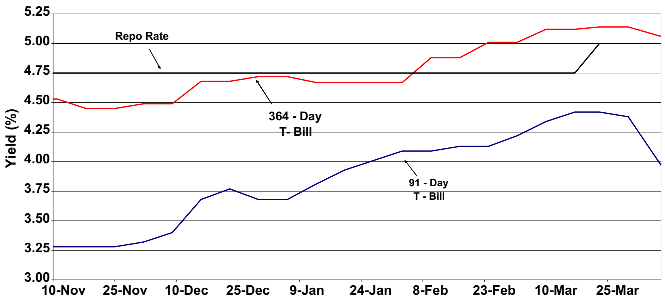
INTEREST RATE DERIVATIVES

Swap rates remained steady during the first half of the fortnight as players awaited the borrowing calendar for clarity. Though rates eased marginally in reaction to lower supplies slated for the first half of FY 2010-11, the size of the borrowings for the year prevented sharp easing. Rates however edged up in the second half of the fortnight tracking sharp rise in US treasury yields. Higher food inflation at 17.7% also dampened

After Rising Sharply Money Market Rates Retreat as Banks Resume Lending with the Start of New Fiscal



Yield Movement - 91 Day and 364 Day T- Bills



sentiments. Though ample liquidity in the system resulted in some paying, volumes remained largely subdued. 5-yr swap rates traded in a range of 6.83% - 6.96% during the fortnight and closed at 6.96%. While, 5-year MIFOR moved in a range of 6.25% - 6.35% and closed the fortnight at 6.30%, 5 bps below previous fortnight's level of 6.35%.

MONEY MARKET

Money market rates rose steeply with the beginning of the new reporting fortnight as banks refrained from lending ahead of financial year closing. Year-end redemption pressure also kept mutual funds away from money markets. Call rates neared 5% mark on the last day of FY 2009-10. However, in the second week of the fortnight, money market rates dipped as banks resumed lending in the new financial year. Further with mutual funds becoming active again, pressure on CBLO rates eased further in the second half of the fortnight. During the fortnight, RBI absorbed funds aggregating Rs. 63,875 crore on a daily average basis during the fortnight. The central bank also infused liquidity in the first half of the fortnight aggregating Rs. 9,540 crore on three days. Call rates ended the fortnight at 3.30% versus previous fortnight's level at 3.70%. While CBLO rates ended the fortnight at 1.19% vis-à-vis previous fortnight's closing of 3.06%.

TREASURY BILLS

Primary Market

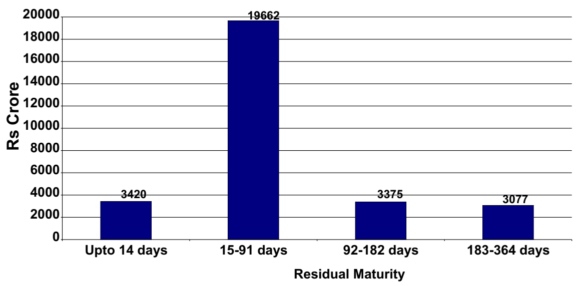
During the fortnight, government raised Rs. 12,000 crore though issuance of T-bills. In the first auction of the fortnight owing to small auction quantum of Rs. 3,000 crore, yields dipped marginally on both and 91 day 182 day T-bills. In the second auction, yields

Details of all the Treasury bill auctions held in the fortnight ended 9th April 2010 have been tabulated as under:

(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
Date Of Auction	30 Mar	7 Apr	30 Mar	7 Apr
Cut-off Price (Rs)	98.92	99.02	97.75	95.20
Implicit Yield (%)	4.38	3.97	4.62	5.06
Weighted Avg. Yield (%)	4.34	3.93	4.57	5.03
Competitive Bids Received	4910.50	27842.00	2670.00	5410.00
Competitive Bids Accepted	2000.00	7000.00	1000.00	2000.00
Non-Competitive Bids Accepted	Nil	Nil	Nil	25.20
Total Bills Issued	2000.00	7000.00	1000.00	2025.20
Of which MSS	Nil	Nil	Nil	Nil

SGL Volumes - Treasury Bills



declined sharply as ample liquidity in the system resulted in high demand for short term papers. Yield on 91 day T-bill declined below 4% after a gap of 10 weeks. Cut off yield on 91 day T-bill declined to 3.97% from 4.42% in the previous fortnight. While 182 and 364 day T-bill were sold at a cut off yields of 4.62% (4.68% in previous fortnight) and 5.06 % (5.14% in previous fortnight) respectively.

Secondary Market

Trading volumes during the fortnight rose sharply to Rs. 29,535 crore vis-à-vis previous fortnight's level of Rs. 12,1374 crore. Ample liquidity in the system boosted demand for T-bills in both primary and secondary market as well. Average daily trading volume stood at Rs. 3,692 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs 19,662 crore was witnessed in the 15 - 91 days residual maturity bucket. During the fortnight Mutual Funds, Public Sector banks, were net buyers while Foreign Banks, Private Sector Banks and Primary Dealers were net sellers.

CORPORATE BOND MARKET

Secondary Market

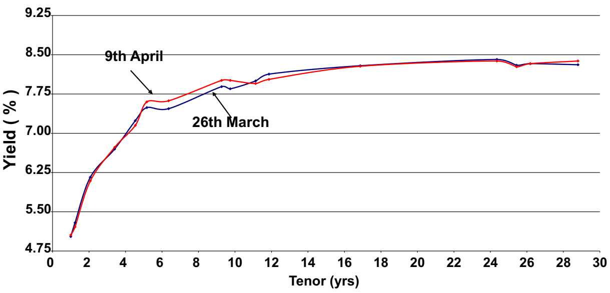
Indian corporate bond yields declined in the beginning of the fortnight as lower debt supplies for the first half of FY 2010-11 helped ease crowding out concern. However traders remained cautious ahead of auction announcement. Yields remained steady and traded in a range as players awaited G-sec auction results on cues on market appetite for debt. However corporate bond yields rose at the end of the fortnight tracking G-sec yields as sharp surge in food inflation rekindled expectations of aggressive tightening by the central bank.

GOVERNMENT SECURITIES

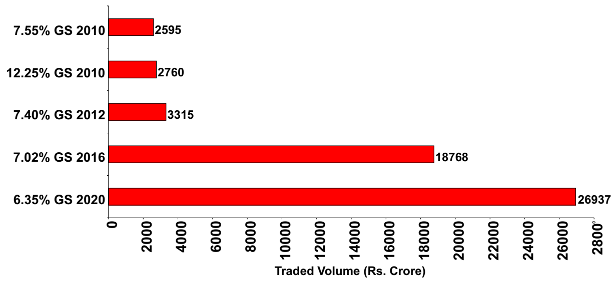
Primary Market

RBI commenced with the government borrowing program for FY 2010-11 and raised Rs. 12,000 crore in the first auction of the fiscal. GOI raised Rs. 12,000 crore through issue of 2-yr paper, 6.85% GOI 2012 (Rs. 5,000 crore), 10-yr paper, 6.35% GOI 2020 (Rs. 5,000 crore) and 17-yr paper, 8.24% GOI 2027 (Rs. 2,000 crore). Papers were completely underwritten at a fee of 0.28 paise, 0.70 paise and 1.38 paise respectively. While players bid aggressively in the short term paper the 10-yr and 17-yr papers witnessed weak demand. 6.85% GOI 2012 was subscribed at higher than expected price of Rs. 101.60 (YTM: 5.98%) with bid to cover ratio of 2.93. On the other hand, 10-yr paper, 6.35% GOI 2020 was sold at a lower than expected price of Rs. 89.20 (YTM: 7.96%), while 8.26% GOI 2027 was subscribed at Rs. 99.70 (YTM: 8.29%).

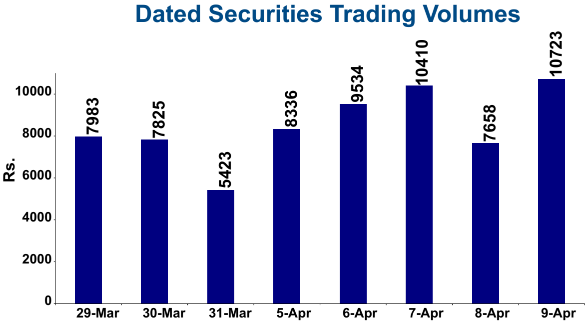
Yields Curve Movement Over the Fortnight



Most Traded Securities



Dated Securities Trading Volumes



IIP & WPI inflation figures shall be crucial

Secondary Market Developments

Bond market opened the fortnight on a strong note as yields declined to their lowest levels in over a month boosted by lower than expected government borrowings for the first half of FY 2010-11. The gross borrowings for H1, which have been set at Rs. 2,87,000 crore turned out to be lower compared to market anticipation. Also the composition of the calendar, which comprises of 80% of the borrowing through issuance of short and medium tenor papers also boosted sentiments. However, yields edged up on the last day of FY 2009-10 on profit booking by players. With the start of the new financial year, yields retreated as ample liquidity in the system propelled demand for bonds. Reissue of the existing 10-year benchmark paper, 6.35% GOI 2020 for the first auction of FY 2010-11, further accentuated the fall in yields. However sharp rise in weekly food inflation rate dampened sentiments driving up 10-yr yield by 6 bps. On the last trading day 10-yr yield rose past 8% as weak demand in primary auction of Rs. 12,000 crore and unexpected devolvement of the 10-yr benchmark paper at higher than anticipated yield worsened sentiments. Subsequently, yield on 6.35% GOI 2020 ended the fortnight at 8.01% vis-à-vis previous fortnight's closing of 7.85%. While spread between 30-yr and 1-yr papers rose marginally to 333 bps from 328 bps in the previous fortnight.

Trading Volumes

Total traded volumes remained subdued during the fortnight at Rs. 67,893 crore vis-à-vis previous fortnight's level of Rs. 53,467 crore. The first week's average daily trading volume stood at Rs 7,077 crore vis-à-vis second week's level of Rs. 9,332 crore. The highest single day trading volume was Rs. 10,723 crore. 6.35% GOI 2020 and 7.02% GOI 2016 cornered 844% of the top five traded securities volume. During the fortnight Public Sector Banks and Mutual Funds were net buyers while Foreign Banks, Private Sector Banks and Primary Dealers were net sellers.

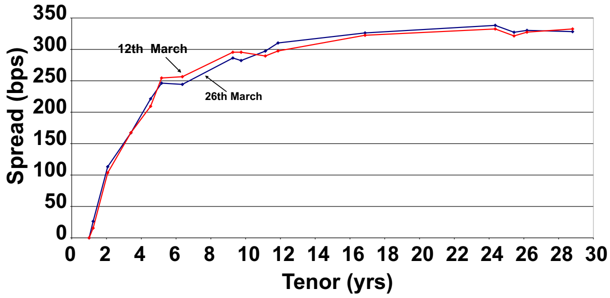
OUTLOOK

Bond yields closed the previous fortnight near three week highs on disappointing results in the first auction of FY 2010-11. Sharp surge in food inflation also intensified concerns of another rate hike before the policy meet on 20th April'10. Bond market is expected to enter the new fortnight on cautious note as some important data releases may prompt players to remain sidelined. Industrial growth and monthly WPI inflation figure to be released in the coming fortnight may give important cues to the market in the run up to the policy meet due in the second week of the fortnight. The WPI inflation rate is expected to cross the double digit mark on back of stubborn food prices and sharp surge in fuel prices. The policy meet will be the major trigger for the bond market and the same will set course for further yield movement.

SPREAD MONITOR

	TTM (yrs)	YTM 26-Mar	YTM 9-Apr	Change in YTM (bps)
364 Day T Bill	1.00	5.03	5.05	3
9.39% GOI 2011	1.23	5.29	5.21	-8
7.40% GOI 2012	2.07	6.16	6.09	-7
7.32% GOI 2014	4.53	7.24	7.15	-9
6.49% GOI 2015	5.17	7.49	7.60	11
7.02% GOI 2016	6.36	7.47	7.62	15
6.90% GOI 2019	9.27	7.89	8.01	12
6.35% GOI 2020	9.74	7.85	8.01	16
7.94% GOI 2021	11.13	8.00	7.95	-5
8.20% GOI 2022	11.86	8.13	8.03	-10
8.24% GOI 2027	16.87	8.29	8.28	-1
7.50% GOI 2034	24.35	8.41	8.38	-3
7.40% GOI 2035	25.44	8.30	8.27	-3
6.83% GOI 2039	28.80	8.31	8.38	7

Spread Over One-Year Paper



CASH FLOWS FOR THE FORTHCOMING FORTNIGHT
GOVERNMENT SECURITIES

(Rs. crore)

INFLOWS			OUTFLOWS		
Date	**Security**	**Coupon Receipts**	**Date**	**Security**	**Scheduled auction amount**
12-Apr	7.59% GS 2016	1898	15-Apr	7.38% GS 2015	6000
16-Apr	7.37% GS 2014	1548		8.20% GS 2022	4000
	9.85% GS 2015	493		8.28% GS 2032	3000
	7.49% GS 2017 (con)	1798	19-Apr to 23-Apr	5-9 year	5000-6000
19-Apr	10.71% GS 2016	482		10-14 year	4000-5000
20-Apr	7.32% GS 2014	659		15-19 year	2000-3000
21-Apr	12.00% GS 2011	195			
22-Apr	8.24% GS 2018	2060			
	10.70% GS 2020	321			
Total Inflows		**9,452**	**Total Outflows**		**25,000**

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