

# GILT NEWS

for the fortnight ended 23 April, 2010

## Economy & Financial Markets Review

### Domestic Developments

RBI raises policy rates in the third phase of exit in its annual monetary policy for FY 2010-11

Repo, Reverse Repo and CRR hiked by 25 bps each to 5.25%, 3.75% and 6.00% respectively

GDP & inflation projection for FY 2010-11 at 8.0% and 5.5% respectively

### International Developments

Conservative comments by Fed regarding economic growth help ease US treasury yields

Benchmark 10-yr US treasury yield declines by 7 bps to end the fortnight at 3.81%

Crude oil price ends the fortnight marginally higher at USD 85.12 as against previous closing of USD 84.92 a barrel

### G-sec Market

Indian bond yields decline cheered by marginal hike in policy rates

Government borrows Rs. 25,000 crore during the fortnight

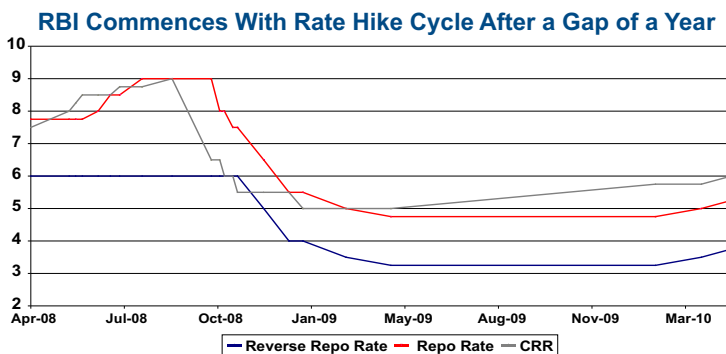
Yield on 6.35% GOI 2020 ends the fortnight at 8.06% after touching a high of 8.13%

### Money Market

Call money rates rise and adjust in the new LAF corridor

RBI absorbs funds to the tune of Rs. 50,245 crore on a daily average basis during the fortnight

Call and CBLO rates end the fortnight at 3.65% and 2.08% respectively



### MACROECONOMIC INDICATORS

(Rs. Billion)

	As on 9th April'10	Variation over the fortnight	Variation over LRF of March	YOY % growth
Aggregate Deposits	45,301	435	435	15.98
Bank Credit	32,412	8	8	17.05
Non - food Credit	31,931	12	12	17.29
Banks Investment in G-Sec	14,482	725	725	16.67
Broad Money M3	56,401	568	605	15.55
Reserve Money 16/04	11,333	(237)	220	20.27
Market Stabilisation Scheme Outstanding 16/04	27	0		
Forex Reserves (USD bn) 16/04	280	1.0	1	10.94
Credit - Deposit Ratio	71.55			
LAF Repo Rate (%)	5.25			
LAF Reverse Repo Rate (%)	3.75			
Cash Reserve Ratio (%)	6.00			

### Forex Market

Rise in dollar against euro pressurizes rupee

Rupee ends the fortnight at 44.44/USD vis-à-vis previous fortnight's level of 45.29/USD

Fortnightly average of 3M & 6M fwd annualized premia at 3.49% & 3.44% as against previous fortnight's level of 3.35% & 3.29% respectively

### Equity Market

Equity markets witness intense selling in first half on rate hike concerns

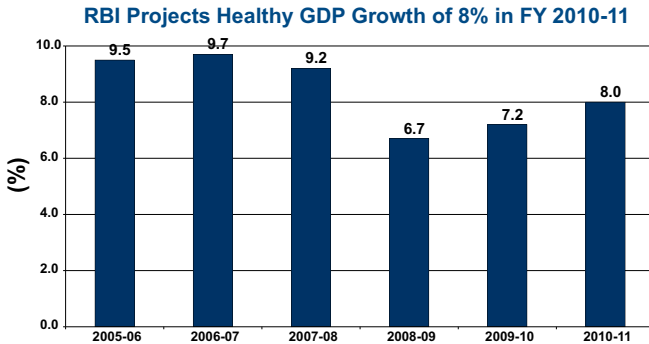
Sensex and Nifty decline by 1.33% & 1.08% respectively



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## DOMESTIC DEVELOPMENTS

### RBI Hikes Key Policy Rates by 25 bps each

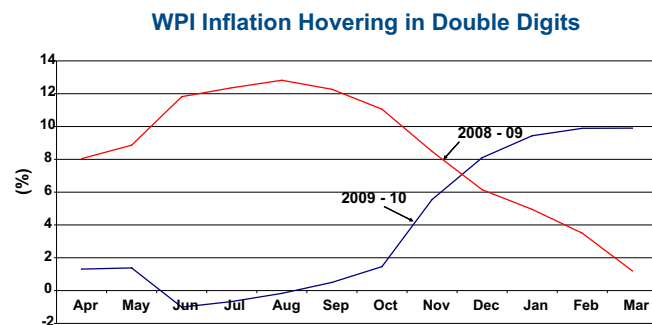


#### Targeted Growth Rates for Various Macroeconomic Indicators

Indicators	Revised Estimates (2009-10) (%)	Initial Estimates 2010-11 (%)
GDP Growth	7.5	8.0
WPI Inflation Rate	8.5	5.5
Credit Growth	16.0	20.0
Money Supply	16.5	17.0

In the annual monetary policy for FY 2010-11, anchoring inflationary expectations took the center stage as RBI resolved to respond in a swift and effective manner against further build up in inflationary pressures. In the third phase of exit, RBI raised the repo and reverse repo rates by 25 bps each to 5.25% and 3.75% respectively. The cash reserve ratio was also increased by 25 bps to 6.00% w.e.f from 24<sup>th</sup> April'10 and the same shall drain out liquidity to the tune of Rs.12,500 crore from the system. The rate hikes were broadly in line with market expectations and are meant to reign in rising inflationary pressures without derailing the economic recovery. In the policy the central bank clearly asserted the need to address inflation which is currently hovering above RBI's target of 8.5% for March'10 end. RBI is faced with a herculean task to support growth, arrest clambering inflation and conduct government borrowings smoothly. On the growth front though the downside risks to economic activity have waned off considerably, an uncertain global environment may have an adverse impact on the domestic economy. Nevertheless, comforted by sustained growth in industrial output and resilience of the services sector, RBI has given a rather optimistic growth outlook pegging GDP growth for FY 2010-11 at 8.00% with an upward bias.

With regard to inflation, RBI expressed concern over re-emergence of demand side pressures as reflected by rise in non-food inflation. Non-food manufacturing inflation has risen from 0.4% in Nov'09 to 4.7% in March'10. Further, rise in administered fuel prices has further exerted upward pressure on inflation. Going forward monsoon behaviour clubbed with movement in international crude oil prices will hold the key to inflation movement in FY 2010-11. RBI target for the headline inflation for March'11 stands at 5.5%.

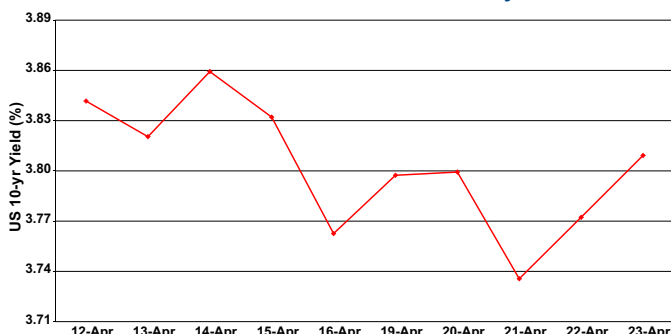


RBI also acknowledged that smooth conduct of mammoth government borrowings posed as a major challenge and that it does not get hampered while draining out excess liquidity. With regard to monetary aggregates, in line with expected improvement in private demand and economic activity, RBI raised the credit growth projection to 20% as against 16% for the previous year. While deposit and money supply growth have been projected at 18% and 17% respectively.

#### Impact

The annual monetary policy cheered both equity and bond markets as the rate hikes came along expected lines. Though RBI's concern over rising inflation was quite explicit, its clear indications of hiking rates in a calibrated and gradual manner so as to ensure steady economic growth gave respite to the markets. Bond yields eased to one-week lows in reaction to the marginal

**Fed's Resolve to Maintain Interest Rates at Historic Lows Pushes Down US Treasury Yields**

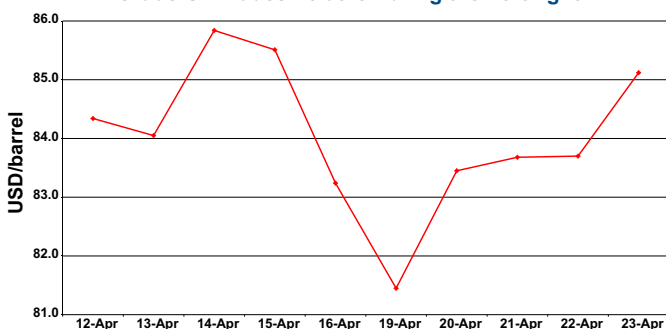


**Global Economic Calendar**

Date	Event
27-Apr	US Consumer Confidence, Apr (52.5)
28-Apr	US FOMC Meet
30-Apr	US Core PCE QoQ, 1Q (1.8%)
	US GDP QoQ, 1Q (5.6%)
	BoJ Monetary Policy Meet
3-May	US ISM Manufacturing, Apr (59.6)
4-May	US Pending Home Sales YoY, Mar (17.3%)
	US Factory Orders, Mar (0.6%)
7-May	US Unemployment Rate, Apr (9.7%)

\*[Figures in () are prior readings]

**Crude Oil Trades Volatile During the Fortnight**



hike in policy rates.

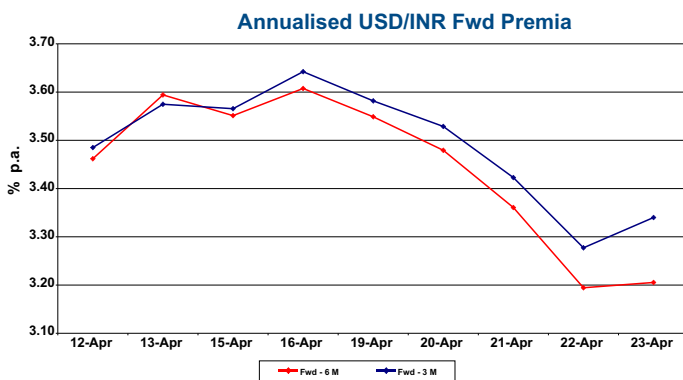
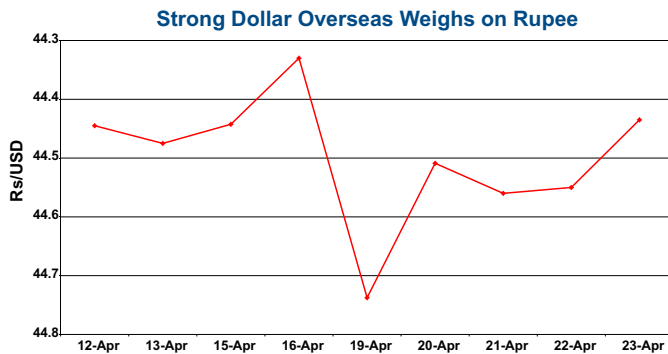
**INTERNATIONAL DEVELOPMENTS**

**US Treasuries**

With outlook for inflation remaining subdued, treasuries witnessed strong support at 1-yr high levels and long-term yields eased marginally in the beginning of the fortnight. 10-yr paper witnessed strong demand near 4% levels while 30-yr securities found support at 4.75%. Conservative statement regarding economic growth by Fed chairman and reiteration of their resolve to maintain interest rates at low levels for extended period further boosted demand for US treasuries. Decline in consumer confidence and charges of fraud against Goldman Sachs Group Inc. helped treasuries in posting gains in second consecutive week. 10-yr yield declined to 3.76% from 3.88% during the previous week. However, treasuries failed to maintain the momentum in the second half of the fortnight and selling pressure resulted in firming up of yields. 10-yr yield witnessed strong resistance at 3.75%. Rebounding of stock markets also increased demand for higher yielding assets. In addition, Canadian Central Bank signaled that it may increase interest rates which further dampened the market sentiments. Further, announcement of auction of short-term securities led to rise in yields at the short end of the curve. Spread between 2-yr and 10-yr yields declined to almost a month low as traders speculated on timing of interest rate hikes by Fed. Concerns regarding default by Greece provided some buying support to treasuries. However, the same was soon nullified by release of reports showing further improvement in US economic condition and announcement of hefty auction amount. Yield on 10-yr paper closed the fortnight at 3.81% as against previous fortnight's close of 3.88%.

**International Crude Oil**

Crude oil traded volatile during the fortnight after witnessing sharp rally in the previous fortnight. Prices rose sharply past USD 85 a barrel in the beginning of the fortnight after US inventories declined unexpectedly. Rise in US retail sales in March also boosted sentiments. However, prices plunged thereafter as jobless claims surged to two-month high raising concerns over economic recovery. Lower than anticipated rise in industrial production further added to the selling pressure. Oil prices declined the most in 10 weeks as serious allegations on Goldman Sachs over fraud involved in collateralized debt obligations resulted in a selling spree in global equity markets. Further, gains in dollar against the euro and decline in demand for jet fuel following the eruption of volcano in Iceland also put downward pressure on oil price. However in the second week of the fortnight, oil prices recovered and bounced back as air space in euro area commenced with its flights raising demand for jet fuel. Better than estimated corporate earnings further boosted oil prices. At the end of the



### Major Stock Indices

	9-Apr-10	23-Apr-10	% change
<b>Indian Indices</b>			
<b>Sensex</b>	17,933	17,694	-1.33%
<b>Nifty</b>	5,362	5,304	-1.08%
<b>Banking</b>	10,896	11,074	1.63%
<b>Healthcare</b>	5,348	5,323	-0.45%
<b>FMCG</b>	2,859	2,887	0.99%
<b>IT</b>	5,329	5,381	0.99%
<b>PSU</b>	9,129	9,031	-1.08%
<b>Auto</b>	7,816	7,771	-0.58%
<b>Capital Goods</b>	14,459	14,107	-2.43%
<b>World Indices</b>			
<b>Dow Jones</b>	10,997	11,204	1.88%
<b>Nikkei</b>	11,204	10,914	-2.59%
<b>FTSE</b>	5,771	5,724	-0.82%

fortnight, oil gained further momentum as dollar weakened against the euro following positive development on the Greece financial bailout package. Consequently crude oil closed the fortnight at USD 85.12 as against USD 84.92 in the previous fortnight.

### FOREX MARKET

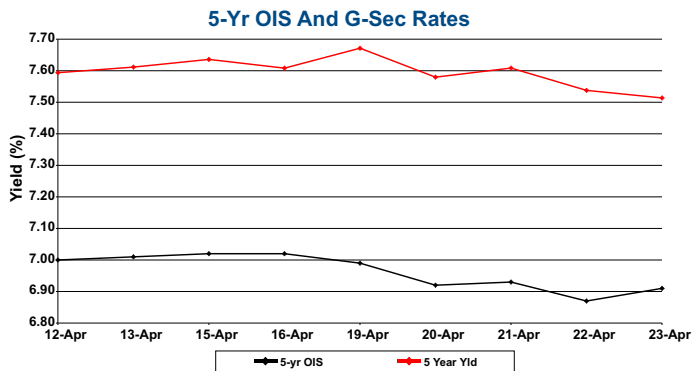
Indian rupee remained highly volatile during the fortnight. Dollar short-covering pushed rupee lower in the beginning of the fortnight. Traders had built short dollar positions late last week on speculation that Beijing was close to allowing the yuan to rise. However, absence of any such measures prompted players to cover their positions. Dollar selling by exporters provided some support to rupee. Inflows in equity market towards share sale by big infrastructure firm helped rupee post gains in the end of the first half of the fortnight. Strengthening of dollar on concerns of default by Goldman Sachs and lower share prices weighed down sentiment in the beginning of the second week. Rise in dollar value to two week high levels against Euro dampened market sentiments and market witnessed flight to safety in dollars. Corporate demand for dollar too pulled rupee lower. Towards the end of the fortnight, rise in equity market and expectations of further inflows in share sale improved sentiments. Rupee closed the fortnight at 44.44/USD as against previous fortnight's closing of 44.29/USD.

### EQUITY MARKET

Domestic stock markets declined during the fortnight on concerns over rate hike by RBI. Fears over rate hike led to selling spree in banking and other interest rate sensitive stocks. Subdued global markets sentiments too failed to support domestic markets. Revision of rating of Reliance by S&P to Stable from negative provided some support to the market but failed to maintain the momentum and erased most of the gains on the back of weak European markets and emergence of selling pressure. Tussle between SEBI & IRDA over on regulating Unit- Linked Insurance Policies dampened market sentiments. Markets started the second week on negative note falling in line with global markets as news of fraud charges against the US investment bank Goldman Sachs dampened market sentiment. However, lower-than-expected interest rate hike by RBI in its annual policy meet improved market sentiments considerably and Financial stocks led the rally. Market maintained the rising momentum during the later half of the week and rose by around 250-points in the last two days. Sensex and Nifty declined by 1.33% and 1.08% respectively during the fortnight. Globally, Dow Jones gained 1.88% over the previous fortnight.

### INTEREST RATE DERIVATIVES

Swap rates firmed up in the first half of the fortnight as traders continued to reverse their received positions



ahead of policy meet. Expectations of rise in key interest rates in the policy led to sharp paying pressure resulting in 5-yr swap rates rising above 7% level. 18-month high inflation data too pushed swap rates higher. Swap rates eased marginally in the beginning of the second fortnight helped by risk aversion triggered by concerns over default by Goldman Sachs. Swap rates eased by over 5 bps after policy announcement as RBI delivered lower than expected policy rate hikes. 5-yr swap rates traded in a range of 6.87% - 7.02% during the fortnight and closed at 6.91%. While, 5-year MIFOR moved in a range of 6.15% - 6.35% and closed the fortnight at 6.15%, 15 bps below previous fortnight's level of 6.30%.

### MONEY MARKET

Money market rates remained easy during the fortnight and remained close to reverse repo rate. With the interest payments and redemptions offsetting the outflows towards T-bills and bond sales liquidity remained comfortable. However, liquidity as reflected by reverse repo absorption declined to Rs. 15,775 crore from Rs. 56,755 crore in the beginning of the fortnight before rising to Rs. 77,215 crore at the end of the fortnight. Call rates climbed to new reverse repo levels after RBI raised key interest rates by 25 bps in its annual policy meet.

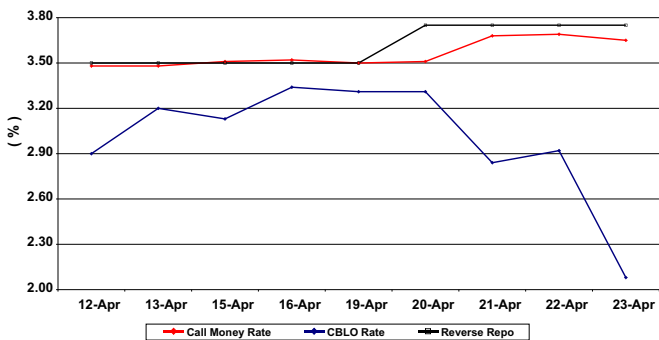
During the fortnight, RBI absorbed funds aggregating Rs. 50,245 crore on a daily average basis during the fortnight. Call rates ended the fortnight at 3.65% versus previous fortnight's level at 3.30%. While CBLO rates ended the fortnight at 2.08% vis-à-vis previous fortnight's closing of 1.19%.

### TREASURY BILLS

#### Primary Market

During the fortnight, government raised Rs. 18,000 crore through issuance of T-bills. GOI issued Rs. 7,000 crore worth of 91-day T-bill in both week and 182-day T-bill and

**Call Rates Rise After RBI Hikes Key Policy Rates by 25 bps Each**

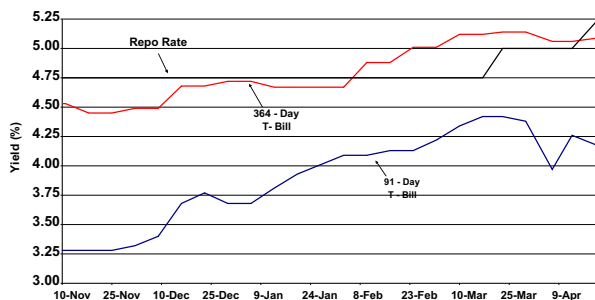


Details of all the Treasury bill auctions held in the fortnight ended 23<sup>rd</sup> April 2010 have been tabulated as under:

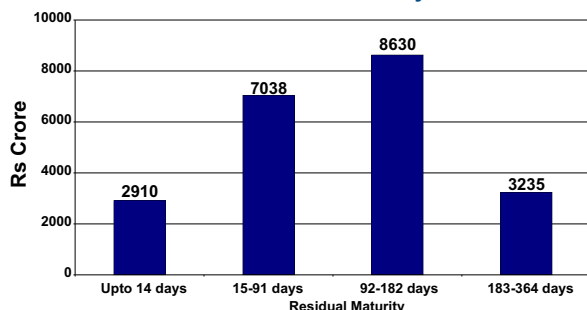
(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
	13 Apr	21 Apr	13 Apr	21 Apr
Cut-off Price (Rs)	98.95	98.97	97.70	95.17
Implicit Yield (%)	4.26	4.17	4.72	5.09
Weighted Avg. Yield (%)	4.09	4.17	4.57	5.08
Competitive Bids Received	15857.41	21965.97	3220.45	8060.00
Competitive Bids Accepted	7000.00	7000.00	2000.00	2000.00
Non-Competitive Bids Accepted	Nil	Nil	Nil	Nil
Total Bills Issued	7000.00	7000.00	2000.00	2000.00
Of which MSS	Nil	Nil	Nil	Nil

**Yield Movement - 91 Day and 364 Day T- Bills**



**SGL Volumes - Treasury Bills**



364-day T-bill auctions were conducted for Rs. 2,00 crore each. In the first week, yields remained high as investors demanded higher yield in anticipation of hike in key interest rates by RBI in the next week. Resultantly, 91-day T-bill cut-off yield climbed to 4.26% from 3.97% during the previous week. Bid-to-cover ratio for 182-day T-bill remained below 2 and cut-off yield rose to 4.72% from 4.62% during the previous fortnight. In the second week, cut-off on 91-day T-bill declined to 4.17% while 364-day T-bills were sold at 5.09%.

**Secondary Market**

Trading volumes during the fortnight declined marginally to Rs. 21,813 crore vis-à-vis previous fortnight's level of Rs. 29,535 crore. Average daily trading volume stood at Rs. 2,424 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs 19,662 crore was witnessed in the 92 - 182 days residual maturity bucket. During the fortnight Mutual Funds and Public Sector banks were net buyers while Foreign Banks, Private Sector Banks and Primary Dealers were net sellers.

**CORPORATE BOND MARKET**

Indian corporate bond yields rose consistently during the first week on expectations of steep rise in key interest rates by RBI. Short-term yields surged further on expectations that the monthly inflation rate would touch double digits. However, the extent of rise in long-term yields was slightly lower as lack of volumes prevented rise in yields. After announcement of token rise in interest rates by RBI, short-term corporate bond yields eased significantly. Decline in G-sec yields too supported market sentiments. Towards the end of the fortnight, forecast of normal monsoon by weather department too boosted market sentiments.

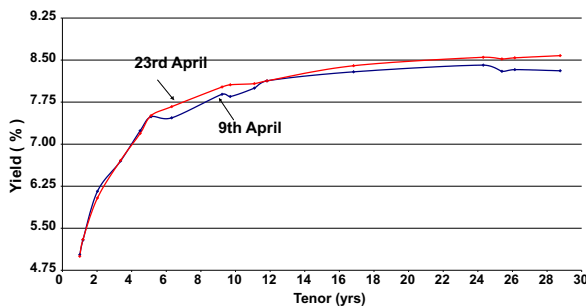
**GOVERNMENT SECURITIES**

**Primary Market**

In the first week of the fortnight, Government raised Rs. 13,000 crore through issue of 5-yr paper, 7.38% GOI 2015 (Rs. 6,000 crore), 12-yr paper, 8.20% GOI 2022 (Rs. 4,000 crore) and 22-yr paper, 8.28% GOI 2032 (Rs. 3,000 crore). Since the auctioned papers were illiquid, PD's demanded higher underwriting fee in the auction. Papers were completely underwritten at a fee of 2.03 paise, 4.48 paise and 3.92 paise respectively. However, as against expectations, the auction was not devolved on primary dealers. 7.38% GOI 2015 was subscribed at a price of Rs. 98.60 (YTM: 7.70%) with bid to cover ratio of 2.11. On the other hand, 12-yr paper, 8.20% GOI 2022 was sold at Rs. 98.97 (YTM: 8.34%), while 8.28% GOI 2032 was subscribed at Rs. 96.57 (YTM: 8.63%).

In the second week, GOI raised Rs. 12,000 through issue of 7.02% GOI 2016 (Rs. 6,000 crore), FRB 2020 (Rs. 3,000 crore) and 8.26% GOI 2027 (Rs. 3,000 crore). Papers were completely underwritten at a fee of 0.48 paise, 0.82 paise and 1.22 paise respectively. All papers witnessed good demand

### Yields Curve Movement Over the Fortnight

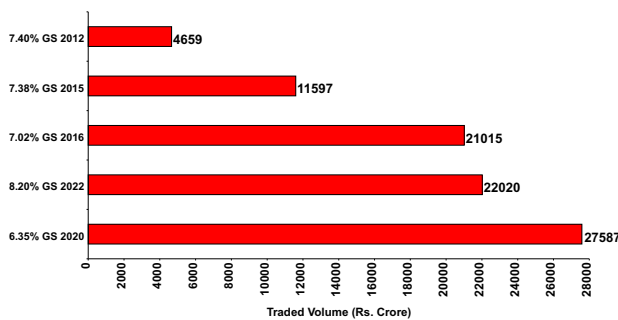


and bid-to-cover remained above 2. FRB 2020 was fully subscribed at Rs. 92.30 while 7.02 GOI 2016 was subscribed at Rs. 96.90 (YTM: 7.65%). 17-yr paper 8.26% GOI 2027 was fully subscribed at Rs. 98.45 (YTM: 8.43%).

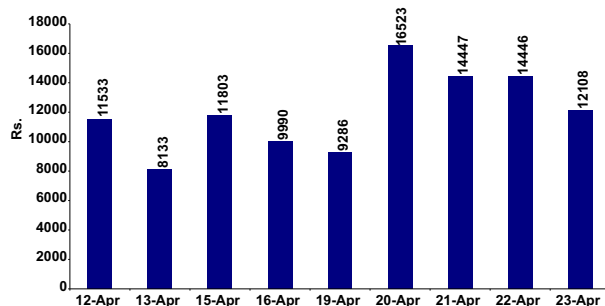
### Secondary Market Developments

Bond yields remained range bound and hovered near 19-month peak in the first week of the fortnight as traders remained jittery after the first auction of the fiscal witnessed poor demand. Devolvement of the 10-yr paper at higher than expected yield weighed on sentiments. Further expectation of WPI inflation crossing 10% mark raised worries of aggressive monetary tightening by the central bank. Players also preferred to stay light ahead of the annual monetary policy. Yields eased to nearly a week's lows after policy rate hikes came on expected lines. Marginal hike of 25 bps in the policy rates and cautious comments by the central bank on pace of tightening was taken positively by the market. However, after easing briefly yields climbed up again on profit booking by players ahead of G-sec supplies to the tune of Rs. 12,000 crore. Trading interest shifted to 8.20% GOI 2022 and the paper witnessed heavy trading volumes as players turned cautious of trading in 6.35% GOI 2020 in expectation of new 10-yr paper. Subsequently, yield on 6.35% GOI 2020 ended the fortnight at 8.06% vis-à-vis previous fortnight's closing of 8.01%. While spread between 30-yr and 1-yr papers rose marginally to 358 bps from 328 bps in the previous fortnight.

### Most Traded Securities



### Dated Securities Trading Volumes Surge Post Policy Verdict



### Trading Volumes

Total traded volumes rose during the fortnight at Rs. 1,08,270 crore vis-à-vis previous fortnight's level of Rs. 67,893 crore. The first week's average daily trading volume stood at Rs 10,365 crore vis-à-vis second week's level of Rs. 13,362 crore. The highest single day trading volume was Rs. 16,523 crore. 6.35% GOI 2020 and 8.20% GOI 2020 cornered 57% of the top five traded securities volume. During the fortnight Mutual Funds were net buyers while Foreign Banks, Private Sector Banks, Public Sector Banks and Primary Dealers were net sellers.

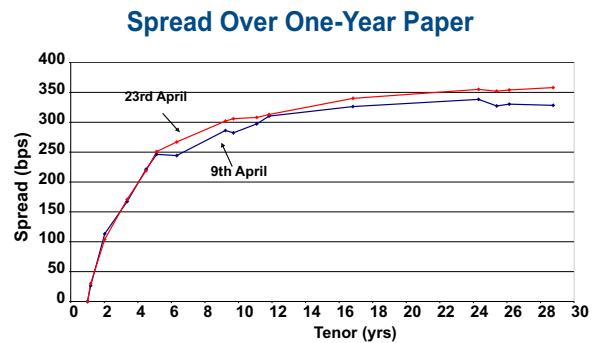
### OUTLOOK

Bond market witnessed huge respite after RBI hiked the policy rates by an expected 25 bps. 10-yr yield eased from over 18-month highs of 8.13% to 7.95% before rising to 8.06% at the end of the fortnight. Dovish stance of the central bank regarding the pace of tightening in coming quarters also boosted market sentiments. In the coming fortnight, yields are expected to open higher as traders shall keenly await announcement of auction details for the first week. Yields may drift lower boosted by forecast of normal monsoons. However, huge auction supply during the fortnight amounting to Rs. 48,700 crore may turn market sentiments cautious. Globally, US Fed meet on 28<sup>th</sup> April'10 may also provide crucial cues to the domestic market.

**Huge auction supply amounting to Rs. 48,700 crore may turn market sentiments cautious.**

## SPREAD MONITOR

	TTM (yrs)	YTM		Change in YTM (bps)
		9-Apr	23-Apr	
364 Day T Bill	1.00	5.03	5.00	-3
9.39% GOI 2011	1.19	5.29	5.30	1
7.40% GOI 2012	2.02	6.16	6.04	-12
7.32% GOI 2014	4.49	7.24	7.19	-5
6.49% GOI 2015	5.12	7.49	7.51	2
7.02% GOI 2016	6.32	7.47	7.67	20
6.90% GOI 2019	9.22	7.89	8.02	13
6.35% GOI 2020	9.70	7.85	8.06	21
7.94% GOI 2021	11.09	8.00	8.08	8
8.20% GOI 2022	11.82	8.13	8.13	0
8.24% GOI 2027	16.82	8.29	8.40	11
7.50% GOI 2034	24.31	8.41	8.55	14
7.40% GOI 2035	25.39	8.30	8.52	22
6.83% GOI 2039	28.76	8.31	8.58	27



## CASH FLOWS FOR THE FORTHCOMING FORTNIGHT GOVERNMENT SECURITIES

(Rs. crore)

INFLOWS			OUTFLOWS		
Date	Security	Coupon Receipts	Date	Security	Scheduled auction amount
27-Apr	8.00% GOI 2011	59	April 26-30	5-9 year	5000-6000
29-Apr	10.50% GOI 2014	92		10-14 year	4000-5000
30-Apr	10.45% GOI 2018	194		20-yr and above	2000-3000
3-May	7.40% GOI 2012	1221	May 3-7	5-9 year	6000-7000
3-May	7.56% GOI 2014	1550		10-14 year	5000-6000
7-May	3.91% FRB, 2016	117		15-19 year	2000-3000
				20-yr and above	2000-3000
<b>Total Inflows</b>		<b>3,233</b>	<b>Total Outflows</b>		<b>27,000</b>

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