GILT NEWS

for the fortnight ended 21st May, 2010

Economy & Financial Markets Review

Domestic Developments

WPI inflation for April'10 dips to 9.59%

Y-o-Y credit and deposit growth rate at 17.25% and 14.72% respectively

IIP growth during March'10 stands at 13.5%

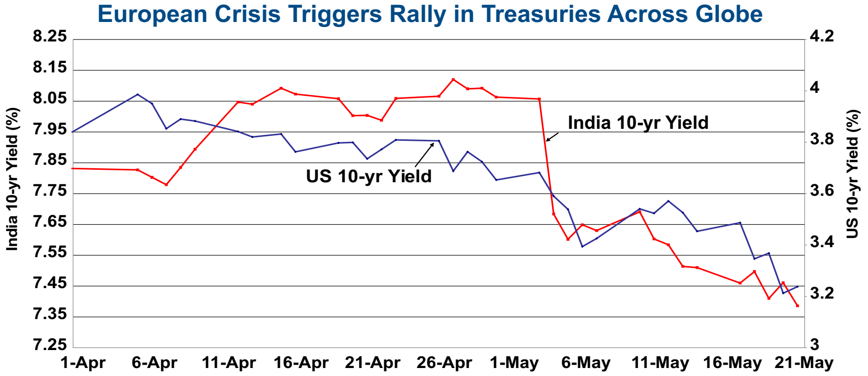
International Developments

Fears of worsening of Greek debt crisis trigger flight to safety

Benchmark 10-yr US treasury yield plunges by 19 bps to end the fortnight at 3.24%

Crude oil closes the fortnight at USD 70.04 a barrel after touching USD 68.01 during the fortnight

European Crisis Triggers Rally in Treasuries Across Globe



MACROECONOMIC INDICATORS

(Rs. Billion)

	As on 7th May'10	Variation over the fortnight	Variation over LRF of March	YOY % growth
Aggregate Deposits	45,312	245	384	14.72
Bank Credit	32,278	130	(170)	17.25
Non - food Credit	526	46	41	(4.69)
Banks Investment in G-Sec	14,219	(92)	435	13.00
Broad Money M3	56,634	410	838	14.66
Reserve Money 14/05	11,688	34	135	21.70
Market Stabilisation Scheme Outstanding 14/05	3	0		
Forex Reserves (USD bn) 14/05	273	(6.3)	(6)	7.51
Credit - Deposit Ratio	71.23			
LAF Repo Rate (%)	5.25			
LAF Reverse Repo Rate (%)	3.75			
Cash Reserve Ratio (%)	6.00			

G-sec Market

Weak global economic outlook & expectations of lower borrowing triggers rally in G-sec market

Government borrows Rs. 25,000 crore during the fortnight

GOI issues Cash Management Bills for the first time; raises Rs. 12,000 crore

Yield on 7.80% GOI 2020 declines to 7.38% from 7.64% during the previous fortnight

Money Market

Call and CBLO rates end the fortnight at 3.69% and 2.35% respectively

RBI absorbs funds to the tune of Rs. 35,764 crore on a daily average basis during the fortnight

Forex Market

Continuous decline in equity clubbed with strengthening of dollar pulls down rupee

Rupee ends the fortnight at 46.93/USD vis-à-vis previous fortnight's level of 45.48/USD

Fortnightly average of 3M & 6M fwd annualized premia at 2.59% & 2.41% as against previous fortnight's level of 3.22% & 3.08% respectively

Equity Market

Sell-off continues in equity markets

Sensex and Nifty shed 1.93% & 1.73% respectively on continued capital outflows

Name of commodity	Weights	Index as on		Y-O-Y % increase	
		31-Mar-10	30-Apr-10	31-Mar-10	30-Apr-10
All commodities (WPI)	100.00	250.8	253.7	9.90%	9.59%
Primary Articles	22.02	283.2	289.7	14.10%	13.88%
Fuel, Power, Light & Lubricants	14.23	361.8	364.0	12.71%	12.55%
Manufactured Products	63.75	214.9	216.6	7.13%	6.70%

Index of Industrial Production

	Y-O-Y % Growth over Corresponding Period in Previous Year				
	March		February	April - March	
	2009 - 10	2008 - 09	2009 - 10	2009 - 10	2008 - 09
Mining	11.00	1.90	12.20	9.70	2.60
Manufacturing	14.30	-0.30	16.00	10.90	2.80
Electricity	7.70	6.30	6.70	6.00	2.80
Overall	**13.50**	**0.30**	**15.10**	**10.40**	**2.80**

DOMESTIC DEVELOPMENTS

WPI Inflation for March Slows to 9.59%

Wholesale price inflation though a tad higher than expectations eased in April to 9.59% as against 9.90% in March, cooling expectations of an inter policy rate hike by RBI. Inflation in all the three segments viz, primary articles, fuel and manufactured products eased during the month to 13.88%, 12.55% and 6.70% respectively. However price pressure continues to persist as indicated by sharp rise in the index on a month on month basis. On a monthly basis, the wholesale price index for all commodities rose by 1.16% to 253.7 points, while that for primary articles inched up by 2.3% to 289.7 from 283.2 a month earlier. On the other hand the index for manufactured and fuel products witnessed a rise of 0.79% and 0.61% respectively over the previous month. Rise in prices of manufactured products with return of pricing power is cause of great worry as the same shall further exacerbate the inflationary pressures. Though, normal monsoons are expected to reign in food inflation in the coming months, rising demand side pressures may offset the impact of the same unless tackled by monetary measures.

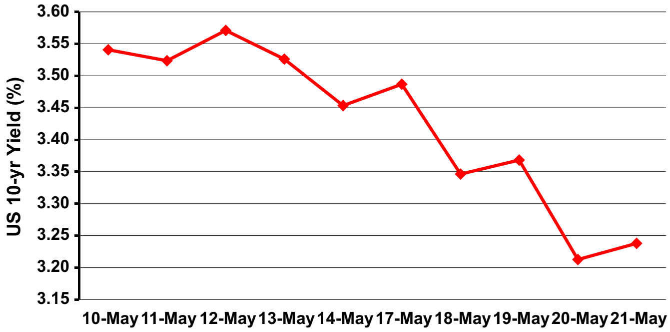
Bank Credit growth climbs to 17.25%

Indicating steady growth in demand for credit, bank credit rose by Rs. 130 billion during the fortnight ended 7th May 2010. Non food credit went up by Rs. 46 billion during the fortnight. However, the y-o-y growth rate for the same remained negative at -4.69%. During the fortnight, deposits mobilized by banks went up by Rs 245 billion primarily due to rise in time deposits, which grew by Rs 289 billion while the demand deposit fell by Rs 44 billion during the fortnight. On a year-on-year basis, deposits went up by 14.72%. With pick up in credit growth banks continue to shed investments in government securities which further dipped by Rs. 96 billion after declining by Rs. 171 billion during the previous fortnight.

IIP Grows at 13.5% in March'10

The Indian industry posted sixth consecutive double digit growth rate rising by 13.5% in March'10 taking the growth figure for FY 2009-10 to whopping 10.40%. Though a little lower than expectations and previous month's figure, the index sustained upward momentum on a month on month basis rising by 9.04% over February'10. However, high base of the previous year is likely push down yearly industrial growth rate figures further. Mining and manufacturing sector registered y-o-y growth of 11.0% and 14.30% respectively. Electricity sector registered moderate growth of 7.70% but it alone managed to register growth rate higher than that in previous month. As per the use-based classification, in the month of March 2010, capital goods and consumer durables continued to post

Concerns Over Decline in Pace of Economic Growth Spur Rally In Treasuries

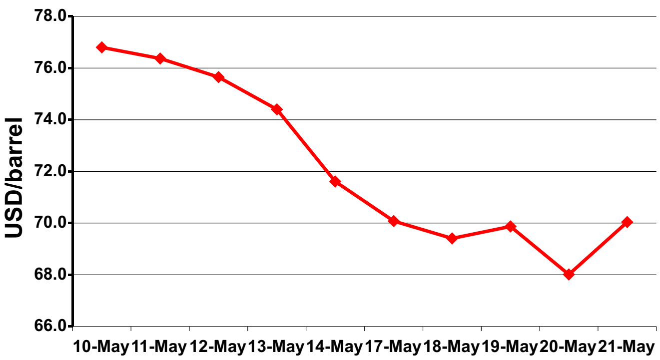


Global Economic Calendar

Date	Event
24-May	US Existing Home Sales, Apr (5.35M)
25-May	US Consumer Confidence, May (57.9)
26-May	US New Home Sales, Apr (411 K)
	US Durable Goods Orders, Apr (-1.3%)
27-May	US Core PCE QoQ, 1Q (0.6%)
	US GDP QoQ, 1Q (3.2%)
1-Jun	US ISM Manufacturing, May (60.4)
2-Jun	US Pending Home Sales YoY, Apr (23.5%)
3-Jun	US Factory Orders, Apr (1.3%)
	US Non Farm Productivity, 1Q (3.6%)
4-Jun	US Unemployment Rate, May (9.9%)
	US Non Farm Payrolls, May (290K)

*[Figures in () are prior readings]

Crude Declines on Expectations of Low Economic Growth & Strong Dollar



very strong growth of 27% and 32% y-o-y respectively adding to the robust growth of 19% and 26% y-o-y for FY 2010.

INTERNATIONAL DEVELOPMENTS

US Treasuries

US treasuries declined significantly in the beginning of the fortnight after European governments announced a loan package worth almost USD 1 trillion and European Central Bank said it will buy bonds to halt the region's debt crisis. Stabilizing economic conditions moderated appeal of safe haven investments. Yields firmed up further as government conducted auction of 10-yr paper amid waning demand. Market improved thereafter as tightening measures across Europe triggered concerns of decline in economic growth in the region. Speculations over break-up of shared currency further improved demand for treasuries. Growth momentum continued in the second week as well and US treasuries declined to their lowest level in over a year. Unexpected decline in producer prices reinforced expectations of Fed reserve keeping the interest rates at record low. Ban on naked short-selling by German government triggered flight-to-safety into US treasuries. Slide in Euro value against dollar to the lowest level in 4-yrs further boosted demand for safe US treasuries. Yields rise slightly on the last trading day as stabilizing of global equities and gains in Euro reduced appeal of safe haven securities. Yield on 10-yr paper closed the fortnight at 3.24% as against previous fortnight's close of 3.43%.

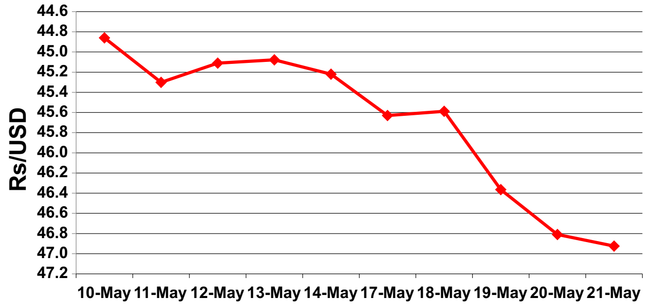
International Crude Oil

Oil started the fortnight on a positive note on rising optimism in European market after policy makers formulated USD 1 trillion plan to end the region's sovereign-debt crisis. However, crude declined thereafter on concern that the European plan will be insufficient to cut deficits accumulated by Greece, Spain and Portugal. Moreover, reports of rise in crude oil inventory for the 14th time in 15 weeks further weakened the demand for crude oil. Crude oil tumbled below USD 70 a barrel on concerns that the European debt crisis will derail global economic recovery and reduce fuel consumption. Crude oil prices retreated further as Euro approached 4-yr low level against dollar curbing the appeal of commodities. Despite ban on naked short-selling in order to avoid speculation, concerns over Europe's capability to contain the crisis continued to push crude oil prices lower. After declining to USD 68.01 a barrel, crude oil recovered towards the end to end the fortnight at USD 70.04 as against USD 75.11 in the previous fortnight.

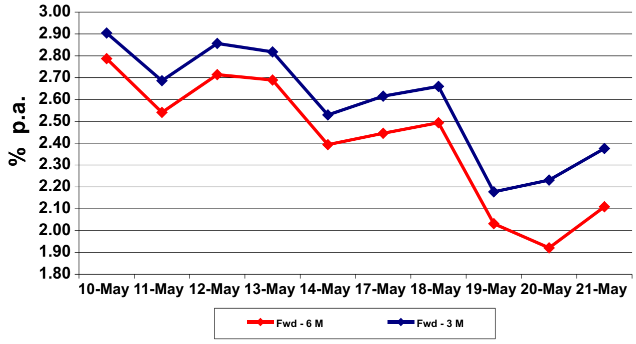
FOREX MARKET

Rupee strengthened to 14-month high level in the beginning of the fortnight as policy makers in Europe pledged almost $1 trillion in loans to ease a debt crisis,

Rupee Declines on Back of Steep Fall in Equity Markets & Strong Dollar Overseas



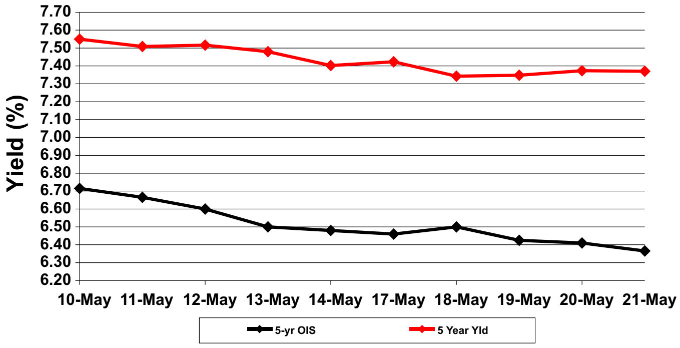
Annualised USD/INR Fwd Premia



Major Stock Indices

	8-May-10	21-May-10	% change
Indian Indices			
Sensex	16,769	16,446	-1.93%
Nifty	5,018	4,931	-1.73%
Banking	10,506	10,394	-1.07%
Healthcare	5,314	5,279	-0.67%
FMCG	2,818	2,876	2.04%
IT	5,135	5,047	-1.72%
PSU	8,907	8,842	-0.73%
Auto	7,515	7,399	-1.55%
Capital Goods	13,248	13,386	1.03%
World Indices			
Dow Jones	10,380	10,193	-1.80%
Nikkei	10,365	9,785	-5.60%
FTSE	5,123	5,063	-1.17%

5-Yr OIS And G-Sec Rates



encouraging investors to return to emerging-market assets. Rally in stock market too supported sentiments. However, rupee failed to maintain the momentum for the remaining part of the fortnight as weak global cues weighed heavy on market sentiments. Rise in Industrial Production provided some respite to the market. Worries over dampening of pace of economic growth owing to measures aimed at containing debt crisis led to fall in stock markets across the globe thereby dampening demand for rupee. Sell-off in the equity market impacted rupee which declined steeply during the second half. Foreign investors pared holdings of emerging market stocks after Germany banned some speculative investments to limit losses in the euro. Strengthening of dollar further pressurized rupee. Rupee closed the fortnight at 46.92/USD as against previous fortnight's closing of 45.48/USD.

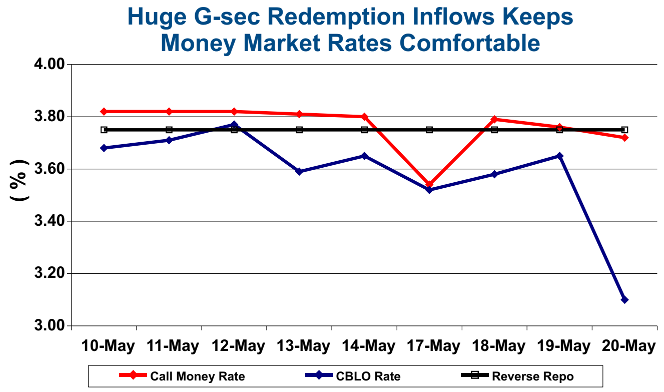
EQUITY MARKET

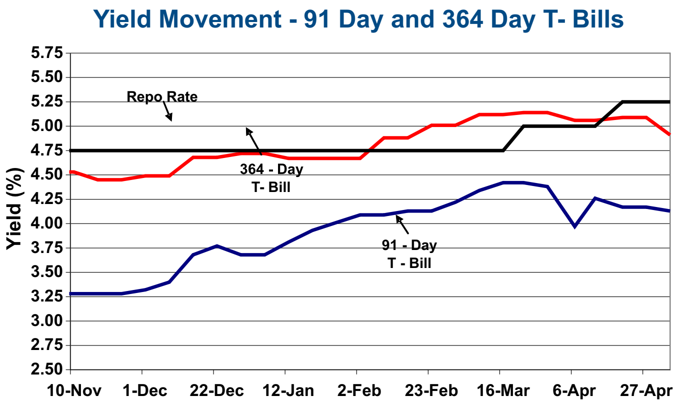
Overall sentiments in domestic market during fortnight remained bearish. Markets started the fortnight with the gain after announcement of USD 1 trillion aid packages by European Union to Greece for fighting debt crisis. However, negative sentiments from both domestic as well as global economy caused market to shed gains. On domestic front, the unfavorable recommendations by TRAI led to heavy losses in telecom sector.

In addition to this, poor financial results of banking major further dampened the market sentiments. On the global front, at one time aid package to Greece was considered as positive sign but gradually, the cautious sentiments overcome the investors and it was seen as the indication of slow growth in Euro zone. Fears of setback in the pace of economic growth increased risk aversion and triggered massive sell-off in equity market. Germany banned short selling in some government bonds, stocks and credit default swaps. Markets across the globe decline further after announcement of the ban. Sensex and Nifty both declined by 1.93% and 1.73% respectively during the fortnight. Globally, Dow Jones declined by 1.80%. FTSE declined 1.17% during the fortnight.

INTEREST RATE DERIVATIVES

Swap rates declined constantly during the fortnight as series of weak global economic cues raised optimism in the bond market thereby reducing demand for hedging. Towards the end of the fortnight, short-term swap rates firmed up marginally on concerns that liquidity is expected to tighten in near term owing to outflows towards 3-G auction bids and advance tax payments. 5-yr swap rates declined to 6.36% from 6.65% during the previous fortnight. 5-year MIFOR rate too declined sharply from 5.40% during the previous week to 4.88%.





MONEY MARKET

Call money rates remained easy at the start of fresh reporting cycle. Ample liquidity subsisted in the system owing to G-sec redemptions worth Rs. 25,420 crore. Huge auction of G-sec, state loans, T-bills and first time issued cash management bills failed to make a dent on liquidity. Banks met their reserve requirements comfortably. Volumes remained heavy in both call and CBLO market and averaged at Rs. 12,241 crore and Rs. 50,186 crore respectively. Reverse repo absorption rose substantially after declining to Rs. 15,320 crore during the fortnight. During the fortnight, RBI absorbed funds aggregating Rs. 35,764 crore on a daily average basis. Call rates ended the fortnight at 3.69% versus previous fortnight's level at 372%. While CBLO rates ended the fortnight at 2.35% vis-à-vis previous fortnight's closing of 2.96%.

CASH MANAGEMENT BILLS

Government of India issued 35-day Cash Management Bills for the first time using Multiple Price based auction methodology. These are short term instrument issued to meet the temporary cash flow mismatches of the Government. Rs. 6000 crore issue witnessed massive demand and registered bid-to-cover ratio of 4.57. Only 16 bids out of 75 were accepted and the cut-off was set at Rs. 99.63 (YTM: 3.87%).

In the second week, GOI issued 28-day Cash management bill for aggregate quantum of Rs. 6,000 crore. Issue witnessed robust demand and the cut-off for the same was set at Rs. 99.70 (YTM:3.92%).

TREASURY BILLS

Primary Market

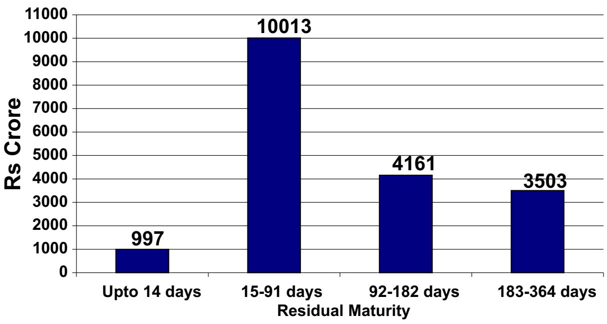
During the fortnight, government raised Rs. 18,000 crore

Details of all the Treasury bill auctions held in the fortnight ended 21st May 2010 have been tabulated as under:

(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
Date Of Auction	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	0.00

SGL Volumes - Treasury Bills



though issuance of T-bills. Demand in Rs.7,000 crore 91-day T-bill auctions declined during the fortnight and bid-to-cover ratio declined to 2.60 and 2.19 in first and second week respectively as against average of 3.23 witnessed in previous 5 auctions during the fiscal. Cut-off yield resultantly increased from 4.13% during the previous fortnight to 4.17% in first and 4.21% in the second week. For 182-day T-bill cut-off yield remained flat at 4.55%. However, demand decreased as bids received declined from Rs. 10,035 crore to Rs. 5,700 crore. Cut-off yield on 364-day T-bills firmed up marginally from 4.91% to 4.93%.

Secondary Market

Trading volumes during the fortnight rose to Rs. 18,674 crore vis-à-vis previous fortnight's level of Rs. 17,872 crore. Average daily trading volume stood at Rs. 1,867 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs 10,013 crore was witnessed in the 15 - 91 days residual maturity bucket. During the fortnight Public Sector Banks, Private Sector Banks and Mutual Funds were net buyers while Foreign Banks and Primary Dealers were net sellers.

GOVERNMENT SECURITIES

Primary Market

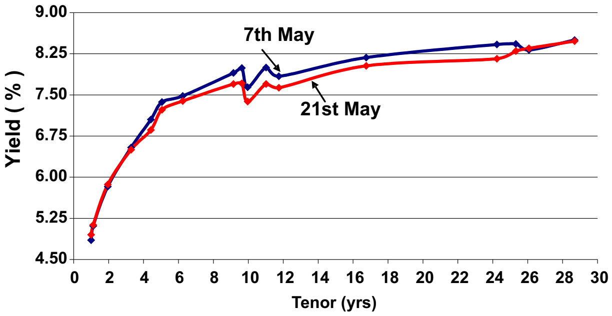
During the week GOI raised Rs. 12,000 through issue of 5-yr paper 7.38% GOI 2015 (Rs. 4,000 crore), 10-yr paper 7.80% GOI 2020 (Rs. 5,000 crore) and 22-yr paper 8.28% GOI 2032 (Rs. 3,000 crore). Under benign market conditions, underwriting fee touched a low of 0.23 paise, 0.26 paise and 0.73 paise respectively. All papers witnessed good demand specially 5-yr paper and registered bid-to-cover ratio of 3.37. 10-yr paper witnessed lowest bid-to-cover ratio of 1.96 while 22-yr paper registered demand 2.38 times the auction size. Cut-offs for 5-yr paper, 10-yr paper and 22-yr paper remained below market expectations at Rs. 100.60 (YTM: 7.24%), Rs. 101.80 (YTM: 7.54%) and Rs. 100.60 (YTM: 8.22%).

In the second week, GOI raised Rs. 13,000 through issue of 6-yr paper 7.02% GOI 2016 (Rs. 5,000 crore), 12-yr paper 8.20% GOI 2022 (Rs. 5,000 crore) and 17-yr paper 8.26% GOI 2027 (Rs. 3,000 crore). Papers were completely underwritten at a fee of 0.28 paise, 0.29 paise and 0.69 paise respectively. As the markets have rallied sharply days before auction, demand in primary market remained slightly subdued. Bid-to-cover ratio stood at 1.85, 1.88 and 2.50 for 6-yr, 12-yr and 17-yr papers respectively. Cut-offs for 6-yr paper, 12-yr paper and 17-yr paper stood at Rs. 98.16 (YTM: 7.39%), Rs. 104.30 (YTM: 7.64%) and Rs. 102.60 (YTM: 7.98%).

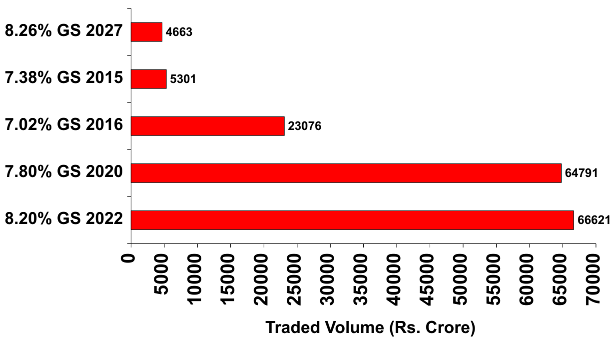
Secondary Market Developments

Domestic bond market rallied sharply during the fortnight as favorable global cues led to sharp slide in yields. Domestic bond yields eased tracking fall in US treasury yields following concerns that USD 1 trillion of rescue package may not be

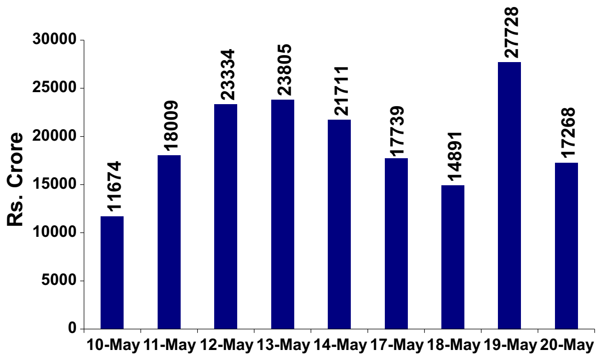
Medium Term Yields Ease During the Fortnight



Most Traded Securities



Dated Securities Trading Volumes



After easing by around 50 bps during the month, emergence of profit booking may push yields higher

sufficient to support the ailing Euro economy. Uncertain global economic conditions also muted expectations of inter policy hike by the central bank. A flurry of redemptions of over Rs. 25,000 crore during the week also induced strong demand for G-sec. Further lower than expected IIP growth figure for the month of March and decline in WPI inflation rate for April to 9.59% also boosted sentiments. Winning streak continued in the second week as well and yields declined to over 5-month low levels. High replacement demand for G-sec clubbed with rise in risk aversion after Germany banned short-selling resulted in massive rally in the market. Expectations of decline in Government borrowing following robust revenue collection from 3-G auction too fuelled the rally. Government's 3-G auction witnessed more than double revenue collection than estimated in budget and the same is likely to reduce borrowing demand of government. Easing remained concentrated in medium term securities with long-term securities easing only marginally. Short-term yields firmed up owing to huge supply and in expectation of tightening of liquidity in coming days. Trading volumes remained high during the fortnight amid positive market sentiments.

Yield on the 10-yr benchmark paper 7.80% GOI 2020 closed at 7.38% as against 7.64% during the previous fortnight. Spread between 30-yr and 1-yr papers declined to 353 bps from 365 bps in the previous fortnight.

Trading Volumes

Total trading volumes surged sharply during the fortnight to Rs. 1,97,151 crore vis-à-vis previous fortnight's level of Rs. 1,52,634 crore. The first week's average daily trading volume stood at Rs 19,706 crore vis-à-vis second week's level of Rs. 19,724 crore. The highest single day trading volume was Rs. 27,728 crore. Top two traded securities 7.80% GOI 2020 and 8.20% GOI 2020 cornered 80% of the top five traded securities volume. During the fortnight Foreign Banks, Private Sector Banks and Mutual Funds were net buyers while Public Sector Banks and Primary Dealers were net sellers.

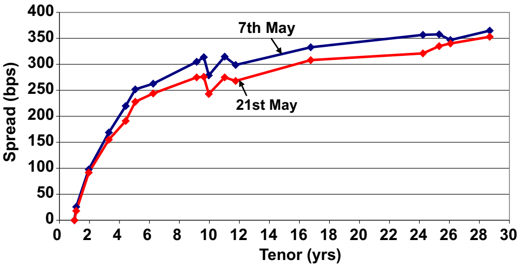
OUTLOOK

Previous fortnight witnessed sharp decline in domestic yields with 10- yr yields falling as low as 7.34% backed by continuous slide in US treasury yields. Not only global cues remained extremely favorable, expectations of decline in borrowing quantum by Government too boosted market sentiments. With decline in crude oil prices, inflation is expected to ease and it has raised expectations that the central bank may not be in a hurry to hike interest rates. Going forward, markets will continue to take cues from global conditions specifically Europe's economic condition. Market undertone is expected to remain positive. However, after easing by around 50 bps during the month, emergence of profit booking may push yields higher. Liquidity conditions will be keenly watched as liquidity is expected to tighten following outflows towards 3-G auction bids.

SPREAD MONITOR

	TTM (yrs)	YTM 7-May	YTM 21-May	Change in YTM (bps)
364 Day T Bill	1.00	4.85	4.95	10
9.39% GOI 2011	1.12	5.11	5.13	2
7.40% GOI 2012	1.95	5.83	5.87	4
7.32% GOI 2014	4.42	7.05	6.86	-19
6.49% GOI 2015	5.05	7.37	7.23	-14
7.02% GOI 2016	6.25	7.48	7.39	-9
6.90% GOI 2019	9.15	7.90	7.70	-20
6.35% GOI 2020	9.62	7.99	7.71	-28
7.80% GOI 2020	9.96	7.64	7.38	-26
7.94% GOI 2021	11.02	8.00	7.70	-30
8.20% GOI 2022	11.75	7.84	7.63	-21
8.24% GOI 2027	16.75	8.18	8.03	-15
7.50% GOI 2034	24.24	8.42	8.16	-26
7.40% GOI 2035	25.32	8.43	8.30	-13
6.83% GOI 2039	28.68	8.50	8.48	-2

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
23-May	12.60% GOI 2018	796	May 24-28	5-9 year	5000-6000
24-May	11.50% GOI 2011(II)	633		10-14 year	4000-5000
24-May	9.00% GOI 2013	79		20-yr and above	2000-3000
24-May	7.94% GOI 2021	1945	May 31-June 4	5-9 year	6000-7000
30-May	10.95% GOI 2011	657		10-14 year	5000-6000
30-May	9.81% GOI 2013	540		15-19 year	2000-3000
30-May	10.00% GOI 2014	117			
30-May	10.25% GOI 2021	1343			
1-Jun	10.25% GOI 2012	81			
4-Jun	5.59% GOI 2016	168			
4-Jun	6.13% GOI 2028	337			
Total Inflows		6,695	Total Outflows		25,000

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