GILT NEWS

for the fortnight ended 03 October, 2014

Economy & Financial Markets Review

Domestic Developments

The fourth bi-monthly Monetary Policy review announced during the fortnight wherein the RBI kept the repo rate and hence the reverse repo and MSF unchanged The ceiling on SLR securities under the HTM category has been reduced from 24 per cent of NDTL to 22 per cent in a graduated manner

Market Borrowing Trend			*(in Rs. crore)*
Maturity Bucket	H2 FY 15	H2 FY 14	H2 FY 13
5 - 9 years	34000-51000	53000	47000
10 - 14 years	87000-104000	100500	97000
15 - 19 years	34000-51000	32000	24000
20 years and above	51000-68000	34000	20000

Treasury Bills Issuances			*(in Rs. crore)*
Gross Borrowing	Q3 FY 15	Q3 FY 14	Q3 FY 13
91-dtb	118000	78000	65000
182-dtb	40000	36000	30000
364-dtb	40000	40901	35000

International Developments

10-yr US treasury yield ends the fortnight at 2.43% as against previous fortnight closing of 2.57%. Crude oil ends fortnight at USD 89.74 as against previous fortnight's closing of USD 92.41 per barrel

G-sec Market

During the fortnight bond market remain cautious with benchmark moving in a tight range as RBI planned to reduce HTM ceiling led to reduction in banks appetite to hold government securities New ten year paper closes at 8.48% against previous closing of 8.46%

Money Market

Average repo injection during the fortnight stood at Rs. 7,593 crore against previous fortnight average of Rs. 12,121 crore.

Forex Market

Rupee ends at 61.61/USD vis-a-vis 60.83/USD during previous fortnight.

Nifty and Sensex fall by 2.17% and 1.93% respectively.

MACROECONOMIC INDICATORS (Rs. Billion)

	As on Sept 19	Variation over the fortnight	Variation over LRF of March	YOY % growth
Aggregate Deposits	81,066	(261)	4,011	13.37
Bank Credit	61,465	56	1,524	9.72
Non - food Credit	60,415	49	1,458	9.79
Banks Investment in G-Sec	23,753	(525)	1,641	12.61
Broad Money M3	99,586	(295)	4,612	12.74
Reserve Money (Sept 26)	17,036	(153)	(291)	9.69
Forex Reserves (USD bn) (Sept 26)	287	(1.4)	11	15.92
Credit – Deposit Ratio	75.82			
LAF Repo Rate (%)	8			
LAF Reverse Repo Rate (%)	9			
CRR Cash Reserve Ratio (%)	4			
MSF/Bank Rate	9			

DOMESTIC DEVELPOMENTS

4th Bi-Monthly Policy Summary

Monetary and Liquidity Measures

- Repo rate was maintained at 8%; Reverse repo and MSF automatically stood unchanged at 7% and 9% respectively. CRR remains unchanged at 4% of net demand and time liabilities (NDTL).

- Bring down the ceiling on SLR securities under the HTM category from 24 per cent of NDTL to 22 per cent in a graduated manner *i.e.* quarterly basis with effect from the fortnight beginning January 10, 2015 to the fortnight beginning September 19, 2015.

- The quantum of liquidity provision under overnight LAF was retained at 0.25% of NDTL and under 7 day and 14 day term repos at 0.75% of NDTL of banking system. However allow access to the liquidity adjustment facility (LAF) to scheduled urban co-operative banks (UCBs) in order to provide them an additional avenue for liquidity management.

- Reduce the liquidity provided under the export credit refinance (ECR) facility from 32 per cent of eligible export credit outstanding to 15 per cent with effect from October 10, 2014.

- In order to meet Liquidity Coverage Ratio (LCR) requirement, Banks can hold another 5% of their NDTL within the mandatory SLR requirement.

- Liberalize guidelines on short sale in Government securities as under:

1. Limit on short sale for liquid securities will be increased to 0.75 per cent of outstanding stock or `600 crore, whichever is lower (from 0.50 per cent of outstanding stock
2. Banks and primary dealers (PDs) may be permitted to take short positions in government securities in the over-the-counter (OTC) .

Policy stance

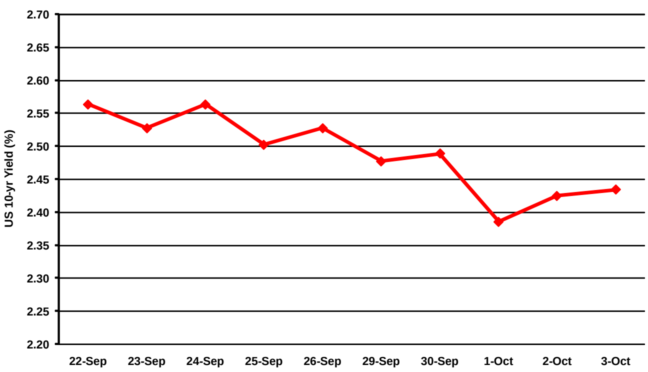
- With international crude prices softening and relative stability in the foreign exchange market, some upside risks to inflation are receding. Yet, there are risks from food price shocks as the full effects of the monsoon's passage unfold, and from geo-political developments that could materialize rapidly. For the near-term, therefore, the risks around the baseline path of inflation are broadly balanced. However for medium term, the balance of risks is still to the upside. This continues to warrant policy preparedness to contain pressures if the risks materialize.

- The momentum of activity in all sectors of the economy is yet to stabilize Post-monsoon revival in construction activity and the likely strengthening of momentum in business and financial services should sustain the recent signs of expansion in the services sector. The key to a turnaround in the growth path of the economy in the second half of the year is a revival in investment supported by fiscal consolidation, stronger export performance and sustained disinflation.

Take-away from Policy

The policy was totally in line with expectations. RBI Governor Raghuram Rajan remained worried about medium term inflation rather than in shorter run. RBI had given a guidance of wait-and-watch policy on interest rates rather than taking a hasty decision and reverses the same in near future. Cuts in HTM and SLR requirements over a period of time will be driven by RBI's goals to have banks meet their Basel-III liquidity norms. He has also asked the government to reduce bottlenecks to ease food inflation which fall under fiscal space than monetary.

USTreasury yield movement during the fortnight

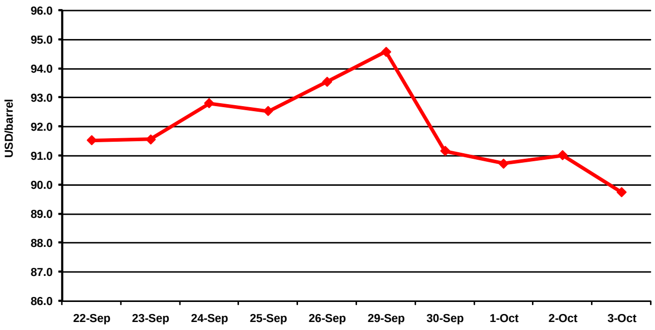


INTERNATIONAL DEVELOPMENTS

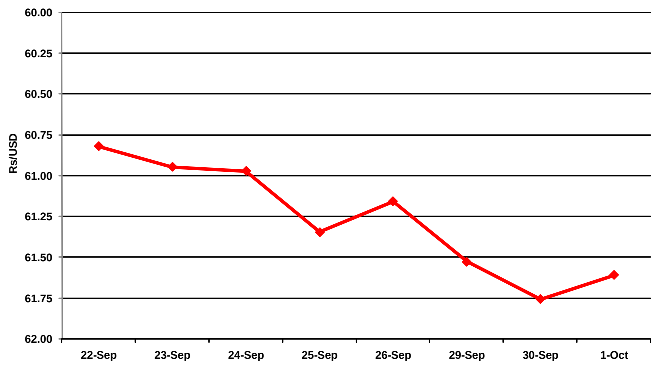
US Treasury

US treasury market remained bullish biased during the fortnight weeks as the higher relative yields to Group of Seven counterparts and a strengthening dollar burnished the appeal ofU.S. government securities to international investors. The fortnight opened on a bullish note after Group of 20 warned growth in the global economy has been uneven. Last fortnight yield spiked as Fed policy makers announced an increase in their median estimate for the fed funds rate at the end of 2015 to 1.375 percent, compared with 1.125 percent in June. Treasury gained further, as haven demand increased after the U.S. began air strikes in Syria and Israel shot down a Syrian fighter jet it said had infiltrated its airspace. During second week of fortnight, market

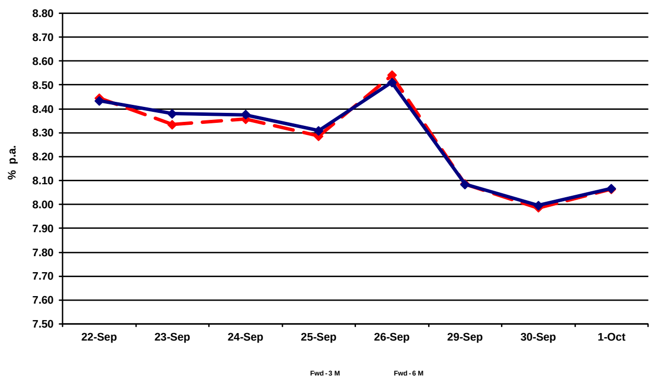
Crude oil price movement during the fortnight



Rupee movement during the fortnight



Annualised USD/INR Fwd Premia



sentiment continued to remain bullish. U.S. government debt rose on refuge demand as unrest in Hong Kong added to geopolitical uncertainty and a report showed the Federal Reserve's favorite inflation measure was subdued. Benchmark yields fell to lowest levels after ECB didn't provide target for size of asset purchases that will begin this month. However treasuries dropped on closing day of the fortnight and 10 yr benchmark paper closed at 2.43 against 2.57 in last fortnight after a report showed the U.S. unemployment rate fell to a six-year low and more jobs than forecast were added, boosting speculation that the Federal Reserve will boost interest rates next year.

COMMODITIES

International Crude Oil

Oil remained highly volatile during period under review. Market opened on a cautious note on concern slower growth in China will reduce demand. However crude price advanced after the U.S. and its Arab allies launched a series of airstrikes against Islamic State positions in Syria. Crude price moved northward further after the Energy Information Administration reported adecline in U.S. inventories. On closing day on first week of the fortnight crude rose to the highest level on speculation stronger U.S. economic growth will increase demand. The spread between Brent & WTI narrowed too. The second week opened with a bullish note on speculation stronger U.S. economic growth will boost demand for oil. However Crude price plunge below USD 90 per barrel on stronger euro after ECB kept rates unchanged and announced asset purchase program to boost the economy. Fall in crude price further supported with speculation of rising global supplies will be more than enough to meet slowing demand. WTI crudes at USD 89.74 per barrel against the previous fortnight close of USD 92.41 per barrel.

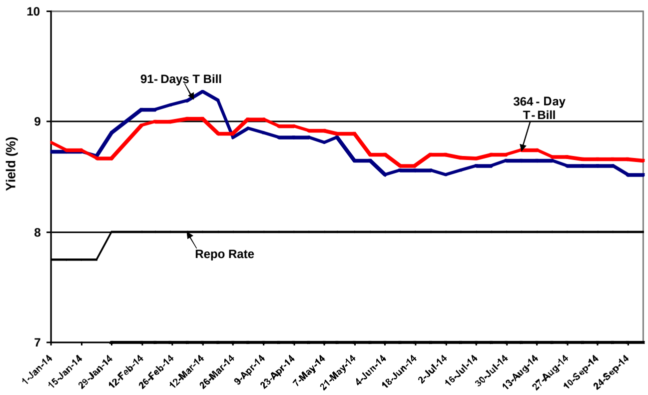
FOREX MARKET

The fortnight started on a low for the Rupee after weak global manufacturing surveys raised growth concerns, with data from France and Germany's manufacturing sector also being on the lower side. The following day came as a greater blow to the sentiments for the market as the Supreme Court scrapped the coal block allocations since last two decades which raised concerns that resorting to imports would widen the trade and current account deficits (CAD).With the equity market making a nose dive below the significant level of 8000 with energy firms under pressure and the demand for dollar by the importers caused the rupee to plunge further after which the Reserve bank stepped in to limit further loses. A big respite for the domestic currency

Major Stock Indices

	19-Sep-14	3-Oct-14	% Change
Indian Indices			
Sensex	27090	26568	-1.93%
Nifty	8121	7946	-2.17%
FMCG	7480	7535	0.73%
IT	10572	10895	3.06%
Banking	18479	17539	-5.09%
Auto	18094	17720	-2.07%
Capital Goods	15080	14165	-6.06%
Healthcare	13991	14299	2.20%
PSU	8052	7751	-3.74%
World Indices			
Dow Jones	17280	17010	-1.56%
Nikkei	16321	15709	-3.75%
FTSE	6838	6528	-4.53%

Yield Movement - 91 Day and 364 Day T- Bills



came in the form of upgradation of the sovereign rating from BBB negative to stable in wake of a strong political environment in the country favoring economic and fiscal reforms. But the rupee continued to be in red approaching a seven-week low, as acceleration in U.S. economic growth boosted the Federal Reserve's chances of an interest-rate increase. The U.S. economy expanded at a 4.6 percent annualized rate in the second quarter, the fastest pace since 2011. This data came on Sept 26, following which the rupee fell on the beginning of the week. The Bi-monthly monetary policy coming out on expected lines gave some breather for rupee as it was seen flattening in the holiday shortened second week. The RBI is seen delaying interest-rate cuts to shield the rupee against potential increases in U.S. borrowing costs while sustaining its fight against inflation. Rupee closed at 61.61 per US Dollar compared to previous close 60.83 per US Dollar.

EQUITY MARKET

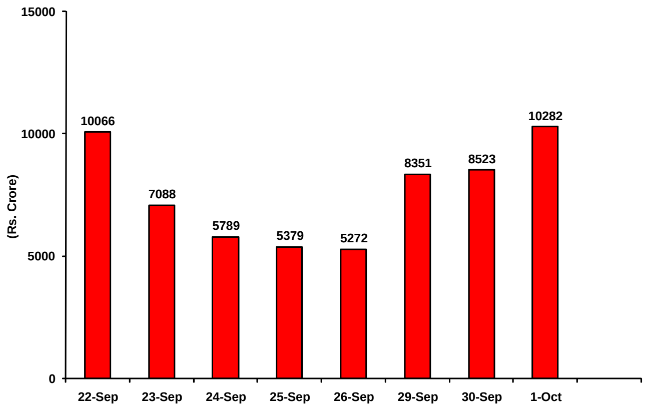
The equity market started the fortnight on a positive note following the previous fortnight with better than expected corporate earnings and an improvement in the economic data wiz the WPI expanded on its lowest since last five years at 3.74% in August; also the narrowing in the trade deficit giving an indication of an improving economy. But the sentiment did not last long with the Supreme Court's verdict on cancelling the coal block allocations gave the market reason to halt its good run; the major correction happening in the energy sector. The major boost to the market came in the form of the promotion of sovereign rating of India from negative to stable by the S&P. The RBI's bi-monthly policy had thrown up no surprises for the market which had already factored in a “no change in policy” stance.

Details of all the Treasury bill auctions held in the fortnight ended 03rd October 2014 have been tabulated as under:

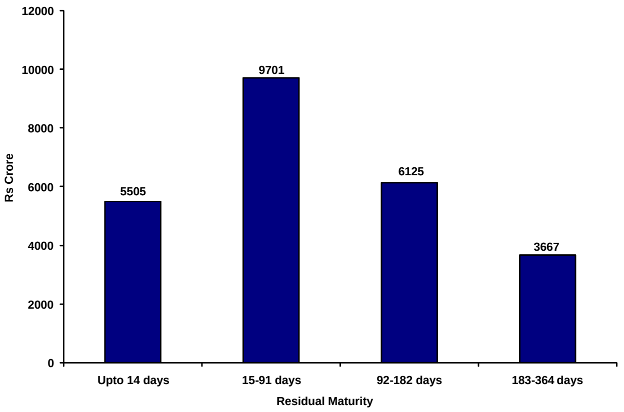
(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
Date Of Auction	24 Sep	01 Oct	24 Sep	01 Oct
Cut-off Price (Rs)	97.92	97.92	95.86	92.06
Implicit Yield (%)	8.52	8.52	8.66	8.65
Weighted Avg. Yield (%)	8.52	8.52	8.64	8.64
Competitive Bids Received	42627.48	42709.55	16832.00	18641.00
Competitive Bids Accepted	7000.00	9000.00	5000.00	6000.00
Non-Competitive Bids Accepted	10100.00	4500.00	631.81	0.00
Total Bills Issued	17100.00	13500.00	5631.81	6000.00
Of which MSS	0.00	0.00	0.00	0.00

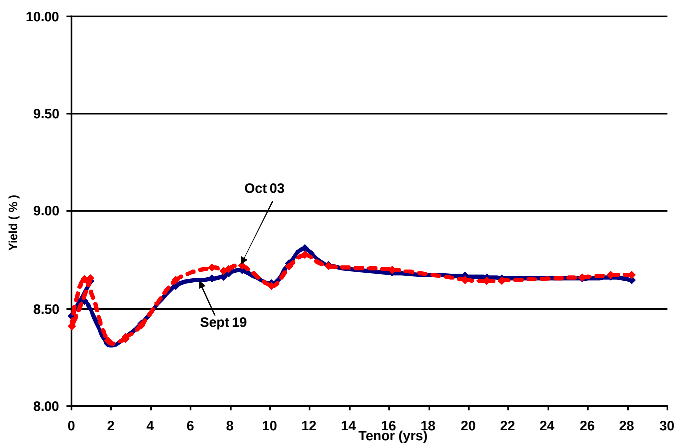
Repo Injections During the Fortnight



SGL Volumes - Treasury Bills



Yield Curve Movement



And a dull Asian market performance and the US market too ending low following a weaker than expected home price data of July, the domestic market too remained on the back foot. The fortnight ended on a passive note with the following few days being trading holidays. The Nifty ended at 7946 on the last trading day of the fortnight as against previous fortnight close of 8121.

MONEY MARKET

Repo injection through LAF averaged at Rs. 7,593 crore as against Rs. 12,121 crore a fortnight ago. Average call rate stood at 7.88% during the first week and 7.92 % in the second week of the fortnight, while CBLO and Repo averaged at 7.85% and 8.02% respectively during the past fortnight. Average volume in Call and CBLO market during the fortnight stood at Rs. 16,742 crore and Rs. 68,888 crore respectively.

TREASURY BILLS

Primary Market

During the fortnight, RBI issued Rs. 12,000 crore in the first week and Rs. 15,000 crore of the fortnight in T-bills segment. Cut off yield on 91 day T-bill stood at 8.52% for the both the weeks as compared to previous cut off 8.60 % in the last week of previous fortnight. Cut off yield on 182-day T-bill stood at 8.66% and on 364 day T-bill stood at 8.65%.

Secondary Market

Trading volumes during the fortnight decreased to Rs. 24,998 crore vis-à-vis previous fortnight's level of Rs. 28,706 crore. Average daily trading volume stood at Rs. 3,125 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs. 9,701 crore was witnessed in the 15-91 days residual maturity bucket. During the fortnight, Foreign Banks and Primary Dealers were net sellers while Public Sector Banks, Private Sector Banks and Mutual funds were net buyers.

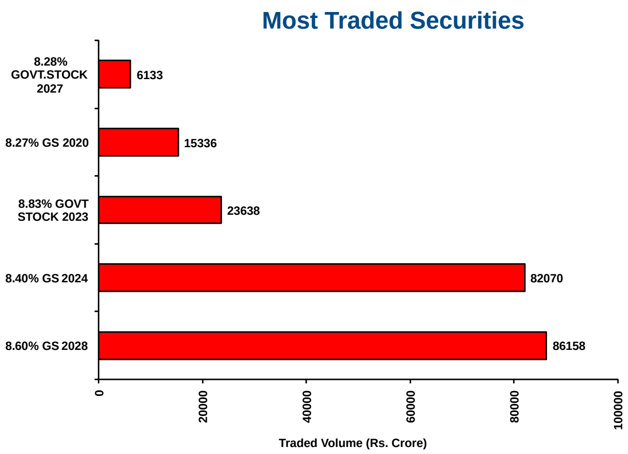
GOVERNMENT SECURITIES

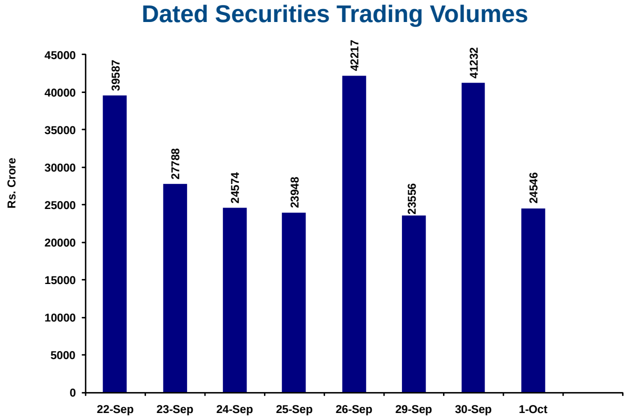
Primary Market

Government borrowed Rs. 12,000 crores through dated securities in the first week of fortnight .RBI had re-issued 8.27% GS 2020 (RS. 2000 crore), 8.60% GS 2028 (Rs 6000 crore), 9.20% GS 2030 (Rs. 2000 crore) and 8.30% GS 2042 (Rs 2000 crore).The under writing fees in the 6-yr paper, 14-yr, 9.20% GS 2030 and 8.30% GS 2042 stood at 0.23, 0.27, 0.37, 0.37 paisa respectively.

Buying/ Selling Activity during Fortnight: **Rs. Crore)**

	Total_G_Sec	Total_T_Bill
Foreign Banks	3071.94	**-4361.44**
Public Sector Banks	6488.84	6550.65
Private Sector Banks	**-2798.97**	969.20
Primary Dealers	**-8868.56**	**-3221.53**
Mutual Funds	1226.94	2396.90
Others	879.83	**-2333.78**





The cut off yield on 6-yr, 14-yr, 16-yr and 28-yr papers stood at 8.59%, 8.63%, 8.70%, 8.68% respectively.

Secondary Market Developments

Domestic bond market remained cautious during period under review. Investor refrained from adding position during this period after the Central bank didn't change its stance about inflationary expectation. Market opened on a bullish note pushing the yield to its lowest level in almost two months, on speculation improving economic data will attract more global funds. Market traded cautiously on speculation government may add back the 160b rupees ($2.6b) it cut from April-Sept in H2 borrowing program though government's cash balance looks pretty healthy. However on closing day of first week of the fortnight treasuries gained as S&P upgraded of the sovereign rating from BBB negative to stable in wake of a strong political environment in the country favoring economic and fiscal reforms. Market opened with cautious note in wake of the policy review meeting which indicates that upside risks to its January 2016 inflation target of 6 per cent are significant and its future policy stance will be influenced by this inflation target while keeping the repo rate unchanged at 8 percent. Market reacted negatively as the Central bank planned to cut the ceiling on bonds that must be held-to-maturity from the current 24 per cent to 22 per cent in stages starting in the bi-weekly cycle beginning January 10, 2015. Market closed at 8.48% against 8.46% in previous fortnight.

Trading Volumes

Trading volumes during fortnight decreased to Rs. 2, 47,448 crore as against Rs. 3, 11,292 crore in the previous fortnight. The first week's average daily trading volume stood at Rs. 31,623 crore vis-à-vis second week's level of Rs. 29,778 crore. The highest single day trading volume was Rs. 42,217 crore. Top two traded securities 8.40% GOI 2024 & 8.60% GOI 2028 cornered 78 percent of the top five traded securities volume. During the fortnight Primary Dealers and Private Sector Banks were net sellers while, Public Sector Banks, Mutual Funds and Foreign banks were net buyers.

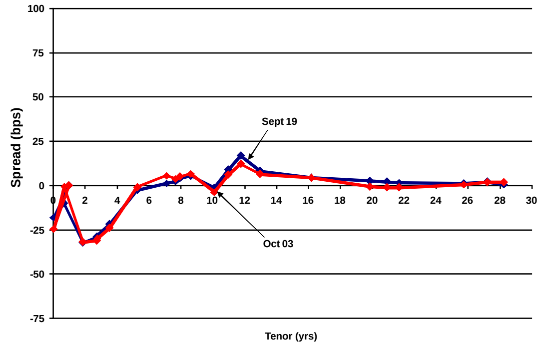
OUTLOOK

Last week, the ambiguity with respect to future movement and direction of interest rates led to negative reaction in G-Sec market. The coming fortnight will see a lot of data prints which would provide direction to the bond market. Wholesale inflation, retail inflation and industrial output numbers are set to release in the second week of the fortnight. The benchmark bond is expected to trade in the wide range of 8.40% - 8.50 % in the coming fortnight.

SPREAD MONITOR

	TTM (yrs)	YTM 19-Sep	YTM 1-Oct	Change in YTM (bps)
364 Day T Bill	1.00	8.64	8.65	1
7.32% GOI 2014	0.05	8.46	8.41	-5
7.17% GOI 2015	0.70	8.54	8.65	11
7.02% GOI 2016	1.87	8.32	8.33	2
8.07% GOI 2017	2.75	8.35	8.34	-1
7.99% GOI 2017	2.77	8.35	8.35	0
8.24%GOI 2018	3.55	8.42	8.41	-1
8.19% GOI 2020	5.29	8.62	8.64	3
8.79% GOI 2021	7.10	8.65	8.71	6
8.79% GOI 2021	7.10	8.65	8.71	6
8.15% GOI 2022	7.69	8.66	8.69	3
8.13% GOI 2022	7.97	8.68	8.70	2
7.16% GOI 2023	8.63	8.69	8.72	3
9.15% GOI 2024	10.12	8.63	8.62	-1
8.20% GOI 2025	10.98	8.73	8.71	-2
8.33% GOI 2026	11.77	8.81	8.77	-3
8.28% GOI 2027	12.98	8.72	8.72	0
8.97% GOI 2030	16.18	8.68	8.70	1
7.50% GOI 2034	19.87	8.67	8.65	-2
7.40% GOI 2035	20.95	8.66	8.64	-2
8.33% GOI 2036	21.69	8.66	8.64	-1
8.30% GOI 2040	25.76	8.65	8.66	1
8.83% GOI 2041	27.21	8.66	8.67	1
8.30% GOI 2042	28.26	8.65	8.67	3

Spread Over One-Year Paper



(in Rs. Crore)

INFLOWS		
Date	Security	Coupon Receipts
9-Oct-14	6.30% GS 2023	410
11-Oct-14	7.83% GS 2018	2858
11-Oct-14	7.80% GS 2021	2652
12-Oct-14	7.59% GS 2016	2581
16-Oct-14	9.85% GS 2015	366
Total Inflows		8866

OUTFLOWS		
Date	Security	Scheduled auction amount
Oct 6-10, 2014	5-9 years	2000-3000
	10-14 years	6000-7000
	15-19 years	2000-3000
	15-19 years	3000-4000
Oct 13-17,2014	5-9 years	2000-3000
	10-14 years	6000-7000
	15-19 years	2000-3000
	15-19 years	3000-4000
Total Outflows	30000	

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