GILT NEWS

for the fortnight ended 17 October, 2014

Economy & Financial Markets Review

Domestic Developments

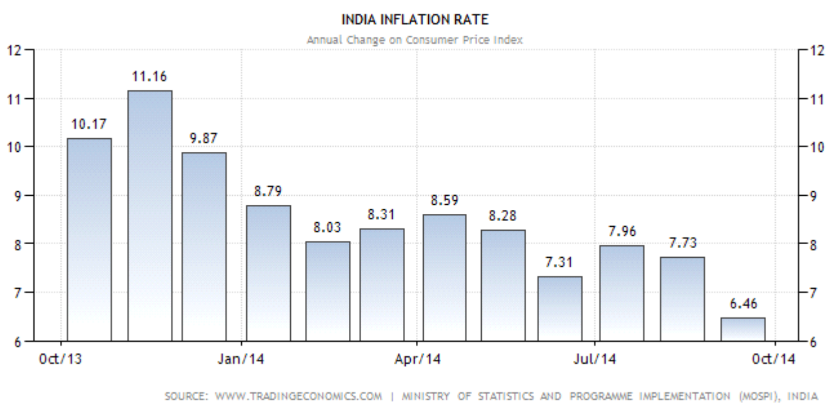
Surprise after surprise, CPI Print is 33 months low and September WPI inflation dips to 5-year low of 2.38%.
Imports outpace the exports by wide margin led by surge in import of Gold.
Export shows growth of 2.7% and Import shows growth of 26% in Sept 2014 Y-O-Y basis.

International Developments

10-yr US treasury yield ends the fortnight at 2.19% as against previous fortnight closing of 2.43%.
Crude oil ends fortnight at USD 82.75 as against previous fortnight's closing of USD 89.74 per barrel

G-sec Market

During the fortnight bond market is driven by inflation expectation, surprise OMO sales and Inflation prints.
RBI announces OMO sales of Rs 15000Cr.
New ten year paper closes at 8.39% against previous closing of 8.48%



Money Market

Average repo injection during the fortnight stood at Rs. 6,521 crore against previous fortnight average of Rs. 7,593 crore.

Forex Market

Rupee ends at 61.44/USD vis-a-vis 61.61/USD during previous fortnight.

Nifty and Sensex fall by 2.09% and 1.73% respectively.

MACROECONOMIC INDICATORS

(Rs. Billion)

	As on 3rd October	Variation over the fortnight	Variation over LRF of March	YOY % growth
Aggregate Deposits	82,893	1,827	5,838	13.05
Bank Credit	62,690	1,225	2,749	10.95
Non - food Credit	61,700	1,286	2,744	11.15
Banks Investment in G-Sec	24,089	336	1,977	10.93
Broad Money M3	101,430	1,835	6,456	12.60
Reserve Money (Oct 10)	17,228	192	(100)	10.07
Forex Reserves (USD bn) (Oct 10)	287	(0.5)	11	14.36
Credit – Deposit Ratio	75.63			
LAF Repo Rate (%)	8			
LAF Reverse Repo Rate (%)	9			
CRR Cash Reserve Ratio (%)	4			
MSF/Bank Rate	9			

DOMESTIC DEVELPOMENTS

Inflation hits 33-month low of 6.46%: RBI won't get carried away and cut rates just yet.

The consumer price inflation for the month of September cooled off to its all-time low of 6.46 percent, the lowest since India started computing consumer price index (CPI) in January 2012, led by lower food prices and fuel costs. While India's industrial production growth slowed down further to 0.4 per cent in August 2014 after growing by just 0.5 per cent in July.

The food inflation trimmed down to 7.67 percent against 9.42 percent month-on-month. The vegetable price inflation lowered significantly to 8.59 percent versus 15.15 percent from August. Inflation in fruits slowed to 22.4 per cent from 24.27 per cent in August. Price rise in protein rich items like eggs, fish and meat was slower in September against August. The inflation data released by the Ministry of Statistics and Programme Implementation further revealed that retail inflation was 6.34 per cent in urban India and 6.68 per cent in rural parts of the country.

The wholesale price inflation is also expected to tick down to 3.3 percent from last month's 3.7 percent, due to a steady fall in global crude oil prices, which hit a near two-year low on Thursday.

The Reserve Bank has been considering mainly the CPI-based inflation while deciding on its bi-monthly monetary policy. So cooling down of CPI is good news and reflects disinflation is in progress and IIP print at 0.4% may compel RBI to review its monetary stand. However the observations made by Governor Raghuram Rajan at the 30 September monetary policy review on food inflation are highly critical which mentions that the 1) The full impact of the skewed rainfall distribution carries risks to the future path of food inflation. 2) The Base effects will also temper inflation in the next few months only to reverse towards the end of the year.3) Up side risk of inflation is still there, because target of 6% inflation by 2016 will depend on many factors such as Monsoon in next year, middle east crisis and US monetary policy action. Considering these the RBI might be cautious in revising rates in its next bi-monthly monetary policy review.

Surprise after surprise, CPI Print was 33 months low and now September WPI inflation dips to 5-year low of 2.38%.

India's wholesale price inflation eased to a near five-year low in September, helped by a moderation in food and fuel prices but the risk of price shocks is expected to prevent the central bank from cutting interest rates soon.

The sharp moderation in inflation has been a culmination of a favorable base effect, moderation in food prices, Minerals, non food article, softening crude oil prices and weak growth.

Item wise details of inflation of major segments are as under:-

Notwithstanding the deceleration in inflation, the RBI is concerned that poor monsoon rains and geopolitical tensions that affect oil could drive up prices, making it tougher to reduce retail inflation to 6 percent by 2016.Considering above facts it seems that RBI is not going to cut policy rate in upcoming monetary policy review as RBI sent a strong signal last month that it would hold off cutting rates until it was confident that consumer inflation could be reduced to a target of 6 percent by January 2016.

Items in Head Line Inflation for Sept 2014			Weightage (%)	Aug-14	Sep-14
Head Line Inflation			**100**	**3.74%**	**2.38%**
A.	**Primary Article**		20.12	3.89%	2.18%
		(1)Food Article	14.34	5.15%	3.52%
		(2) Non Food Article	4.26	4.19%	0.52%
		(3) Mineral	1.52	-4.59%	-3.63%
B.	**Fuel & Power**		14.91	4.54%	1.33%
C.	**Manufacturing**		64.97	3.45%	2.84%
		Food Product	9.97	3.43%	3.00%
		Non Food Mfg Product	55.00	3.46%	2.81%
		(1) BEVERAGES, TOBACCO & TOBACCO PRODUCTS	1.76	9.55%	10.26%
		(2) TEXTILES	7.33	4.57%	2.93%
		(3) WOOD & WOOD PRODUCTS	0.59	4.27%	3.91%
		(4) PAPER & PAPER PRODUCTS	2.03	6.17%	5.71%
		(5) LEATHER & LEATHER PRODUCTS	0.84	2.16%	0.55%
		(6) RUBBER & PLASTIC PRODUCTS	2.99	3.93%	3.28%
		(7) CHEMICALS & CHEMICAL PRODUCTS	12.02	4.05%	3.09%
		(8) NON-METALLIC MINERAL PRODUCTS	2.56	2.17%	3.89%
		(9) BASIC METALS, ALLOYS & METAL PRODUCTS	10.75	2.15%	1.28%
		(10) MACHINERY & MACHINE TOOLS	8.93	2.67%	2.51%
		(11) TRANSPORT, EQUIPMENT & PARTS	5.21	1.57%	0.89%

Gold and oil import widens the September trade deficit.

Export: - Exports grew marginally at 2.73% during Sept 2014 while cumulatively for April to Sept it registered a growth of 6.47%.

Import:-Import surged by 25.96% led by strong local demand during Sept 2014 while cumulative for April to Sept it registered a growth of 1.57%.

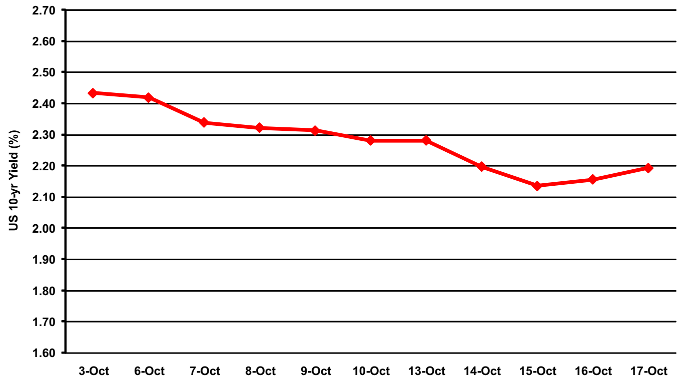
Exports were pulled up almost singularly by stronger 'gems & jewelry' even as engineering goods, petroleum and pharmaceuticals slowed. Meanwhile, the acceleration in imports was driven by fuel, electronics goods and iron ore. In addition, gold (+450% y-o-y) and silver (+225% y-o-y) which are inputs in the 'gems & jewelry' industry had also risen notably

CRUDE OIL: Oil imports during September, 2014 were valued at US $ 14.50 billion which was 9.7 per cent higher than oil imports valued at US $ 13.21 billion in the corresponding period last year. Oil imports during April-September, 2014-15 were valued at US $ 82.48 billion which was 3.1 per cent higher than the corresponding period last year.

Gold Import: - Gold imports in September increased to $3.75 billion compared with $682.5 million in the same month last year. The demand for the yellow metal traditionally rises ahead of Diwali and Dhanteras when it is considered auspicious to buy gold.

Trade Deficit: - The trade deficit for the quarter ending September has widened slightly (USD 37.5bn in Q2 FY15 vs. USD 36.9bn in Q1 FY15) and cumulatively Trade balance for first half of FY 2014-15 stands at USD -70.40 Billion. The trade deficit is likely to widen further as domestic demand accelerates. However, the import bill should remain under control thanks to weaker commodity prices, provided

USTreasury yield movement during the fortnight



restrictions on gold are retained and policymakers do not stimulate domestic demand.

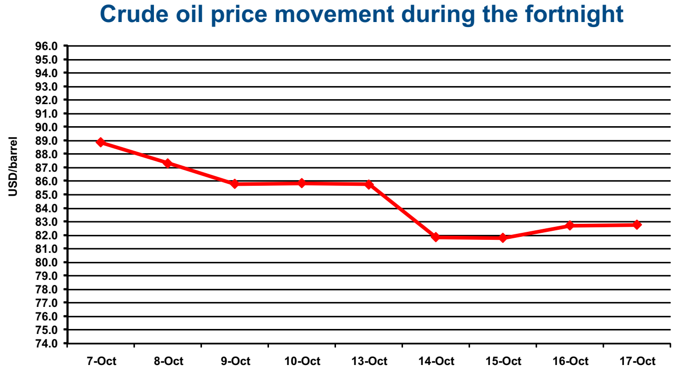
INTERNATIONAL DEVELOPMENTS

US Treasury

Treasuries posts smart gains, falling by almost 20 bps during the fortnight. The first began on a positive note as the Federal Reserve's labor-market-conditions index indicated slower U.S. jobs market improvement and as the International Monetary Fund cut its outlook for global growth, fueling demand for the safety of U.S. debt. Treasuries trimmed losses as Federal Reserve policy makers said a global slowdown and a stronger dollar posed potential risks to the U.S. economic outlook. Towards the first week ended treasury yields were seen reaching their 15-month low as a report showed Germany's economy is on the edge of a recession and on speculation the Federal Reserve's concern that global economic growth is slowing may push back interest-rate increases. The second week of the fortnight witnessed further easing of the treasury yields with the benchmark 10-year yields falling the most since 2009 as a decline in retail sales prompted traders to reduce wagers. The fortnight ended with yields rising as a report showed housing starts rose more than forecast last month, damping concern the economy may need further stimulus.

Date	Event	Period	Prior
22-Oct-14	CPI YoY	Sep	1.70%
23-Oct-14	Initial Jobless Claims	18-Oct	264 K
24-Oct-14	New Home Sales MoM	Sep	18%
28-Oct-14	Consumer Confidence Index	Oct	86
29-Oct-14	FOMC Rate Decision	29-Oct	0.25%
30-Oct-14	GDP Annualised QoQ	3Q A	4.60%
31-Oct-14	PCE Core YoY	Sep	1.50%

Crude oil price movement during the fortnight



COMMODITIES

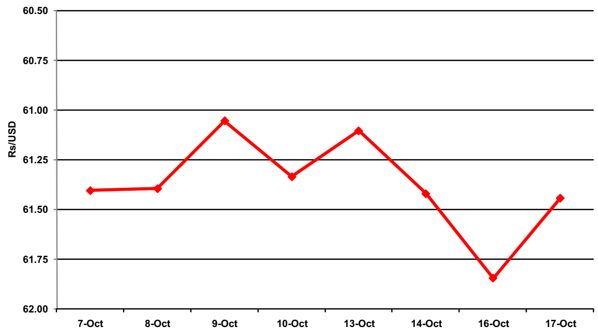
International Crude Oil

Crude oil prices witnessed sharp gains falling even below $80 per barrel mark during the fortnight. The first week's price fall were supported by a government report which showed U.S. crude supplies rose the most since April. Crude stockpiles climbed by 5.01 million barrels to 361.7 million, the Energy Information Administration reported. The week ended with crude headed for the biggest weekly drop since January amid signs of a global glut. On the other hand, Brent, the benchmark grade for more than half the world's oil, traded near a four-year low. Both benchmark crudes rose in the end of the week after falling more than 2 percent earlier, supported by a rebound in equities markets. The second week saw further fall in the oil prices as rising U.S. production increased supplies. Thereafter crude rebounded after falling below $80 for the first time since June 2012 on speculation prices decreased more than justified. The fortnight ended with crude extending its rebound from below $80 a barrel on speculation that a 24 percent drop from this year's high was excessive. Crude oil closed the fortnight at $82.75 per barrel as against previous fortnight close of $89.74 per barrel.

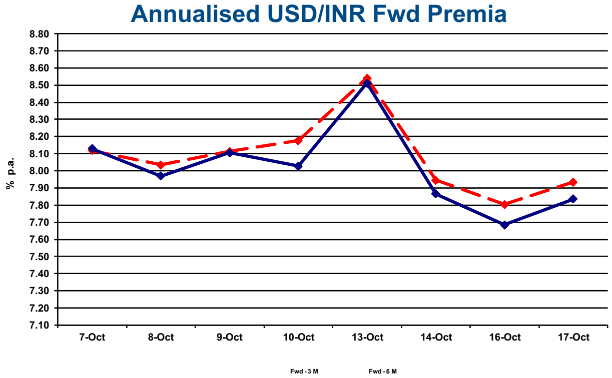
Major Stock Indices

	3-Oct-14	17-Oct-14	% Change
	Indian Indices		
Sensex	26568	26109	-1.73%
Nifty	7946	7780	-2.09%
FMCG	7535	7308	-3.01%
IT	10895	10131	-7.02%
Banking	17539	18240	4.00%
Auto	17720	17019	-3.96%
Capital Goods	14165	14244	0.56%
Healthcare	14299	13467	-5.82%
PSU	7751	7857	1.37%
	World Indices		
Dow Jones	17010	16380	-3.70%
Nikkei	15709	14533	-7.49%
FTSE	6528	6310	-3.33%

Rupee movement during the fortnight



Annualised USD/INR Fwd Premia



FOREX MARKET

The rupee rose to a more than one-week high at the start of fortnight on bunched-up dollar inflows following a five-day weekend and heavy foreign fund buying of domestic debt while the International Monetary Fund's upward revision in the country's growth outlook also aided sentiment. The rupee consolidated its gain on the back of persistent selling of the American unit by banks and exporters amid bearish dollar overseas and rallying domestic equities. But by the weekend the trend reversed with the dollar gaining strength and the equity market losing steam followed by a fresh demand for the US currency from banks and importers. The following week started on a good note for the domestic currency after a stronger-than-expected China trade data lifted risk appetite for emerging market assets by easing some of the recent concerns about the global economy. With a slowing rate of consumer price led Inflation figure of 6.46% for September released later on Monday giving boost to the sentiments in the local market, the rupee started trading below the 61 mark hitting 60.90, its lowest level since September 23. But worries about global economic growth sparked a recovery in the dollar from recent falls and India's trade deficit widening on higher oil and gold imports hit the rupee adversely against the dollar in the later part of the week. The rupee closed at a seven month low of 61.85 per US Dollar slipping to 61.93 level in intra-day trade helped by the central bank's intervention stopping it from breaching the 62 mark. The fortnight ended on a positive note for the local currency which ended on 61.44 per dollar as a rise in local shares along with positive US unemployment and industrial output data helped sentiment. But the market would be cautious given the uncertainties about global economic growth.

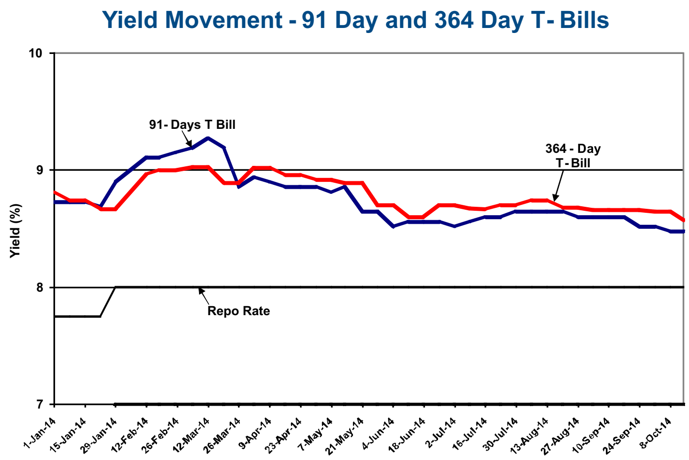
EQUITY MARKET

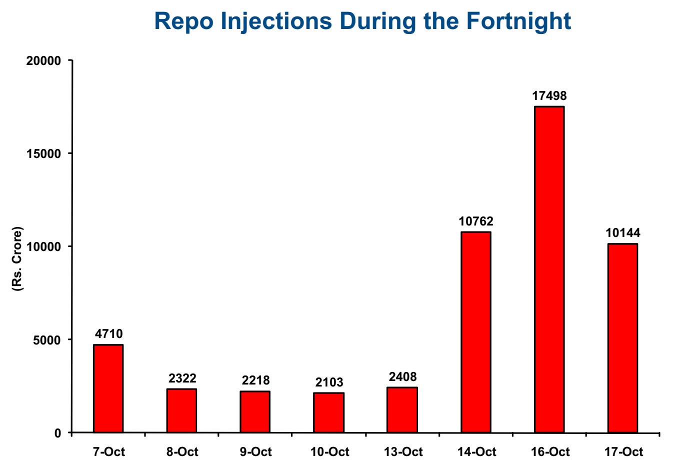
The domestic equities witnessed losses, closing much lower than the high of 7972 achieved during the fortnight. The first week began with a decline in the benchmark indices ahead of the earnings reporting season with banking, metal and infrastructure stocks among the leading losers. Adding the woes, the overseas investors were seen selling Indian shares

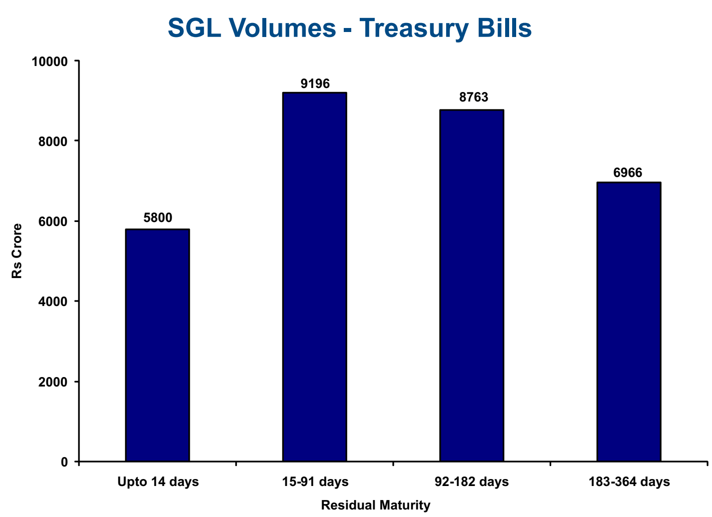
Details of all the Treasury bill auctions held in the fortnight ended 17th October 2014 have been tabulated as under:

(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
Date Of Auction	08 Oct	14 Oct	08 Oct	14 Oct
Cut-off Price (Rs)	97.93	97.93	95.88	92.13
Implicit Yield (%)	8.48	8.48	8.62	8.57
Weighted Avg. Yield (%)	8.48	8.44	8.60	8.55
Competitive Bids Received	39453.54	24604.93	19046.00	25925.00
Competitive Bids Accepted	9000.00	9000.00	6000.00	6000.00
Non-Competitive Bids Accepted	2500.00	1660.50	556.28	29.00
Total Bills Issued	11500.00	10660.50	6556.28	6029.00
Of which MSS	0.00	0.00	0.00	0.00







at the beginning of the week itself. However, the losses were limited as cyclical stocks gained after IMF raised it FY 15 GDP growth estimate for India from 5.4 percent to 5.6 percent. Further the market rose as hopes the Federal Reserve would not rush into raising U.S. interest rates boosted heavyweight banks and blue chips. The first week ended on lows as blue chips were hit by concerns that weaker global markets would dent demand from foreign investors. Global shares, as measured by the MSCI All-Country World index, fell to a six-month low as investors worry about the prospect of a widespread economic slowdown while U.S. monetary stimulus nears its end which led India's indices to their third consecutive weekly fall. The second week began on a slight positive note as stocks of blue-chip companies recovered from previous week losses, tracking positive cues from European markets. Improving China trade data also helped sentiment as it eased some of the recent concerns about the global economy. Thereafter the sentiments remained cautious and the indices witnessed falls as markets across the world remained weak on worries about global economic growth and the end of U.S. stimulus. The fortnight ended with indices rising a little on hopes a likely win for the BJP in two recent state elections would help push key reforms. Nifty closed the fortnight at 7779.

MONEY MARKET

Repo injection through LAF averaged at Rs. 6,520 crore as against Rs. 7,593 crore a fortnight ago. Average call rate stood at 7.92% during the first week and 7.87 % in the second week of the fortnight, while CBLO and Repo averaged at 7.83% and 7.94% respectively during the past fortnight. Average volume in Call and CBLO market during the fortnight stood at Rs. 15,375 crore and Rs. 62,525 crore respectively.

TREASURY BILLS

Primary Market

During the fortnight, RBI issued Rs. 15,000 crore in both the weeks of the fortnight in T-bills segment. Cut off yield on 91 day T-bill stood at 8.48% for the both the weeks as compared to previous cut off 8.52 % in the last week of previous fortnight. Cut off yield on 182-day T-bill stood at 8.62% and on 364 day T-bill stood at 8.57%.

Secondary Market

Trading volumes during the fortnight increased to Rs. 30,725 crore vis-à-vis previous fortnight's level of Rs. 24,998 crore. Average daily trading volume stood at Rs. 3,841 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs. 9,196 crore was witnessed in the 15-91 days residual maturity bucket. During the fortnight, Private Sector Banks , Foreign Banks and Primary Dealers were net sellers while Public Sector Banks and Mutual funds were net buyers.

GOVERNMENT SECURITIES

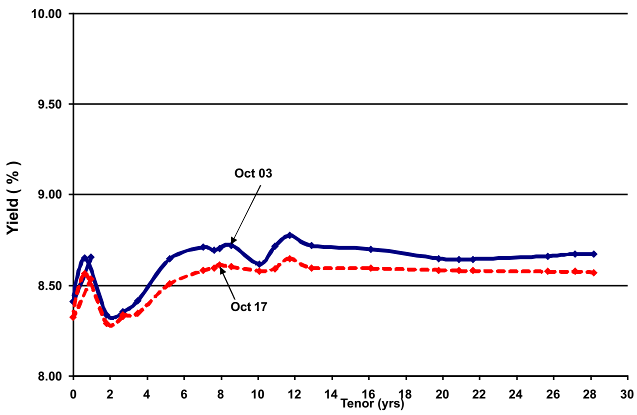
Primary Market

Government borrowed Rs. 15,000 crores through dated securities in the first week of fortnight .RBI had re-issued 8.27% GS 2020 (RS. 3000 crore), 8.40% GS 2024 (Rs 7000 crore),

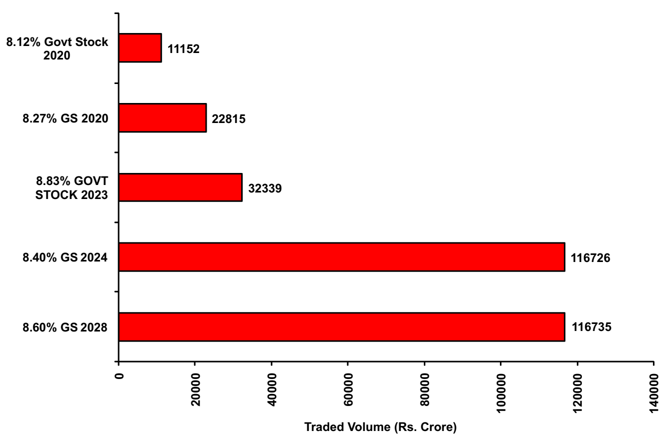
Buying/ Selling Activity during Fortnight: Rs. Crore)

	Total_G_Sec	Total_T_Bill
Foreign Banks	11647.88	-4901.81
Public Sector Banks	-12653.82	5950.51
Private Sector Banks	-1322.52	-884.55
Primary Dealers	-1871.99	-8281.69
Mutual Funds	3493.76	6657.96
Others	706.69	1459.58

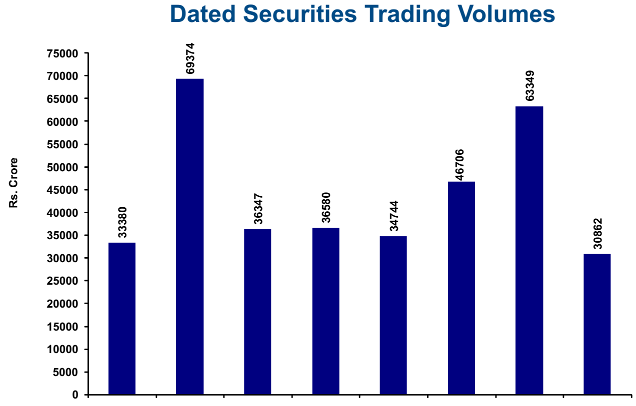
Yield Curve Movement



Most Traded Securities



Dated Securities Trading Volumes



9.20% GS 2030 (Rs. 2000 crore) and 9.23% GS 2043 (Rs 3000 crore).The under writing fees in the 6-yr paper, 10-yr, 9.20% GS 2030 and 9.23% GS 2043 stood at 1.49, 1.75, 1.47, 1.99 paisa respectively. The cut off yield on 6-yr, 10-yr, 16-yr and 29-yr papers stood at 8.57%, 8.47%, 8.67%, 8.68% respectively. Government borrowed Rs. 15,000 crores through dated securities in the second week of fortnight .RBI had re-issued 8.27% GS 2020 (RS. 2000 crore), 8.60% GS 2028 (Rs 7000 crore), 8.32% GS 2032 (Rs. 3000 crore) and 8.30% GS 2042 (Rs 3000 crore).The under writing fees in the 6-yr paper, 14-yr, 8.32% GS 2032 and 8.30% GS 2042 stood at 0.23, 0.27, 0.44, 0.44 paisa respectively. The cut off yield on 6-yr, 14-yr, 18-yr and 28-yr papers stood at 8.48%, 8.53%, 8.58%, 8.58% respectively.

Secondary Market Developments

During the fortnight bond market is driven by inflation expectation, surprise OMO sales and Inflation prints. First week of the fortnight started on positive note taking a cue from sliding crude prices and low inflation expectation however the gain made by the market, pared on surprise announcement of OMO sale by RBI worth Rs15000Cr.Market was of the view that announcement of OMO sales came to diffuse the rally in bond market and it is perceived by the market participant that RBI is not comfortable with the ten year yield is at 8.40% or below, however after clarification that the OMO sales is not a yield signal rather a cash management exercise, bond market recovered to some extent. Second week of the fortnight also started on positive note on expectation of low inflation. The CPI inflation print at 6.46% against the expectation of 7.11%, on Monday after market hour surprised everyone. Bond market rallied on expectation of policy rate cut by RBI, as RBI's CPI inflation target for 2016 is 6% and dismal performance under IIP may invoke RBI to consider it's no cut policy stand. Ten year bench mark touched the level of 8.35%.The WPI print at 2.38% against the expectation of 3.24%, lowest in five year boost the sentiment of the market. Softening yield of US treasury also supported the domestic bond market however the profit booking by the dealer pull the yield to the level of 8.39%. Ten year benchmark closed at 8.39% against the previous closing of 8.48% .

Trading Volumes

Trading volumes during fortnight increased to Rs. 3, 51,342 crore as against Rs. 2, 47,448 crore in the previous fortnight. The first week's average daily trading volume stood at Rs. 43,920 crore vis-à-vis second week's level of Rs. 43,916 crore. The highest single day trading volume was Rs. 69,374 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 Public Sector Banks, Primary Dealers and Private Sector Banks were net sellers while, Mutual Funds and Foreign banks were net buyers.

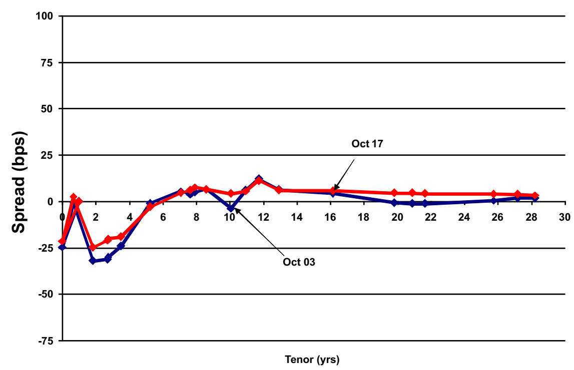
OUTLOOK

Coming fortnight is expected to be range bound in absence of any triggers. Movement in crude prices and US treasury may drive the domestic bond market either way. OMO sales by RBI on account of comfortable liquidity may bring bearishness in the market. Keeping in view the above fact, the ten year bench mark paper is expected to trade in the range of 8.35% to 8.42%.

SPREAD MONITOR

	TTM (yrs)	YTM		Change in YTM (bps)
		1-Oct	17-Oct	
364 Day T Bill	1.00	8.65	8.54	-12
7.32% GOI 2014	0.01	8.41	8.32	-9
7.17% GOI 2015	0.66	8.65	8.56	-9
7.02% GOI 2016	1.84	8.33	8.29	-5
8.07% GOI 2017	2.71	8.34	8.33	-2
7.99% GOI 2017	2.73	8.35	8.34	-2
8.24%GOI 2018	3.52	8.41	8.34	-7
8.19% GOI 2020	5.25	8.64	8.51	-14
8.79% GOI 2021	7.07	8.71	8.58	-13
8.79% GOI 2021	7.07	8.71	8.58	-13
8.15% GOI 2022	7.65	8.69	8.60	-10
8.13% GOI 2022	7.93	8.70	8.61	-9
7.16% GOI 2023	8.59	8.72	8.60	-12
9.15% GOI 2024	10.08	8.62	8.58	-4
8.20% GOI 2025	10.95	8.71	8.59	-12
8.33% GOI 2026	11.73	8.77	8.65	-13
8.28% GOI 2027	12.94	8.72	8.59	-12
8.97% GOI 2030	16.15	8.70	8.59	-10
7.50% GOI 2034	19.83	8.65	8.58	-7
7.40% GOI 2035	20.91	8.64	8.58	-6
8.33% GOI 2036	21.65	8.64	8.58	-6
8.30% GOI 2040	25.73	8.66	8.58	-8
8.83% GOI 2041	27.17	8.67	8.58	-10
8.30% GOI 2042	28.22	8.67	8.57	-10

Spread Over One-Year Paper



(in Rs. Crore)

INFLOWS			OUTFLOWS		
Date	Security	Coupon Receipts	Date	Security	Scheduled auction amount
22-Oct-14	8.24% GOI 2018	3090	Oct 20-24, 2014	No auction scheduled	
22-Oct-14	10.70 % GOI 2020	321	Oct 27-31,2014	5-9 years	2000-3000
29-Oct-14	10.50 % GOI 2014	54		10-14 years	6000-7000
31-Oct-14	10.45% GOI2018	193		15-19 years	2000-3000
				15-19 years	3000-4000
Total Inflows		3658	Total Outflows	15000	

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