GILT NEWS

for the fortnight ended 31 October, 2014

Economy & Financial Markets Review

Domestic Developments

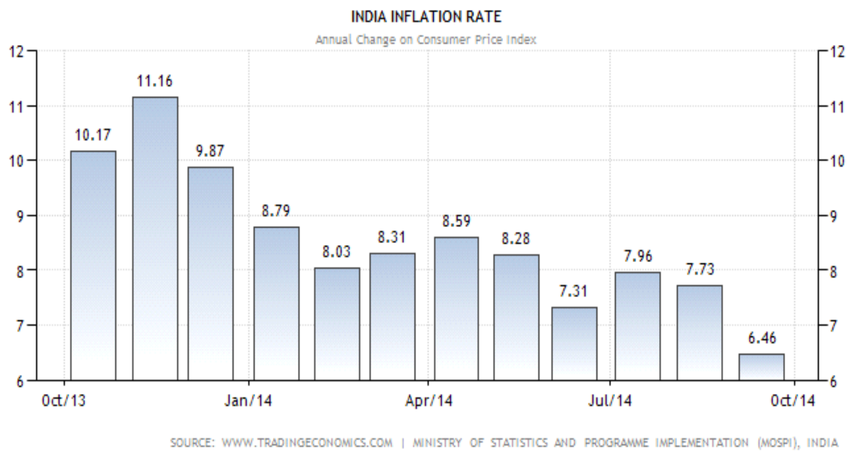
Fiscal deficits touch 83% of full year target, in just halfway through the financial year.
The Eight Core Industries comprise nearly 38% of the weight of items included in the Index of Industrial Production (IIP) registered a dismal growth of 1.9 %.

International Developments

10-yr US treasury yield ends the fortnight at 2.34% as against previous fortnight closing of 2.19%.
Crude oil ends fortnight at USD 80.54 as against previous fortnight's closing of USD 82.75 per barrel

G-sec Market

During the past fortnight bond market remain bullish and is mainly driven by speculation of easing policy rate by RBI.
Three out of seven members of Technical Advisory Committee (RBI) recommends to lower interest rates.
New ten year paper closes at 8.28% against previous closing of 8.39%



Money Market

Average repo injection during the fortnight stood at Rs. 16,885 crore against previous fortnight average of Rs. 6,521 crore.

Forex Market

Rupee ends at 61.37/USD vis-a-vis 61.44/USD during previous fortnight.

Nifty and Sensex rise by 6.97% and 6.73% respectively.

MACROECONOMIC INDICATORS

(Rs. Billion)

	As on 17th October	Variation over the fortnight	Variation over LRF of March	YOY % growth
Aggregate Deposits	82,139	(754)	5,083	12.60
Bank Credit	62,200	(490)	2,259	11.11
Non - food Credit	61,201	(499)	2,245	11.16
Banks Investment in G-Sec	24,112	23	2,000	10.96
Broad Money M3	100,859	(571)	5,886	12.01
Reserve Money (Oct 24)	17,832	605	505	13.25
Forex Reserves (USD bn) (Oct 24)	288	1.4	12	13.29
Credit – Deposit Ratio	75.73			
LAF Repo Rate (%)	8			
LAF Reverse Repo Rate (%)	9			
CRR Cash Reserve Ratio (%)	4			
MSF/Bank Rate	9			

DOMESTIC DEVELPOMENTS

Fiscal deficits touched 83% of full year target, in just halfway through the financial year.

A day after the government announced austerity measures on the non-Plan expenditure side, official data showed the Centre's fiscal deficithas surged to 82.6 per cent of the Budget Estimate(BE) in the first half of the current financial year, against 76 per cent in the corresponding period of the previous financial year.

The high fiscal deficits can be attributed to low revenue collection as against it was planned and high tax refunds, though government successfully reined in expenditure.

The Budget had estimated fiscal deficit to be Rs 5.31 lakh crore or 4.1 per cent of GDP(gross domestic product) in 2014-15. However, it stood at around Rs 4.39 lakh crore in April-September period.

Going ahead, achieving the fiscal deficits target 4.1% seems to be difficult but not impossible as the government has a cushion of lower fuel subsidy this year and lower spending on food subsidy because the food security law is not likely to be rolled out by many states this year. The government has set aside Rs 1.15 lakh crore for food subsidy this year. The government has also tightened the flagship rural jobs programme MGNREGA, implying lower spending on the scheme. Besides, it expects disinvestment to pick up in the second half as preparations are underway for some big-tickets.

Core sector growth fell to 8-month low of 1.9% in Sept.

The Eight Core Industries comprise nearly 38% of the weight of items included in the Index of Industrial Production (IIP) registered a dismal growth of 1.9 % higher compared to the September, 2013. Its cumulative growth during April to September, 2014-15 was 4.0 %.

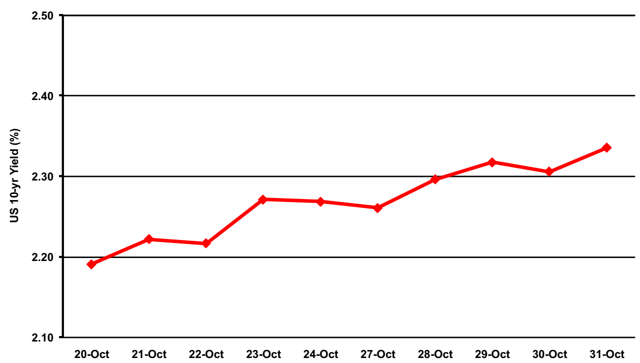
The eight core sectors -- coal, crude oil, natural gas, refinery products, fertilizer, steel, cement and electricity -- grew by 9 per cent in September last year.

Production in crude oil, natural gas, refinery products and fertilizer has registered a drop of 1.1 per cent, 6.2 per cent, 2.5 per cent and 11.6 per cent respectively in the month under review, according to the data released by the Commerce and Industry Ministry.

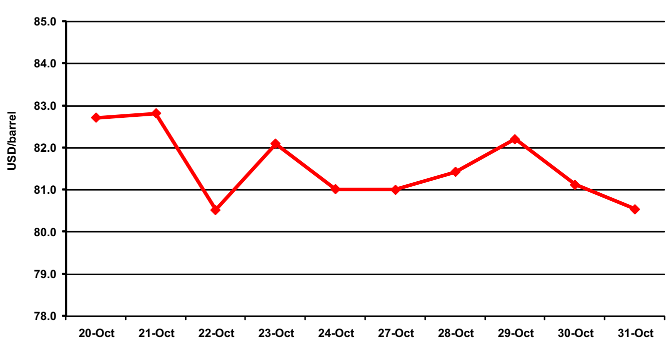
Expansion in other four sectors - coal, cement, steel and electricity - too slowed down to 7.2 per cent, 3.2 per

Date	Event	Period	Prior
3-Nov-14	ISM Manufacturing	Oct	56.60%
4-Nov-14	Trade Balance	Sep	($40.1B)
6-Nov-14	Jobless Claims	1st Nov	287K
7-Nov-14	Change in Non-farm Payroll	Oct	248K
7-Nov-14	Unemployment Rate	Oct	11.80%
14-Nov-14	Import Price Index YOY	Oct	-0.90%

USTreasury yield movement during the fortnight



Crude oil price movement during the fortnight



cent, 4 per cent and 3.8 per cent respectively in September - 2014

INTERNATIONAL DEVELOPMENTS

US Treasury

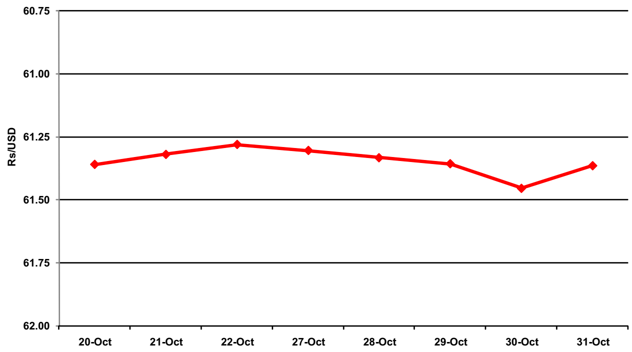
The treasury yields followed an uptrend during the fortnight owing to Fed's decision of winding up of its monetary stimulus measure. The first week started on a positive note as yields fell on speculation that the US economic growth may be restrained by global headwinds prompting the Fed Reserve to delay its interest rate increases. Demand for U.S. debt was bolstered as bond yields rose in Portugal, Spain and Italy, even as the European Central Bank began its purchases of covered bonds, adding to signs of economic stagnation in the region. Thereafter the yields rose as a report showed existing home sales rose to their highest level in a year and as another report showed the U.S. consumer price index unexpectedly rose last month, reducing concern the economy was in danger of deflation. The week ended with treasuries heading for a loss for the first time in six weeks before the Federal Reserve holds its meeting. The second week witnessed further rise in the yield level as investors speculate interest rates may remain low for an extended period even as the Federal Reserve is forecast to end it's bond-buying as U.S. economic data improves. Treasuries dropped further after a report showed consumer confidence rose to a seven-year high and as the Federal Reserve ended its third round of bond-buying, indicating the U.S. economy is on a stable growth path. The fortnight ended with treasuries falling with the yields on five year notes reaching a three week high after the Bank of Japan added stimulus to boost the economy while the Fed ended bond-buying as growth accelerated.

COMMODITIES

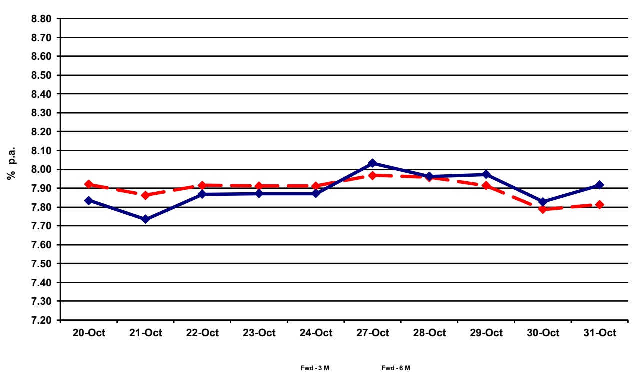
International Crude Oil

Crude oil prices continue with its downtrend during the fortnight and falls even below $80 mark. Crude fell after an Energy Information Administration report showed U.S. inventories increased more than forecast last week. Thereafter crude oil surged from its lowest closing price in more than two years as Saudi Arabia trimmed crude oil supply in September. The first week ended crude prices retreating from the biggest gain since September amid speculation a drop in Saudi Arabian oil supplies isn't a signal that OPEC's largest producer has decided to cut production. The second week began with crude oil falling to its lowest since June 2012 as Goldman Sachs Group Inc. cut its oil price forecasts. Thereafter the oil prices gained after an Energy Information Administration report showed

Rupee movement during the fortnight



Annualised USD/INR Fwd Premia



growth in U.S. inventories slowed. Stockpiles rose 2.06 million barrels in the seven days ended Oct. 24, following a combined increase of 21 million in the previous three weeks. Crude oil fell towards the end of the fortnight after the Federal Reserve ended its asset-purchase program and U.S. crude production surged to the highest level since the 1980s. the crude oil ended the fortnight being on track for its biggest monthly decline in more than two yearas as OPEC boosted production to a 14-month high amid global surplus.

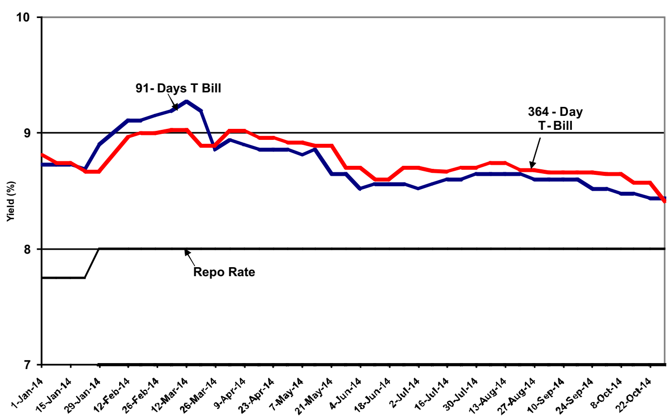
FOREX MARKET

The Rupee opened on a high note at start of the fortnight after the ruling party's success in two state elections and the government's removal of diesel subsidies and a hike in natural gas prices sparked hopes for additional reforms. It started trading at 61.20 per USD versus previous fortnight's close of 61.44. The domestic currency extended its gain with the help of fresh capital inflows and a rally in the equity space. Fresh dollar selling by exporters too aided the rupee rise. The Forex market was closed on October 23 and 24, on account of festival. The week was majorly dominated by the positive sentiments from the domestic equity market, with the currency regaining 17 paise to close at one-week high of 61.27 against the Greenback during the shortened week under review. The rupee started trading in the following week with an eye on Federal Reserve meeting to be concluded on 29th Oct. It weakened slightly as oil importers stepped up dollar purchases ahead of the end of the month, while overall sentiment was cautious ahead of the Fed meeting. But the rupee held its ground supported by continued foreign flows into the debt and stock markets and the announcement of several government reforms. The rupee hit a two-week low on Thursday as the dollar got a boost after the US Federal Reserve struck a more hawkish tone than expected at its policy meeting. The dollar climbed to its highest in more than three weeks against a basket of currencies, after the Fed underscored the improving US labour market, raising concerns it may raise interest rates earlier than expected. The rupee closed at 61.45/46 per dollar on Thursday washing away the gains it made over the fortnight. However, broader losses in the rupee were capped as domestic shares rose to record highs, raising hopes of continued foreign inflows. Custodian banks were also seen selling dollars through the session. But the domestic currency is expected to hold its ground on optimism that a drop in oil prices will further ease inflation and create room for the

Major Stock Indices

	17-Oct-14	31-Oct-14	% Change
	Indian Indices		
Sensex	26109	27866	6.73%
Nifty	7780	8322	6.97%
FMCG	7308	7497	2.59%
IT	10131	10702	5.64%
Banking	18240	19505	6.93%
Auto	17019	18579	9.17%
Capital Goods	14244	15925	11.80%
Healthcare	13467	14354	6.59%
PSU	7857	8343	6.20%
	World Indices		
Dow Jones	16380	17390	6.16%
Nikkei	14533	16414	12.95%
FTSE	6310	6546	3.74%

Yield Movement - 91 Day and 364 Day T- Bills



Reserve Bank to cut the interest rates. The rupee closed at Rs.61.38 per USD for the fortnight.

EQUITY MARKET

The fortnight saw the equity market making new historic highs. The benchmark indices Sensex and Nifty opened 325 and 117 points up at 26434 and 7897 respectively from the previous fortnight close. The market headed north as the fuel reforms led to a rally in state-owned oil and gas shares while financials gained on expectations of more reforms by Narendra Modi-led BJP to push economic growth post its stellar performance in Maharashtra and Haryana assembly polls. The price of widely-used diesel was deregulated effective midnight of October 18. The government recommended the promulgation of an ordinance to facilitate e-auction of coal blocks for private companies for captive use and allot mines directly to state and central PSUs. The banking index hit an all-time high at the start of the week outperforming the benchmark Nifty on hopes the Reserve Bank of India may cut rates sooner after the government's moves to tighten its finances. Hopes for fresh stimulus from the European Central Bank and China's steady growth bolstered Asian stocks and gains in the US market accelerated buying activity on the domestic bourses in the second week of the fortnight. The S&P BSE Sensex hit its all-time high after breaching the previous figure of 27,354.99 in September to end the fortnight at 27866. Nifty closed at 8322.

MONEY MARKET

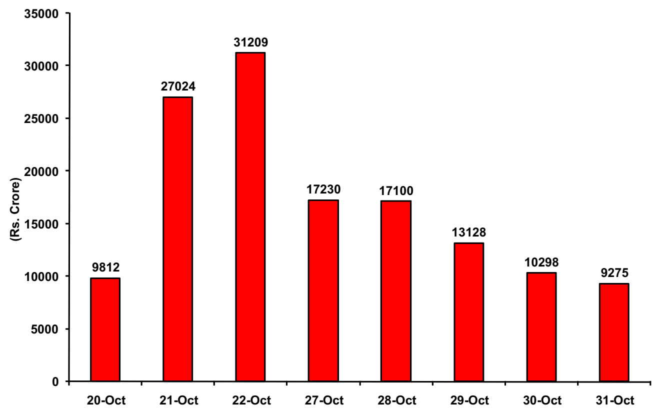
Repo injection through LAF averaged at Rs. 16,885 crore as against Rs. 6,520 crore a fortnight ago. Average call rate stood at 8.48% during the first week and 7.94 % in the second week of the fortnight, while

Details of all the Treasury bill auctions held in the fortnight ended 31st October 2014 have been tabulated as under:

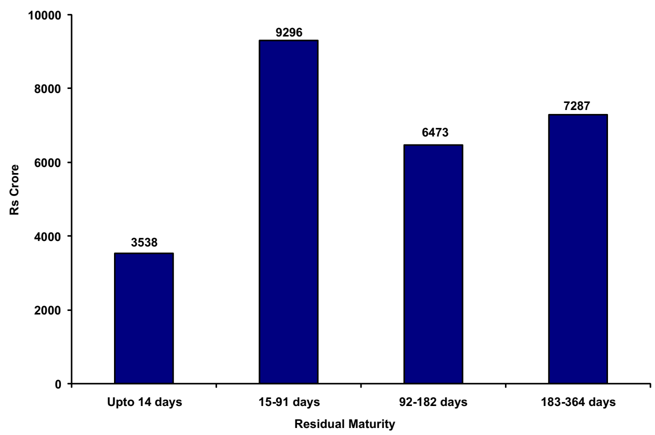
(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
Date Of Auction	22 Oct	29 Oct	22 Oct	29 Oct
Cut-off Price (Rs)	97.94	97.94	95.92	92.26
Implicit Yield (%)	8.44	8.44	8.53	8.41
Weighted Avg. Yield (%)	8.39	8.39	8.51	8.40
Competitive Bids Received	36176.75	32657.20	18869.75	27235.75
Competitive Bids Accepted	9000.00	9000.00	6000.00	6000.00
Non-Competitive Bids Accepted	6750.00	9550.00	32.12	Nil
Total Bills Issued	15750.00	18550.00	6032.12	6000.00
Of which MSS	Nil	Nil	Nil	Nil

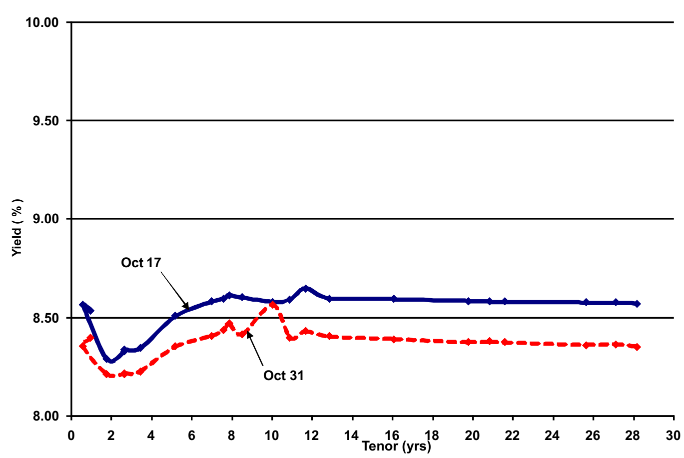
Repo Injections During the Fortnight



SGL Volumes - Treasury Bills



Yield Curve Movement



CBLO and Repo averaged at 8.08% and 8.25% respectively during the past fortnight. Average volume in Call and CBLO market during the fortnight stood at Rs. 14,368 crore and Rs. 62,599 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 8.44% for the both the weeks as compared to previous cut off 8.48 % in the last week of previous fortnight. Cut off yield on 182-day T-bill stood at 8.53% and on 364 day T-bill stood at 8.41%.

Secondary Market

Trading volumes during the fortnight decreased to Rs. 26,595 crore vis-à-vis previous fortnight's level of Rs. 30, crore. Average daily trading volume stood at Rs. 3,324 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs. 9,296 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. 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.

Government borrowed Rs. 15,000 crores through dated securities in the second week of fortnight .RBI had re-issued 8.27% GS 2020 (RS. 3000 crore), 8.40% GS 2024 (Rs 7000 crore), 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 0.19, 0.22, 0.33, 0.37 paisa respectively. The cut off yield on 6-yr, 10-yr, 16-yr and 29-yr papers stood at 8.29%, 8.27%, 8.35%, 8.36% respectively.

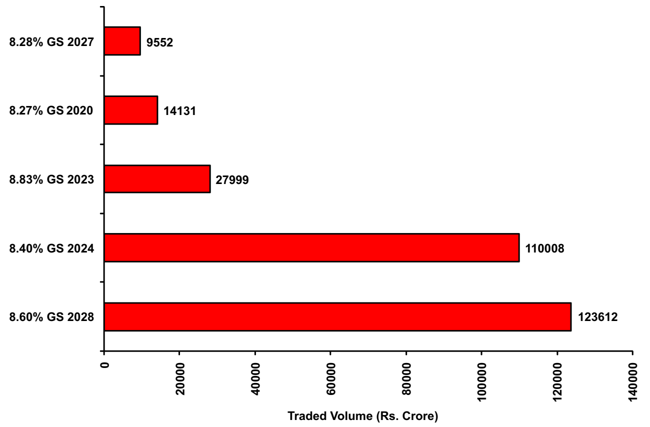
Secondary Market Developments

During the past fortnight bond market remained bullish and is mainly driven by speculation of easing policy rate by RBI. First week of the fortnight started on positive

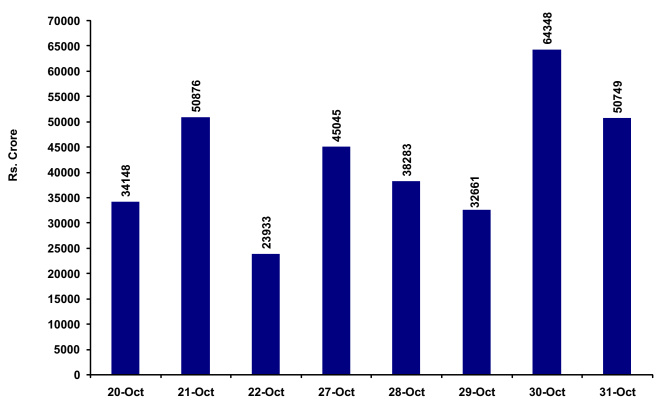
Buying/ Selling Activity during Fortnight: Rs. Crore)

	Total_G_Sec	Total_T_Bill
Foreign Banks	-2020.24	-1350.20
Public Sector Banks	1172.69	2068.31
Private Sector Banks	-425.19	-1686.99
Primary Dealers	-1347.27	-5665.20
Mutual Funds	1182.16	6177.31
Others	1437.84	456.78

Most Traded Securities



Dated Securities Trading Volumes



note, as government kick on its reform agenda by deregulating the diesel prices and labor reforms measures. The sentiment in bond market further improved with the decision of government that Coal industry will be open for private players as well and expectation of rate cut by RBI as early as March 2014.In this shortened week bond market traded in a tight range of 8.33% to 8.38%. Second week of the fortnight also started on positive note on back of improvement in sentiment. Over the weekend, Finance Minister said in an interview with that the time seems to have come for the Reserve Bank of India to reduce interest rates as inflation is stabilizing, and recommendations by three out of seven members of Technical Advisory Committee to lower interest rates led to upbeat mood in the market. The sentiment further strengthened by the Goldman Sachs's statement that it had cut its forecast for WTI Crude to USD 75 a barrel from USD 90, and its prediction for Brent to USD 85 from USD 100, with rising production in non-OPEC countries outside North America expected to outstrip demand. Under these booster inputs, ten year bench mark touched the level of 8.25% however it could not sustained on this level probably on account of profit booking by market players. Ten year bench mark closed at 8.28% as against the previous closing of 8.39%.

Trading Volumes

Trading volumes during fortnight decreased to Rs. 3, 40,042 crore as against Rs. 3, 51,342 crore in the previous fortnight. The first week's average daily trading volume stood at Rs. 36,319 crore vis-à-vis second week's level of Rs. 46,217 crore. The highest single day trading volume was Rs. 64,348 crore. Top two traded securities 8.40% GOI 2024 & 8.60% GOI 2028 cornered 82 percent of the top five traded securities volume. During the fortnight Foreign Banks, Primary Dealers and Private Sector Banks were net sellers while, Mutual Funds and Public Sector banks were net buyers.

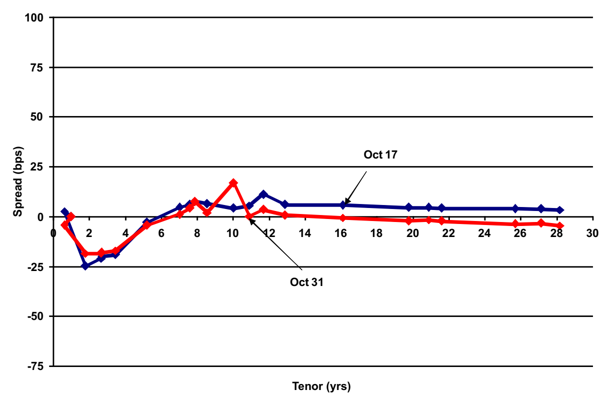
OUTLOOK

Coming fortnight is expected to be bullish on account of low inflation expectation. The retail as well as wholesale inflation is schedule to release in coming fortnight along with IIP data. The low inflation print along with poor IIP data may force RBI to cut policy rate to give momentum in growth. On global front crude movement will also guide the market forces. Under these circumstances bond market is expected to trade in a range of 8.30% to 8.20%.

SPREAD MONITOR

	TTM (yrs)	YTM 17-Oct	YTM 31-Oct	Change in YTM (bps)
364 Day T Bill	1.00	8.54	8.39	-14
7.17% GOI 2015	0.62	8.56	8.35	-21
7.02% GOI 2016	1.80	8.29	8.21	-8
8.07% GOI 2017	2.67	8.33	8.21	-11
7.99% GOI 2017	2.69	8.34	8.21	-12
8.24%GOI 2018	3.48	8.34	8.22	-12
8.19% GOI 2020	5.21	8.51	8.35	-15
8.79% GOI 2021	7.03	8.58	8.41	-17
8.79% GOI 2021	7.03	8.58	8.41	-17
8.15% GOI 2022	7.62	8.60	8.44	-16
8.13% GOI 2022	7.90	8.61	8.47	-14
7.16% GOI 2023	8.56	8.60	8.41	-19
9.15% GOI 2024	10.05	8.58	8.56	-1
8.20% GOI 2025	10.91	8.59	8.40	-19
8.33% GOI 2026	11.70	8.65	8.43	-22
8.28% GOI 2027	12.90	8.59	8.40	-19
8.97% GOI 2030	16.11	8.59	8.39	-20
7.50% GOI 2034	19.79	8.58	8.37	-21
7.40% GOI 2035	20.87	8.58	8.38	-20
8.33% GOI 2036	21.62	8.58	8.37	-21
8.30% GOI 2040	25.69	8.58	8.36	-22
8.83% GOI 2041	27.13	8.58	8.36	-21
8.30% GOI 2042	28.19	8.57	8.35	-22

Spread Over One-Year Paper



(in Rs. Crore)

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<tr><th colspan="3">INFLOWS</th><th colspan="3">OUTFLOWS</th></tr>
<tr><th>Date</th><th>Security</th><th>Coupon Receipts</th><th>Date</th><th>Security</th><th>Scheduled auction amount</th></tr>
<tr><td>7-Nov-14</td><td>7.85% FRB 2016</td><td>236</td><td rowspan="4">Nov 3-7, 2014</td><td>5-9 years</td><td>2000-3000</td></tr>
<tr><td>8-Nov-14</td><td>8.79% GS 2021</td><td>3648</td><td>10-14 years</td><td>6000-7000</td></tr>
<tr><td>12-Nov-14</td><td>11.83 % GS 2014</td><td>298</td><td>15-19 years</td><td>2000-3000</td></tr>
<tr><td rowspan="2">14-Nov-14</td><td>8.35% GS 2022</td><td>3215</td><td>15-19 years</td><td>3000-4000</td></tr>
<tr><td>9.15% GS 2024</td><td>4209</td><td rowspan="4">Nov 10-14,2014</td><td>5-9 years</td><td>2000-3000</td></tr>
<tr><td colspan="2" rowspan="3"></td><td rowspan="3"></td><td>10-14 years</td><td>6000-7000</td></tr>
<tr><td>15-19 years</td><td>2000-3000</td></tr>
<tr><td>15-19 years</td><td>3000-4000</td></tr>
<tr><td colspan="2">Total Inflows</td><td>11605</td><td>Total Outflows</td><td colspan="2">30000</td></tr>
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