GILT NEWS

for the fortnight ended 14 November, 2014

Economy & Financial Markets Review

Domestic Developments

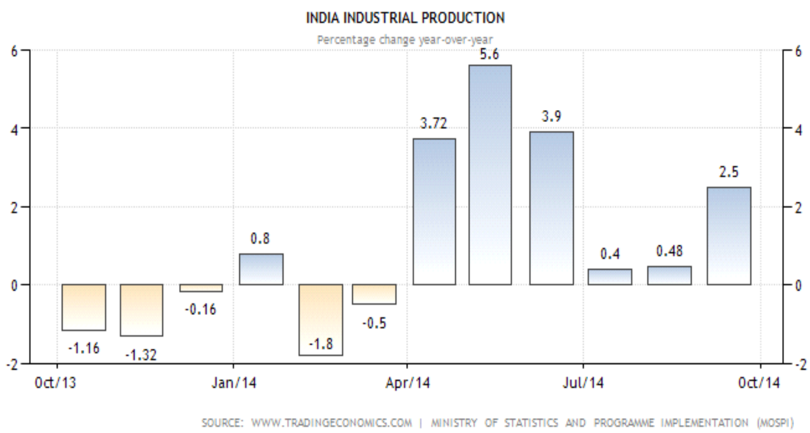
Consumer price index based inflation dip to a historical level of 5.52%.
Index of industrial production register a growth of 2.5%
Whole sale index based inflation also dip to the level of 1.77%.

International Developments

10-yr US treasury yield ends the fortnight at 2.32% as against previous fortnight closing of 2.34%.
Crude oil ends fortnight at USD 82.75 as against previous fortnight's closing of USD 75.82 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.
RBI announces OMO sales of Rs 10000Cr.
Ten year paper closes at 8.22% against previous closing of 8.28%



Money Market

Average repo injection during the fortnight stood at Rs. 7,906 crore against previous fortnight average of Rs. 16,885 crore.

Forex Market

Rupee ends at 61.72/USD vis-a-vis 61.37/USD during previous fortnight.

Nifty and Sensex rise by 0.82% and 0.65% respectively.

MACROECONOMIC INDICATORS (Rs. Billion)

	As on 31st October	Variation over the fortnight	Variation over LRF of March	YOY % growth
Aggregate Deposits	82,770	631	5,714	11.96
Bank Credit	62,726	526	2,785	11.18
Non - food Credit	61,636	435	2,680	11.27
Banks Investment in G-Sec	24,132	20	2,020	10.50
Broad Money M3	101,465	606	6,492	11.31
Reserve Money (Nov 07)	17,454	(379)	126	7.87
Forex Reserves (USD bn) (Nov 07)	290	1.3	13	13.83
Credit – Deposit Ratio	75.78			
LAF Repo Rate (%)	8			
LAF Reverse Repo Rate (%)	9			
CRR Cash Reserve Ratio (%)	4			
MSF/Bank Rate	9			

DOMESTIC DEVELPOMENTS

October CPI inflation dips to 5.52%, touches historic low

Retail inflation slowed to 5.52 percent in October from a multi-year low of 6.46 percent a month earlier, helped by slower annual rises in food and fuel prices. Industrial output grew moderately by 2.5 percent year on year in September from 0.5% of the previous month, its fastest pace in three months, helped by a rebound in the capital goods sector and manufacturing sector (demand increased due to festivals in the month of October). Core inflation, which denotes prices for non-food and non-fuel items, came in at 5.85 percent compared to 5.9 percent in the previous month. Most of the food-sub groups showed a fall in prices in October. The biggest drop came from vegetable prices, where prices fell 1.45%, compared to a rise of 8.59% in September.

Breakup of the CPI components:

Clothing, footwear, bedding inflation at 7.45 % Vs 7.59 % (MoM)

Combined fuel, light inflation at 3.29 % Vs 3.45 % (MoM)

Vegetable price inflation at -1.45 % Vs 8.59 % (MoM)

Rural inflation at 5.52% Vs 6.68% (MoM)

Urban inflation at 5.55% Vs 6.34% (MoM)

CPI food inflation at 5.59% Vs 7.67% (MoM)

The moderation in CPI inflation is expected to continue in the coming months, benefiting from a favorable base effect, a decline in domestic fuel prices and, to a smaller extent, easing global commodity prices. But as the base effect wears off, CPI inflation is expected to revert back to the level of more than 6% in February-March 2015 however the fan chart, RBI is giving on its policy review will guide it better. The possibility of any rate cut by the Reserve Bank of India in the next two money policy reviews is equally posed in either side as kharif crop output has been forecasted by the government to be much lower than last year, and food prices may rise again. However we expect that RBI may cut the policy rate in next to next policy review.

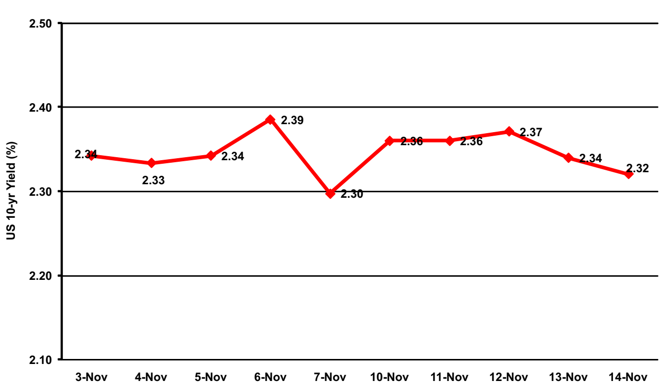
October WPI inflation dips to 5-year low of 1.77%.

India's wholesale price inflation eased for a fifth straight month in October to 1.77 percent, its lowest level in more than five years. Primary articles inflation dipped to 1.43% versus 2.18% in September, food articles inflation came in at a nearly two-and-half year low of 2.70% versus 3.52% in September.

Item wise inflation of different components is as under:-

Items in Head Line Inflation for Oct 2014			Weightage (%)	Sep-14	Oct-14
	Head Line Inflation		100	2.38%	1.77%
A.	Primary Article		20.12	2.18%	1.43%
		(1)Food Article	14.34	3.52%	2.70%
		(2) Non Food Article	4.26	0.52%	-1.41%
		(3) Mineral	1.52	-3.63%	-2.03%
B.	Fuel & Power		14.91	1.33%	0.43%
C.	Manufacturing		64.97	2.84%	2.43%
		Food Product	9.97	3.00%	2.11%
		Non Food Mfg Product	55.00	2.81%	2.55%
		(1) BEVERAGES, TOBACCO & TOBACCO PRODUCTS	1.76	10.26%	9.68%
		(2) TEXTILES	7.33	2.93%	2.14%
		(3) WOOD & WOOD PRODUCTS	0.59	3.91%	3.96%
		(4) PAPER & PAPER PRODUCTS	2.03	5.71%	5.69%
		(5) LEATHER & LEATHER PRODUCTS	0.84	0.55%	0.28%
		(6) RUBBER & PLASTIC PRODUCTS	2.99	3.28%	2.51%
		(7) CHEMICALS & CHEMICAL PRODUCTS	12.02	3.09%	3.09%
		(8) NON-METALLIC MINERAL PRODUCTS	2.56	3.89%	4.84%
		(9) BASIC METALS, ALLOYS & METAL PRODUCTS	10.75	1.28%	1.09%
		(10) MACHINERY & MACHINE TOOLS	8.93	2.51%	2.27%
		(11) TRANSPORT, EQUIPMENT & PARTS	5.21	0.89%	0.22%

USTreasury yield movement during the fortnight



Inflation is likely to head even lower with international crude prices falling further and the winter vegetable crop likely to push prices down, however as kharif crop output has been forecasted by the government to be much lower than last year, and food prices may rise again. Growth indicators suggest consumer demand is still weak and the festival season has not provided much cheer.

INTERNATIONAL DEVELOPMENTS

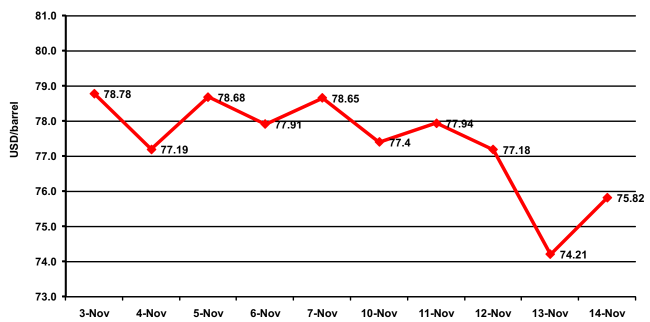
US Treasury

The treasury yields remained bearish and short term paper were more sensitive to expectations of Fed interest-rate moves than longer-term yields. First week of fortnight started on flat note as Demand for core-market government bonds, including Treasuries, has been underpinned by signs global growth

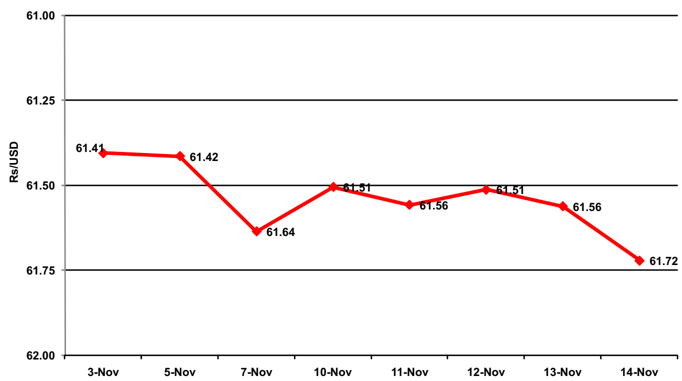
Prospects have deteriorated. Treasuries again fell before a U.S. report this week economists said will show employment is strong enough to keep the Federal Reserve headed toward raising interest rates and ten year yield reached the highest in a month. Optimism of general level of growth is also weighing on US treasury and yield crossed the level of 2.37%. Treasuries fell further after a report showed first-time claims for unemployment benefits in the U.S. dropped more than forecast. Adding to evidence the world's biggest

Date	Event	Period	Prior
17-Nov-14	Industrial Production MoM	Oct	1.00%
20-Nov-14	Existing Home Sales	Oct	5.17M
	CPI YoY	Oct	1.70%
25-Nov-14	GDP Annualized QoQ	3Q	3.5%
	Consumer Confidence Index	Nov	94.5
26-Nov-14	New Home Sales MoM	Oct	0.20%
	Personal Income	Oct	0.20%

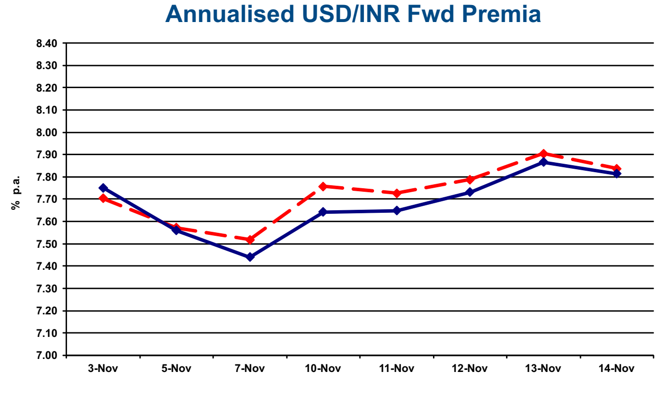
Crude oil price movement during the fortnight



Rupee movement during the fortnight



Annualised USD/INR Fwd Premia



economy is accelerating and expectation rate hike by Fed strengthen. Treasuries extended losses after European Central Bank President Mario Draghi said he'll be ready to boost stimulus if needed. However Treasuries rose, with 10-year yields falling the most in three weeks, after a U.S. report showing a lower-than-forecast gain in jobs in October spurred speculation the Federal Reserve will keep interest rates low for longer. Treasury bonds strengthened further as a selloff in crude oil, economic weakness in Europe and a disappointing U.S. labor-market release boosted demand for haven assets. U.S. Treasury bonds strengthened on last day of fortnight as fresh signs of tame inflation bolstered investors' confidence that the Federal Reserve isn't in a hurry to raise interest rates. Ten year benchmark yield closed at 2.32%

COMMODITIES

International Crude Oil

The fortnight just ended saw a landslide in Crude oil prices with the WTI crude breaking the 80$ barrier. Saudi Arabia's surprise price cut of crude exported to the U.S, reverberated through the oil market with U.S. crude plunging to a three-year low as producers showed no signs of moving to reduce a global supply glut. Investors took that as proof that the Organization of the Petroleum Exporting Countries is unlikely to curtail production to reverse the market's slide. But a small spike in price was seen after a US government report showed that U.S. inventories climbed less than expected. The Brent rebounded from a four-year low. A barrel of U.S. crude fell as low as $75.84 on Tuesday (of the penultimate week) before rebounding to $77.19, the same day. The Saudi price cut comes amid slowing growth in the Eurozone and China that already had sharply driven down oil and gasoline prices this year. Meanwhile, global oil supplies have soared partly as a result of the U.S. drilling boom in states such as North Dakota and Texas. The Crude extended losses in a bear market during the fortnight ended amid signs that global demand isn't keeping pace with supply. At present the demand supply battle is in favour of the demand side as the OPEC nations not having plans of any price rise and the US posting a fastest rate of production in more than 30 years. The WTI Crude closed at $75.82 for a barrel..

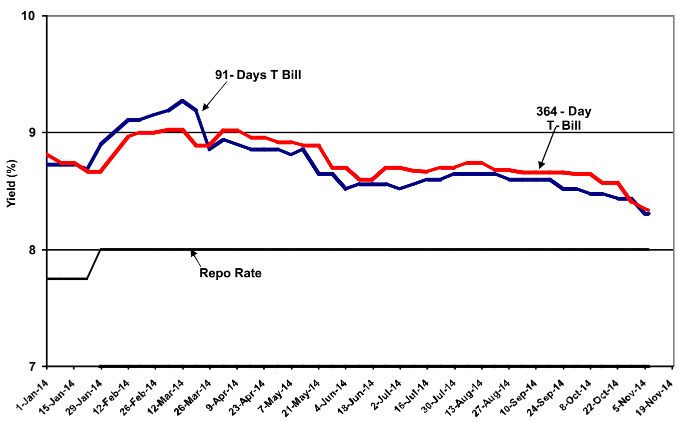
FOREX MARKET

The Rupee opened on a low note at the start of the fortnight ducking the fall in Asian currencies as the US dollar showed strength following the Bank of Japan's stimulus announcement and weakening Chinese economy. It opened lower at 61.51 per USD, but regained its strength after HSBC's PMI data pointed to some industrial recovery, and finally ended little-changed at 61.40, as continued foreign fund flows offset nervousness. The following day rupee ended almost unchanged as traders turned cautious in a holiday-shortened week and the Dollar continued its rally against global majors after Republican victory in US mid-term elections clears political uncertainty. The renewed strength of dollar kept the emerging market currencies under immense pressure throughout the week. Rupee finally dropped to nearly three and a half week low by the weekend to close at 61.62 against the Greenback, down 21 paise, on

Major Stock Indices

	31-Oct-14	14-Nov-14	% Change
	Indian Indices		
Sensex	27866	28047	0.65%
Nifty	8322	8390	0.82%
FMCG	7497	7753	3.41%
IT	10702	10893	1.78%
Banking	19505	20119	3.15%
Auto	18579	18660	0.44%
Capital Goods	15925	15845	-0.50%
Healthcare	14354	14840	3.39%
PSU	8343	8225	-1.42%
	World Indices		
Dow Jones	17390	17635	1.41%
Nikkei	16414	17491	6.56%
FTSE	6546	6654	1.66%

Yield Movement - 91 Day and 364 Day T- Bills



sustained dollar demand from importers ahead of a key US jobs report. The Indian rupee started the trade on a positive note on Monday. It hit a low of 61.43 per dollar against Friday's closing of 61.62. Dollar hovered below a four-year peak, having lost a bit of altitude late last week after US jobs data fell short of expectations, prompting some investors to take profits on extremely long positions. The US dollar got a breather as the investor's appetite for risk increased, with oil prices and many equities markets rising around the world. But the dollar climbed to a seven-year high against the yen on Tuesday after a Japanese government official announced that Prime Minister Shinzo Abe was likely to delay a planned sales tax increase. This along with an increased demand for the US currency from importers and banks, weighed down on the domestic currency. But a higher opening in the domestic equity market limited the fall. The rupee gained on Wednesday as heavy foreign fund buying of debt and equities boosted the domestic unit. The rupee continued its see-sawing trend and weakened marginally the following day as the state run banks and Reserve Bank of India (RBI) bought dollars and the losses in domestic shares weighed despite the sharply lower-than-expected retail inflation print for October and. The rupee weakened again on Friday against the dollar, tracking losses in the Asian currencies market and finally ended the fortnight at 61.72 per USD paring the previous fortnight's gains.

EQUITY MARKET

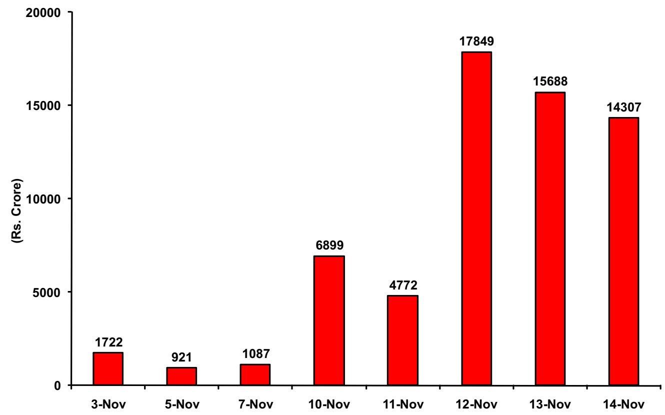
The equity market opened on a high note upholding the gains it made in the penultimate fortnight. The Sensex hit an all time high of 27,969.82 in the opening trade of the fortnight only to pare with the gains as the Indices came under selling pressure from the auto stocks after disappointing October sales from many automakers. Hero MotoCorp, M&M, Bajaj Auto and Maruti were down between 1-2 per cent. Tracking the momentum, the 50-share Nifty index also slipped from its record highs of 8350.60, weighed down by losses in autos, consumer durable and FMCG stocks. But the positive sentiments from the previous fortnight were carried over to this fortnight as well as the political stability factor played a major role, even when the global markets were indecisive.

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

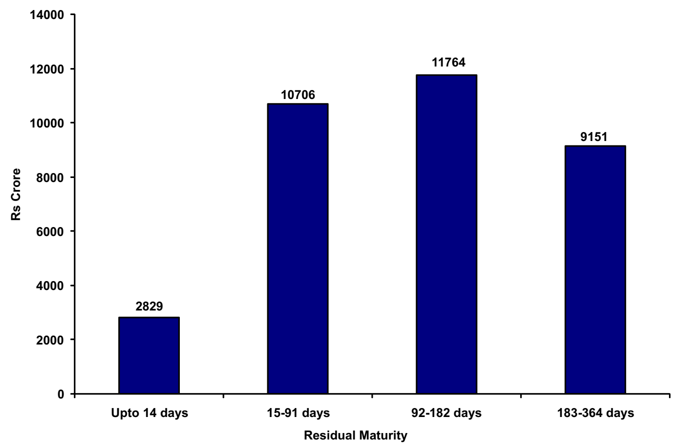
(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
Date Of Auction	05 Nov	12 Nov	05 Nov	12 Nov
Cut-off Price (Rs)	97.97	97.97	95.98	92.31
Implicit Yield (%)	8.31	8.31	8.40	8.35
Weighted Avg. Yield (%)	8.31	8.31	8.38	8.33
Competitive Bids Received	41685.75	36733.55	19220.50	25913.00
Competitive Bids Accepted	9000.00	8000.00	6000.00	6000.00
Non-Competitive Bids Accepted	5500.00	6051.00	2.00	6.00
Total Bills Issued	14500.00	14051.00	6002.00	6006.00
Of which MSS	Nil	Nil	Nil	0.00

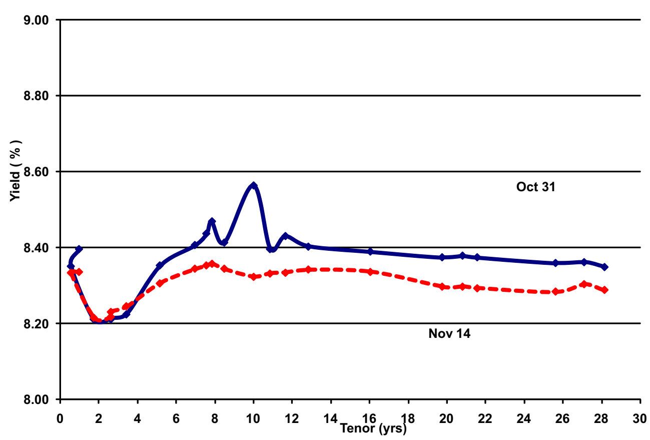
Repo Injections During the Fortnight



SGL Volumes - Treasury Bills



Yield Curve Movement



The BSE Sensex surged past the 28,000 mark for the first time. Even the Mid-Cap and the Small-Cap index ended with modest gains. The market remained flat in a holiday shortened week, though it ended with a positive bias. The following week, the market consolidated on sustained buying by foreign funds and retail investors amid improved trend in the Asian markets. With the CPI based inflation figure due, the gains in rate sensitive pockets like banks and auto aided the up move on hopes of cooling retail inflation and an early interest rate cuts. The auto and banking indices gained over a percent each and were the leading gainers. State-run oil marketing companies also gained as international crude prices fell to a four-year low. The fortnight ended on a profit booking instinct, the benchmark Indices having made new all time highs in consecutive sessions. Still the equity space halted with a positive bias factoring sentiments of an improving economy in a stable political environment and hopes of a rate cut when the apex bank officials meet next month to review the monetary policy. The Sensex ended at an all time high of 28046.66 and Nifty marked a record figure of 8389.90.

MONEY MARKET

Repo injection through LAF averaged at Rs. 7,906 crore as against Rs. 16,885 crore a fortnight ago. Average call rate stood at 7.71% during the first week and 7.92 % in the second week of the fortnight, while CBLO and Repo averaged at 7.93% and 8.02% respectively during the past fortnight. Average volume in Call and CBLO market during the fortnight stood at Rs. 13,417 crore and Rs. 67,300 crore respectively.

TREASURY BILLS

Primary Market

During the fortnight, RBI issued Rs. 15,000 crore in first weeks while Rs 14000Cr in second week of the fortnight in T-bills segment. Cut off yield on 91 day T-bill stood at 8.31% for the both the weeks as compared to previous cut off 8.44 % in the last week of previous fortnight. Cut off yield on 182-day T-bill stood at 8.40% and on 364 day T-bill stood at 8.35%.

Secondary Market

Trading volumes during the fortnight increased to Rs. 34,449 crore vis-à-vis previous fortnight's level of Rs. 26,595, crore. Average daily trading volume stood at Rs. 4,306 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs. 11,764 crore was witnessed in the 92-182 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

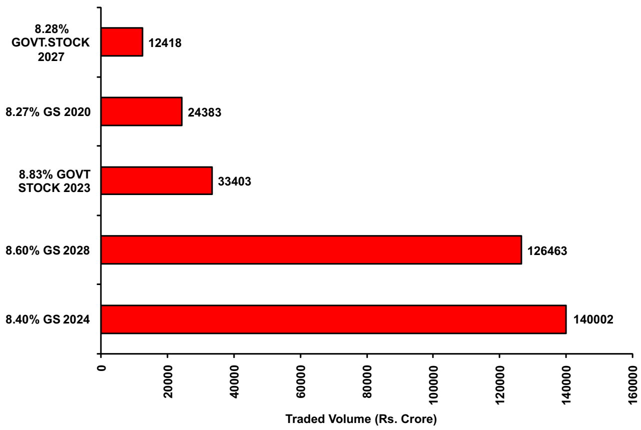
Primary Market

Government borrowed Rs. 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), new 19 year paper 8.24% GS 2033 (Rs. 3000 crore) and 8.30% GS 2040 (Rs 3000 crore).The under writing fees in the 6-yr paper, 14-yr, 8.24% GS 2033 and 8.30% GS 2040 stood at 0.18, 0.23, 0.23, 0.27 paisa respectively. The cut off

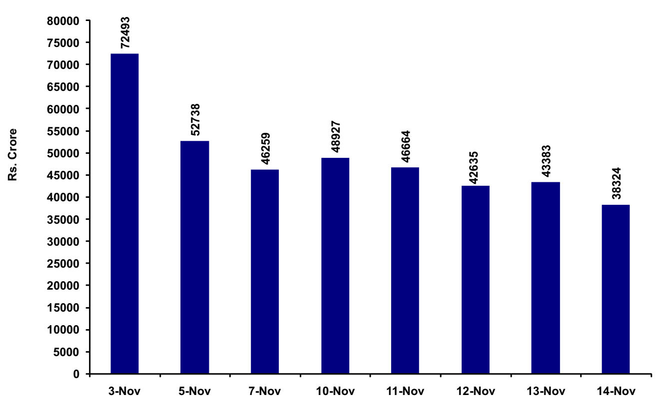
Buying/ Selling Activity during Fortnight: Rs. Crore)

	Total_G_Sec	Total_T_Bill
Foreign Banks	1834.12	-6874.77
Public Sector Banks	2035.31	1055.80
Private Sector Banks	-510.63	381.41
Primary Dealers	-8477.50	-5408.73
Mutual Funds	3760.65	10174.33
Others	1358.04	671.97

Most Traded Securities



Dated Securities Trading Volumes



yield on 6-yr, 14-yr, 19-yr and 26-yr papers stood at 8.24%, 8.28%, 8.24%, and 8.27% respectively. Demand of 6 ear paper was very high with bid coverage ratio is more than 4.58 while in other paper demand was good enough.
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, 0.23, 0.37, 0.40 paisa respectively. The cut off yield on 6-yr, 10-yr, 16-yr and 29-yr papers stood at 8.29%, 8.22%, 8.32%, and 8.32% respectively.

Secondary Market Developments

During the fortnight, softening crude prices and further alignment of domestic prices with international levels by reduction in petrol and diesel prices supported the bond market. First week of the fortnight started on positive note however announcement of OMO sales by RBI spoil the market and yield on ten year paper moved up by 4 to 5 bps. With the global crude prices tumbling to multiyear low and its likely positive impact on inflation as well on fiscal condition of the country led to rally in the bond market. The momentum in the bond market got a boost by aggressive cut off in OMO sales auction and ten year paper touched the level of 8.17% lowest in 13 months low yield 8.17%.Second week of the fortnight also started on positive note, with the weaker nonfarm pay roll data of US ease the concern of early rate hike by Federal reserve. Lower level of yield attracted the market participant and profit booking by the trader consolidated the bond market however before crucial CPI inflation print market rallied most and ten year paper touched the level of 8.15% .CPI print came on expected line at 5.52% however comments by RBI official that a rate cut in December 2014 policy will be premature, spoil the bond market. Appetite for government securities reduced and ten year yield moved up to the level of 8.22%.Ten year benchmark closed at 8.22% as against the previous closing of 8.28%

Trading Volumes

Trading volumes during fortnight increased to Rs. 3, 91,423 crore as against Rs. 3, 40,042 crore in the previous fortnight. The first week's average daily trading volume stood at Rs. 57,163 crore vis-à-vis second week's level of Rs. 43,987 crore. The highest single day trading volume was Rs. 72,493 crore. Top two traded securities 8.40% GOI 2024 & 8.60% GOI 2028 cornered 79 percent of the top five traded securities volume. During the fortnight Primary Dealers and Private Sector Banks were net sellers while, Mutual Funds, Foreign Banks and Public Sector banks were net buyers.

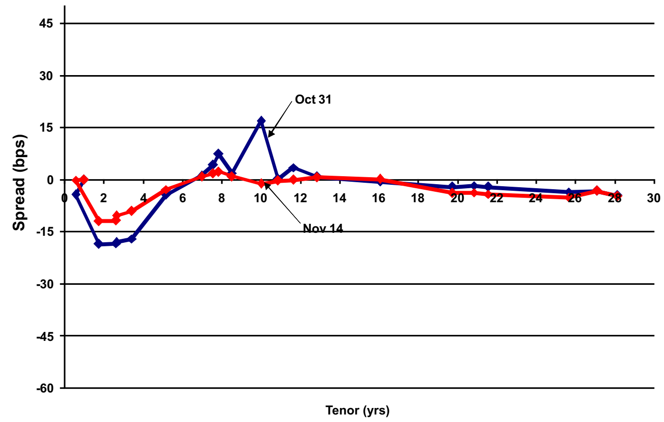
OUTLOOK

Coming fortnight is expected to be range bound in absence of any domestic triggers .However the movement of crude and global development may impact the market. Low inflation, retail inflation as well as wholesale along with moderate IIP data may force RBI to review its policy rate to boost growth but upside risk of inflation will be there . Under these circumstances bond market is expected to trade in a range of 8.16% to 8.28%.

SPREAD MONITOR

	TTM (yrs)	YTM 31-Oct	YTM 14-Nov	Change in YTM (bps)
364 Day T Bill	1.00	8.39	8.33	-6
7.17% GOI 2015	0.58	8.35	8.33	-2
7.02% GOI 2016	1.76	8.21	8.22	1
8.07% GOI 2017	2.64	8.21	8.22	1
7.99% GOI 2017	2.65	8.21	8.23	2
8.24%GOI 2018	3.44	8.22	8.24	2
8.19% GOI 2020	5.18	8.35	8.31	-5
8.79% GOI 2021	6.99	8.41	8.34	-6
8.79% GOI 2021	6.99	8.41	8.34	-6
8.15% GOI 2022	7.58	8.44	8.35	-8
8.13% GOI 2022	7.86	8.47	8.36	-11
7.16% GOI 2023	8.52	8.41	8.34	-7
9.15% GOI 2024	10.01	8.56	8.32	-24
8.20% GOI 2025	10.87	8.40	8.33	-6
8.33% GOI 2026	11.66	8.43	8.33	-9
8.28% GOI 2027	12.86	8.40	8.34	-6
8.97% GOI 2030	16.07	8.39	8.34	-5
7.50% GOI 2034	19.75	8.37	8.30	-8
7.40% GOI 2035	20.83	8.38	8.30	-8
8.33% GOI 2036	21.58	8.37	8.29	-8
8.30% GOI 2040	25.65	8.36	8.28	-8
8.83% GOI 2041	27.10	8.36	8.30	-6
8.30% GOI 2042	28.15	8.35	8.29	-6

Spread Over One-Year Paper



(in Rs. Crore)

INFLOWS			OUTFLOWS		
Date	**Security**	**Coupon Receipts**	**Date**	**Security**	**Scheduled auction amount**
19-Nov-14	7.85% FRB 2016	53	**Nov 17-21, 2014**	5-9 years	2000-3000
21-Nov-14	8.79% GS 2021	109		10-14 years	6000-7000
23-Nov-14	11.83 % GS 2014	796		15-19 years	2000-3000
24-Nov-14	8.35% GS 2022	1945		20 years above	3000-4000
			Nov 24-28,2014	5-9 years	2000-3000
				10-14 years	6000-7000
				15-19 years	2000-3000
				20 years above	3000-4000
Total Inflows		**11605**	**Total Outflows**	**28000**	

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