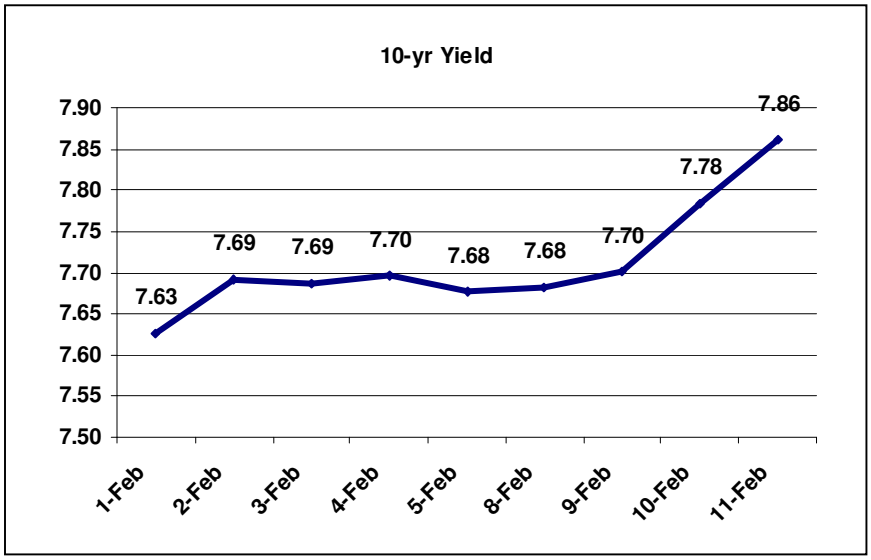
PNB GILTS LTD
HO: New Delhi
Debt/Equity Market Update
(For the week ended 12th February'10)

Money Market

During the week, call money rates remained steady near RBI's reverse repo rate of 3.25%. Players borrowed at cheaper rates from the collaterised market and parked the funds with RBI to earn arbitrage. As a result volumes in the CBLO market rose sharply and averaged at Rs. 56,939 crore. Absorption under the reverse repo remained high and averaged at Rs. 89,031 crore during the week. Call rates ended the week at 3.23% vis-à-vis previous week's close of 3.16%, while CBLO rates ended the week at 2.32% vis-à-vis previous week's level of 2.95%

G-sec Secondary Market



Markets breathed no respite during the week and yields remained upward bound as robust advanced GDP estimate for the FY 2009-10 aggravated rate hike concerns. Rise in US treasury yields on account of recovery in global equities also dampened sentiments. Near the close of the week, yields shot up sharply with 10-yr yield nearing 7.90% mark as expectation of strong IIP growth figure for the month of December escalated fears of interest rate hike by RBI. Highly traded 7-yr and 10-yr paper were badly hit and witnessed intensive selling. Yield on 6.35% GOI 2020 rose by 18 bps to 7.86% from 7.68% in the previous week.

Rupee

Amid volatile trade, rupee slipped to over 7-week low in the beginning of the week as dollar recovered and equity markets remained choppy. However, rupee rose thereafter as rise in risk appetite of global investors boosted market sentiments. Recovery in domestic stock market and decline in dollar value against Euro too helped sustain rally in forex market. Dollar selling by exporter helped rupee strengthened below 46.50/USD mark. Rupee managed only a marginal rise on the last trading day as emergence of dollar demand from importers erased most of the early gains. Strengthening of dollar in international

market and release of details of rescue package for Greece kept traders cautious. Rupee closed the week at 46.42/USD as against previous week's closing of 46.73/USD.

Crude Oil

Crude remained upward bound inching up gradually in most part of the week tracking the recovery in global equities. However, on last trading day, crude oil prices declined on China's move to limit the expansion of its economy. The move is expected to reduce demand for crude oil in world's fastest growing energy consuming country. Crude oil closed the week at USD 74.13 a barrel as against previous closing of USD 71.19 a barrel.

Equity Market

After the extended selling spree, market regained some ground during the week on emergence of buying at low levels. Rally in IT and PSU segment helped Sensex regain 16,000-points mark. Easing of sovereign debt concerns were the major factor behind the improve market sentiments. After rising consistently for 3 days, Sensex declined by over 120-points on emergence of profit booking. On the last trading day of the fortnight, Sensex surged by over 230-points on the back of smart recovery in global sentiments and easier FDI norms. Sensex and Nifty rose by 1.49% and 1.46% respectively during the week.

US Treasury Market

Yields rose after announcement of record tying treasury auction during the week. Supply concerns outweighed the sovereign risk concerns and market witnessed some removal of flight to safety investment resulting in further rise in treasury yields. Auctions during the week witnessed subdued demand and cut-off yields remained above market expectations. Demand from foreign central banks in auctions too declined significantly. Investors preferred not to invest at current levels as yields are expected to rise further after release of strong GDP numbers. On last trading day of the week, yield on 10-yr paper eased after China's Central Bank's move to raise reserve requirements by 50 bps. China's move is expected to limit its GDP growth. Further, weak European economic recovery reports too boosted flight to safety bids. Yield on 10-yr paper closed the week at 3.69% as against previous close of 3.56%.

Outlook

In the coming week yields are expected to open higher as robust IIP growth rate of 16.8% and hike in reserve requirements by China will further dampen the market sentiments. Monthly inflation rate is expected to rise over 8.0% nearing RBI's projection of 8.5% at the end of March'10. Consistent improvement in economic conditions and rising inflation may further raise concerns of monetary action by the Central Bank. Expectations regarding the fiscal deficit in the union budget and govt borrowing figure to be released will guide market movement.