



PNB GILTS LTD
HO: New Delhi

April 26, 2010

Debt/Equity Market Update
(For the week ended 23rd April'10)

Money Market

Call money market rate remained stable finding floor at the reverse repo rate. Despite decline in reverse repo absorption in the beginning of the week, rates remained comfortable. Cash rich mutual funds lend excessively in collateralized market which kept CBLO rates comparatively lower. Call rates climbed to new reverse repo levels after RBI raised key interest rates by 25 bps in its annual policy meet. Absorption under reverse repo averaged at Rs. 48,738 crore declining from Rs. 52,129 crore during the previous week. Call rates ended the week at 3.65% vis-à-vis previous week's close of 3.52%, while CBLO rates ended the week at 2.08 % vis-à-vis previous week's level of 3.34%.

G-sec Primary Market

In the second week, GOI raised Rs. 12,000 through issue of 7.02% GOI 2016 (Rs. 6,000 crore), FRB 2020 (Rs. 3,000 crore) and 8.26% GOI 2027 (Rs. 3,000 crore). Papers were completely underwritten at a fee of 0.48 paise, 0.82 paise and 1.22 paise respectively. All papers witnessed good demand and bid-to-cover remained above 2. FRB 2020 was fully subscribed at Rs. 92.30 while 7.02 GOI 2016 was subscribed at Rs. 96.90 (YTM: 7.65%). 17-yr paper 8.26% GOI 2027 was fully subscribed at Rs. 98.45 (YTM: 8.43%).

G-sec Secondary Market

Market started the week at positive note with news of auction of floating rate bond cheering market sentiments. However, the easing was limited as traders remained wary ahead of policy meet. Markets improved significantly after announcement of annual policy as RBI announced a marginal rise in key interest rates. 10-yr benchmark yield eased below 8.0% levels to 7.96% after policy announcement. Easing of US treasury yields too kept market sentiments benign. However, after easing briefly yields climbed up again on profit booking by players ahead of G-sec supplies to the tune of Rs. 12,000 crore. Trading interest shifted to 8.20% GOI 2022 and the paper witnessed heavy trading volumes as players turned cautious of trading in 6.35% GOI 2020 in expectation of new 10-yr paper. Yield on 6.35% GOI 2020 ended the week at 8.06% vis-à-vis previous week's closing of 8.08%.

Crude Oil

Oil prices recovered and bounced back as air space in euro area commenced with its flights raising demand for jet fuel. Better than estimated corporate earnings further boosted oil prices. At the end of the week, oil gained further momentum as dollar weakened against the euro following positive development

on the Greece financial bailout package. Consequently crude oil closed the fortnight at USD 85.12 as against USD 83.24 in the previous fortnight.

US Treasury Market

Treasuries failed to maintain the gaining momentum of the previous week and selling pressure resulted in firming up of yields. 10-yr yield witnessed strong resistance at 3.75%. Rebounding of stock markets also increased demand for higher yielding assets. In addition, Canadian Central Bank signaled that it may increase interest rates which further dampened the market sentiments. Further, announcement of auction of short-term securities led to rise in yields at the short end of the curve. Spread between 2-yr and 10-yr yields declined to almost a month low as traders speculated on timing of interest rate hikes by Fed. Concerns regarding default by Greece provided some buying support to treasuries. However, the same was soon nullified by release of reports showing further improvement in US economic condition and announcement of hefty auction amount. Yield on 10-yr paper closed the week at 3.81% as against previous week's closing of 3.76%.

Forex Market

Strengthening of dollar on concerns of default by Goldman Sachs and lower share prices weighed down sentiment in the beginning of the week. Rise in dollar value to two week high levels against Euro dampened market sentiments and market witnessed flight to safety in dollars. Corporate demand for dollar too pulled rupee lower. Towards the end of the week, rise in equity market and expectations of further inflows in share sale improved sentiments. Rupee closed the week at 44.44/USD as against previous week's closing of 44.33/USD.

Outlook

Bond market witnessed huge respite after RBI hiked the policy rates by an expected 25 bps. 10-yr yield eased from over 18-month highs of 8.13% to 7.95% before rising to 8.06% at the end of the fortnight. Dovish stance of the central bank regarding the pace of tightening in coming quarters also boosted market sentiments. In the coming fortnight, yields are expected to open higher as traders shall keenly await announcement of auction details for the first week. Yields may drift lower boosted by forecast of normal monsoons. However, huge auction supply during the week amounting to Rs. 24,700 crore may turn market sentiments cautious. Globally, US Fed meet on 28th April'10 may also provide crucial cues to the domestic market.

(D.V.S.S.V. Prasad)
Managing Director