



PNB GILTS LTD
HO: New Delhi

May 10, 2010

Debt/Equity Market Update
(For the week ended 7th May'10)

Money Market

During the week, call money rates remained comfortable well supported near the reverse repo rate on back of ample liquidity in the system. Slowed credit growth resulted in surplus cash in the banking system. Volumes remained heavy in both call and CBLO market and averaged at Rs. 9,412 crore and Rs. 47,094 crore respectively. Absorption under reverse repo averaged at Rs. 55,491 crore rising from Rs. 47,2274 crore during the previous week. Call rates ended the week at 3.72% vis-à-vis previous week's close of 3.65%, while CBLO rates ended the week at 2.96 % vis-à-vis previous week's level of 2.08%.

G-sec Primary Market

During the week GOI raised Rs. 15,000 through issue of 6-yr paper 7.02% GOI 2016 (Rs. 5,000 crore), 12-yr paper 8.20% GOI 2022 (Rs. 5,000 crore), 17-yr paper 8.26% GOI 2027 (Rs. 3,000 crore) and 22-yr paper 8.32% GOI 2032 (Rs. 2,000 crore). Papers were completely underwritten at a fee of 0.28 paise, 0.33 paise, 0.73 paise and 0.77 paise respectively. All papers witnessed good demand and bid-to-cover remained above 2 except for 12-yr paper for which bid-to-cover ratio stood at 1.59. Cut-offs for 6-yr paper, 17-yr paper and 22-yr paper remained below market expectations at Rs. 98.15 (YTM: 7.39%), Rs. 101.25 (YTM: 8.12%) and Rs. 100.90 (YTM: 8.23%). Cut-off yield for 12-yr paper at 7.78% (Rs. 103.20) remained much above market expectation of 7.72%.

G-sec Secondary Market

During the week, bond market rallied sharply and yields tumbled tracking steep decline in US treasury yields and on hopes that Greece's debt woes may lead to benign global rates for an extended period. However, near the close of the week, bonds trimmed gains as traders emptied position ahead of G-sec auction of Rs. 15,000 crore. Though the auction witnessed good demand, yields closed the week higher as yields at nearly a months low deterred traders from carrying positions over the weekend. Yield on the new 10-yr benchmark paper closed at 7.64% as against 7.80% at which it was auctioned in the previous week.

Crude Oil

However, oil gave up gains after rising past USD 85 a barrel in the previous week and plunged sharply as dollar surged against the euro on concerns that the Greek crisis may spread to other European nations. Decline in Chinese manufacturing too pulled down crude oil prices. Major sell off in global equities following sovereign risk concerns in the Euro zone spooked traders, sending oil prices below USD 80 a

barrel. Frazzled sentiments owing to European crisis kept persistent pressure on oil prices. Consequently crude oil closed the week at USD 75.11 as against USD 86.15 in the previous week.

US Treasury Market

US treasuries rallied sharply during the week as contagion risks in the Euro zone rose considerably boosting demand for safe haven assets. Fed's comfort with stable inflation conditions and mild inflationary expectations and its resolve to maintain interest rates at record lows further boosted sentiments. Though yields rose mildly on profit booking amid considerable supply, strong demand witnessed in the auction resulted in further decline in yields. Spread between 2 yr and 10 yr papers plunged sharply to the lowest level in almost a month resulting in flattening of the yield curve. Continued sell off in global equity markets on back of growing risk aversion and uncertainty over European bail out package and the crisis spilling over to other European nations resulted in huge inflows in safe haven US treasuries. Consequently 10 yr yield fell to nearly 5-month lows on concerns that the bail out package may not be adequate to contain the ongoing crisis Yield on 10-yr paper closed the week at 3.43% as against previous week's closing of 3.65%.

Forex Market

Rupee declined consistently during the week weighed by sharp gains in the dollar against major currencies, particularly Euro which hovered near a one-year low, and tracking a drop in the domestic share market. Dollar selling by large corporates provided some support to rupee but failed to prevent rupee from weakening below 45/USD. RBI is also suspected to have intervened in the market to prevent sharp slide in rupee value. Rupee closed the week at 45.48/USD as against previous week's closing of 44.36/USD.

Outlook

The Greek debt crisis had a resounding impact on both equity and debt markets in India in the previous week. Domestic bond markets rallied sharply on global cues despite heavy supplies and yield tumbled to their lowest levels in over five months. With global economic condition still remaining shaky, expectations of modest rise in domestic interest rates gained ground. The new 10-yr paper was welcomed cheerfully and the yield on same touched a low of 7.50% in intraday trade during the week. In the coming week sentiments are expected to remain positive as uncertainty over the European economy continues. Further inflation figure for the month of April are anticipated to be a tad lower than the previous month. Also huge redemptions of over Rs. 26,000 crore may induce demand for G-sec.

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