PNB GILTS LTD
HO: New Delhi

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Debt/Equity Market Update
(For the week ended 14th May'10)

Money Market

Call money rates remained easy at the start of fresh reporting cycle. Ample liquidity subsisted in the system owing to G-sec redemptions worth Rs. 25,420 crore. Huge auction of G-sec, state loans, T-bills and first time issued cash management bills failed to make a dent on liquidity. Absorption under reverse repo averaged at Rs. 45,926 crore slightly below from Rs. 55,491 crore during the previous week. Call rates ended the week at 3.80% vis-à-vis previous week's close of 3.72%, while CBLO rates ended the week at 3.65 % vis-à-vis previous week's level of 2.96%.

Cash Management Bill

Government of India issued 35-day Cash Management Bills for the first time using Multiple Price based auction methodology. These are short term instrument issued to meet the temporary cash flow mismatches of the Government. Rs. 6000 crore issue witnessed massive demand and registered bid-to-cover ratio of 4.57. Only 16 bids out of 75 were accepted and the cut-off was set at Rs. 99.63 (YTM: 3.87%).

G-sec Primary Market

During the week GOI raised Rs. 12,000 through issue of 5-yr paper 7.38% GOI 2015 (Rs. 4,000 crore), 10-yr paper 7.80% GOI 2020 (Rs. 5,000 crore) and 22-yr paper 8.28% GOI 2032 (Rs. 3,000 crore). Under benign market conditions, underwriting fee touched a low of 0.23 paise, 0.26 paise and 0.73 paise respectively. All papers witnessed good demand specially 5-yr paper and registered bid-to-cover ratio of 3.37. 10-yr paper witnessed lowest bid-to-cover ratio of 1.96 while 22-yr paper registered demand 2.38 times the auction size. Cut-offs for 5-yr paper, 10-yr paper and 22-yr paper remained below market expectations at Rs. 100.60 (YTM: 7.24%), Rs. 101.80 (YTM: 7.54%) and Rs. 100.60 (YTM: 8.22%).

G-sec Secondary Market

Domestic bond market rallied sharply during the week as favourable global cues led to sharp slide in yields. Domestic bond yields eased tracking fall in US treasury yields following concerns that USD 1 trillion of rescue package may not be sufficient to support the ailing Euro economy. Uncertain global economic conditions also muted expectations of inter policy hike by the central bank. A flurry of redemptions of over Rs. 25,000 crore during the week also induced strong demand for G-sec. Further lower than expected IIP growth figure for the month of March and decline in WPI inflation rate for April to 9.59% also boosted sentiments. Trading volumes remained high during the week amid positive market sentiments. Yield on the new 10-yr benchmark paper closed at 7.49% as against 7.64% in the previous week.

Crude Oil

Oil started the week on a positive note on rising optimism in European market after policy makers formulated USD 1 trillion plan to end the region's sovereign-debt crisis. However, crude declined thereafter on concern that the European plan will be insufficient to cut deficits accumulated by Greece, Spain and Portugal. Further reports of rise in crude oil inventory climbed for the 14th time in 15 weeks too dampened the market sentiments. Crude oil closed the week at USD 71.61 declining from USD 75.11 in the previous week.

US Treasury Market

US treasuries declined significantly in the beginning of the week after European governments announced a loan package worth almost USD 1 trillion and European Central Bank said it will buy bonds to halt the region's debt crisis. Stabilizing economic conditions moderated appeal of safe haven investments. Yields firmed up further as government conducted auction of 10-yr paper amid waning demand. Market improved towards the end of the week as tightening measures across Europe triggered concerns of decline in economic growth in the region. Speculations over break-up of shared currency further improved demand for treasuries. Yield on 10-yr paper closed the week at 3.45% after rising to 3.57% during the week.

Forex Market

Rupee strengthened to 14-month high level in the beginning of the week as policy makers in Europe pledged almost $1 trillion in loans to ease a debt crisis, encouraging investors to return to emerging-market assets. Rally in stock market too supported sentiments. However, rupee failed to maintain the momentum for the remaining part of the week as weak global cues weighed heavy on market sentiments. Rise in Industrial Production provided some respite to the market. Rupee closed the week at 45.22/USD as against previous week's closing of 45.48/USD.

Outlook

Previous week witnessed sharp decline in domestic yields with 10- yr yields falling as low as 7.47% backed by continuous slide in US treasury yields. Not only global cues remained extremely favourable, decline in IIP and monthly inflation figure also gave rise to expectations that the central bank may not be in a hurry to hike interest rates. Yields are expected to open lower in the coming week driven by demand for safe haven investments. Further, huge redemptions witnessed in the previous week along with sharp rise in deposit base may further push down yields.

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