PNB GILTS LTD
HO: New Delhi

May 31, 2010

Debt/Equity Market Update
(For the week ended 28th May'10)

Money Market

Call money rates firmed up during the week on back of concerns related to tighter liquidity conditions due to 3-G auction fee payment in coming days. Banks are expected to lend money to 3-G auction bidders which may result in cash crunch in the money market. Both call and CBLO rates rose past 4% mark and reverse repo absorptions dipped sharply to below Rs. 10,000 crore during the week. Absorption under reverse repo averaged at Rs. 6,333 crore as against Rs. 45,926 crore during the previous week. Call rates ended the week at 4.26% vis-à-vis previous week's close of 3.69%, while CBLO rates ended the week at 4.55 % vis-à-vis previous week's level of 2.35%.

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). With yields being on a rising trend due to liquidity concerns, underwriting cut-offs rose from the previous levels and the papers were underwritten at 0.31 paise, 0.47 paise and 0.79 paise respectively. Bid-to-cover ratios too remained on a lower side except for 10-yr paper, which registered bid-to-cover ratio of 2.52. Cut-offs for 5-yr paper, 10-yr paper and 22-yr paper stood at Rs. 99.86 (YTM: 7.41%), Rs. 101.40 (YTM: 7.60%) and Rs. 100.70 (YTM: 8.25%).

G-sec Secondary Market

For the week ended on 28th May, bond yields rose sharply following cash concerns at banks due to the payment of 3-G license fees and corporate taxes. Rise in yields could also be attributed to profit booking be players after yields slipped to 6 month low levels as huge 3-G auction revenue triggered expectations of lower government borrowings for the year. Rise in US treasury yields following easing of concerns regarding the Euro crisis also led to rise in domestic bond yields. Short term yields firmed up even more steeply reflecting the liquidity concerns. During the week, 10-yr yield firmed up by 17 bps to close at 7.55% as against 7.38% in the previous week.

Crude Oil

After falling sharply in the previous week, crude oil prices recovered and rose by 5.6% in the week ended 28th May'10. Though a stronger dollar weighed on crude prices in the beginning of the week, prices jumped above USD 70 a barrel following reports stating that demand for fuels rose to the highest level in over a year and durable goods orders increased. Rally in global equities on easing of concerns over Euro crisis also boosted sentiments. However on the last trading day, prices dipped marginally after Fitch reduced AAA rating of Spain, which accelerated demand for dollar. Crude oil closed the week at USD 73.97 as against USD 70.04 in the previous week.

US Treasury Market

US treasuries started the week on a positive note amid persisting European crisis concerns. Amid high risk aversion demand for treasuries remained high and government sold 2-yr paper at record low yield. However, yields began to rise in the middle of the week as huge auctions amid signs of recovery in economy. In auctions, demand from indirect bidders which includes foreign central banks declined significantly. Fading away of worsening of European crisis concerns led to an over 18 bps rise in 10-yr yield in a single day. Yields eased on last day as government data showed consumer spending in the U.S. unexpectedly stalled in April, fueling speculation the economic recovery will be slow. Yield on 10-yr paper closed the week at 3.29% after rising to 3.4% during the previous week.

Forex Market

Rupee declined to eight-month low level during the week owing to continuous slide in equities. With rise in risk aversion due to European crisis, foreign fund houses pulled out funds from volatile emerging markets resulting in high demand for dollars. Rupee, however, recovered smartly during the middle of the week after regional stocks rally spurred risk-taking and exporters took advantage of recent weakness to repatriate funds. Rupee closed the week at 46.30/USD as against previous week's closing of 46.93/USD.

Outlook

Amid liquidity concerns, reduction in T-bill auction amount, second LAF facility and relaxation of 0.5% in SLR maintenance may provide some respite from huge 3-G and advance tax outflows. Further huge T-bill and cash management bill redemptions may also support liquidity conditions. Apart from liquidity concerns global factors remain favourable. Also speculation over decline in government borrowing following robust revenue collection to the tune of Rs. 67,000 crore through 3-G spectrum sales as against budgeted quantum of Rs. 35,000 crore may also induce buying.

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