



**PNB GILTS LTD**  
HO: New Delhi

**June 7, 2010**

**Debt/Equity Market Update**  
**(For the week ended 4<sup>th</sup> June'10)**

**Money Market**

Call money rates firmed up considerably during the week on back of squeeze in liquidity following heavy 3-G auction outflows to the tune of Rs. 67,000 crore. Advance tax outflows that will happen near the middle of the month also prompted players to lend at higher rates. RBI infused liquidity during the week aggregating Rs. 11,800 crore on a daily average basis. Reverse repo absorptions remained minimal averaging at Rs. 2,394 crore during the period. Call rates ended the week at 4.89% vis-à-vis previous week's close of 4.26%, while CBLO rates ended the week at 4.46 % vis-à-vis previous week's level of 4.55%.

**G-sec Primary Market**

During the week, GOI raised Rs. 13,000 crore 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) and 17-yr paper 8.26% GOI 2027 (Rs. 3,000 crore). Tight liquidity conditions and likelihood of this being the last auction of 6-yr security led to a rise in underwriting fee for the same to 1.58 paise. 12-yr and 17-yr paper were also subscribed at higher fee of 0.95 paise and 0.97 paise as against 0.29 paise and 0.69 paise in the previous auction of these securities. Bid-to-cover ratio of all papers remained above 2 with 12-yr paper witnessing highest ratio of 2.57. Cut-offs for 6-yr paper, 12-yr paper and 17-yr paper stood at Rs. 96.70 (YTM: 7.70%), Rs. 102.30 (YTM: 7.90%) and Rs. 100.80 (YTM: 8.18%).

**G-sec Secondary Market**

With the start of the week, yields eased off boosted by measures taken by the central bank to prevent a severe cash crunch in the system. Apart from availability of double LAF facility throughout June, RBI has also reduced the T-bill auction quantum for the month of June by 60%. Favourable global cues resulting from continued uncertainty over the European crisis and expectations that RBI may not hike rates before the policy review in July also pulled down yields marginally. However, yields rose again as tight domestic liquidity conditions deterred heavy buying by traders. Sentiments also remained cautious ahead crucial US employment data release and G-sec auction of Rs. 13,000 crore. However taking comfort from better than expected result in the G-sec auction, yields cooled off marginally at the end of the week. During the week, 10-yr yield declined by 3 bps to close at 7.52% as against 7.55% in the previous week.

**Crude Oil**

Oil failed to maintain the upward momentum as witnessed in the previous week as disappointing Chinese manufacturing data weighed on sentiments. Though decline in US gasoline stockpiles helped reverse losses, continued strengthening of dollar against the euro capped sharp rise in prices. Oil plunged sharply on at the end of the week falling by as much as 4.16% on lower than estimated rise in non farm payrolls in the month of May'10. Payrolls rose by 4,31,000 in May as against an estimate of 5,36,000. After taking a hit from disappointing employment data, crude oil closed the week at USD 71.51 a barrel as against USD 73.97 a barrel in the previous week.

### **US Treasury Market**

After witnessing a sharp rally in the previous week, US treasuries went in a consolidation phase and rose with the beginning of the new week. Robust economic data releases and rebound in global equity markets reduced demand for safe haven securities. Rise in pending home resale and expectation of favorable US payroll and unemployment rate data pulled treasury prices lower. However, weaker-than-expected employment data release triggered a rally in the treasuries resulting in yield on 10-yr paper easing to 3.20% as against 3.29% in the previous week.

### **Forex Market**

Release of robust GDP figures provided support to the weakening rupee but weak Chinese manufacturing data spurred concern that Europe's financial crisis will derail global economic recovery which led to further slide in rupee value. Continued decline in stock market index too weighed on market sentiments as foreign investors are expected to further reduce holdings of Indian assets. However, recovery in global and domestic equity markets helped rupee stabilize a bit towards the end of the week. Rupee closed the week at 46.84/USD as against previous week's closing of 46.30/USD.

### **Outlook**

Bond yields are expected to open lower in the new week as sharp fall in US treasury yields following poor employment data may trigger similar movement in domestic yields. However, towards the end of the week market may witness some selling pressure as traders may cut positions ahead of advance tax outflows which may put further pressure on already tight liquidity conditions. Domestically, players will keenly watch decision on de-regulation of oil prices, monthly inflation figure and IIP data to be released in the coming fortnight.

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