

GILT NEWS

for the fortnight ended 12 March, 2010

Vol.14, No.6
(for private circulation only)

Economy & Financial Markets Review

Domestic Developments

Indian industry records impressive growth for second consecutive month, rises by 16.7% in Jan'10

Bank credit growth rate nears RBI target, rises to 15.8% as against 15.1% in the previous fortnight

Food inflation eases marginally to 17.81% in week ended 27th Feb'10.

International Developments

Improved economic data releases and auctions drive up US treasury yields

Benchmark 10-yr US treasury yield firms up by 9 bps to end the fortnight at 3.70%

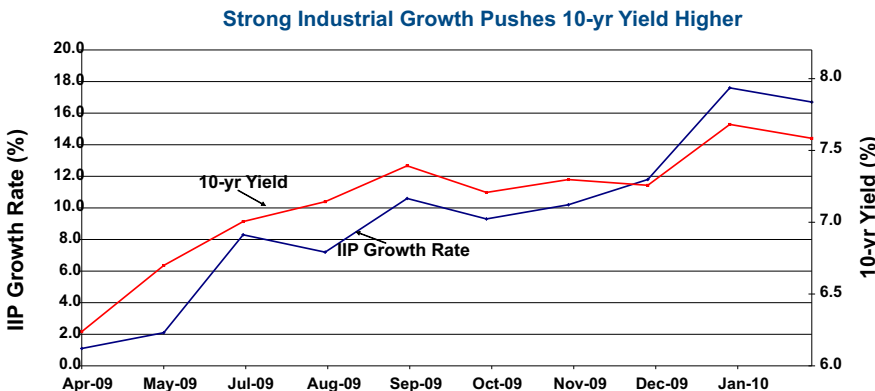
Crude oil price ends the fortnight at USD 81.24 as against previous closing of USD 79.66 a barrel

G-sec Market

G-sec market remains lackluster on borrowing concerns

Market awaits auction calendar for cues

Yield on 6.35% GOI 2020 rises by 15 bps to end the fortnight at 8.01%



Money Market

Ample liquidity keeps money market rates easy

RBI absorbs funds to the tune of Rs. 68,247 crore on a daily average basis during the fortnight

Call and CBLO rates end the fortnight at 3.27% and 2.38% respectively

Forex Market

Rupee strengthens in tandem with rise in domestic equities

Rupee ends the fortnight at 45.44/USD vis-à-vis previous fortnight's level of 46.11/USD

Fortnightly average of 3M & 6M fwd annualized premia at 3.14% & 2.94% as against previous fortnight's level of 2.69% & 2.57% respectively

Equity Market

Equity markets continue with post budget rally; Sensex rises by 4.5% during the fortnight

Net FII investments during March till date stand at Rs. 11,109 crore

MACROECONOMIC INDICATORS

(Rs. Billion)

	As on 26th Feb'10	Variation over the fortnight	Variation over LRF of March	YOY % growth
Aggregate Deposits	43,633	635	5,292	16.83
Bank Credit	30,893	376	3,138	15.79
Non - food Credit	30,414	343	3,121	16.11
Banks Investment in G-Sec	13,793	(149)	2,129	16.24
Broad Money M3	54,170	581	6,529	16.38
Reserve Money 05/03	10,772	480	892	5.79
Market Stabilisation Scheme Outstanding 05/03	77	0		
Forex Reserves (USD bn) 05/03	278	(4.5)	26	(0.10)
Credit - Deposit Ratio	70.80			
LAF Repo Rate (%)	4.75			
LAF Reverse Repo Rate (%)	3.25			
Cash Reserve Ratio (%)	5.75			



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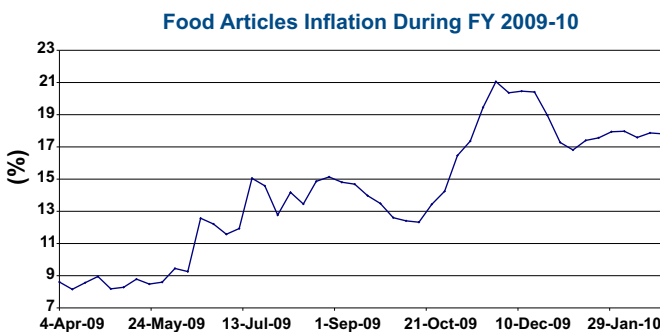
DOMESTIC DEVELOPMENTS

Indian Industry Records 16.7% Growth in Jan'10

Continuing with the robust performance, the Indian industrial production rose by 16.7% in Jan'10 giving RBI enough room to raise the key policy rates. The IIP growth figure for Dec'10 was also revised upwards to 17.6% from initial estimate at 16.8%. On account of back to back robust growth recorded by the Indian industry, the cumulative growth for the FY 2009-10 stands at 9.6% as against 3.3% in corresponding period last fiscal. Manufacturing output which forms major part of the IIP basket continues to be robust rising by 17.9% during the month. On the other hand, mining output grew 14.6% from 0.7% during the corresponding period last year while electricity generation went up 5.6% in the period under review. Under use based classification, capital goods production grew by a hefty 56.2% indicating towards strong industrial activity in the months to come.

Indian Industrial Production

	Y-O-Y % Growth over Corresponding Period in Previous Year				
	January		December	April - January	
	2009 - 10	2008 - 09	2009 - 10	2009 - 10	2008 - 09
Mining	14.60	0.70	9.50	9.30	2.90
Manufacturing	17.90	1.00	18.50	9.90	3.40
Electricity	5.60	1.80	5.40	5.70	2.60
Overall	16.70	1.00	16.80	9.60	3.30



Fuel Inflation Surges to Double Digits, Food Inflation Dips Marginally

The annual rate of inflation of fuel group rose sharply to 11.38% in the week ended 27th Feb as against 9.59% recorded in the previous week. The surge in fuel inflation reflects the hike in custom and excise duty on petrol and diesel, which is expected to put further pressure on the aggregate inflation figure. Primary articles inflation also rose to 15.08% as against 15% in the previous week. Under primary articles index, food articles inflation declined marginally to 17.81% from 17.87% in the previous week mainly on account of decline in prices of certain food grains. While food inflation is expected to ease in coming months, the inflationary pressures are seen percolating to fuel and manufacturing group, which may put further pressure on the wholesale price index.

Credit Off take Gathers Further Steam, Rises by 15.8%

Bank credit rose by Rs. 376 billion during the fortnight ended 26th Feb'10 resulting in credit growth rate rising to 15.8%. Non-food credit also witnessed considerable rise of Rs. 343 billion taking the y-o-y growth rate past 16%. Expectation of rise in interest rates prompted corporates to borrow at the prevailing rates. The outstanding bank credit has risen to Rs.30,893 billion as on 26th Feb'10. Meanwhile, deposits expanded by Rs 635 billion to a total outstanding of Rs. 43,633 billion. The annual growth rate of deposits stands at 16.83% near RBI's target of

17.0%. Banks investment in G-sec declined by Rs. 149 billion during the fortnight. Banks have invested an aggregate of Rs. 2,129 billion in G-sec during the financial year so far.

International Developments

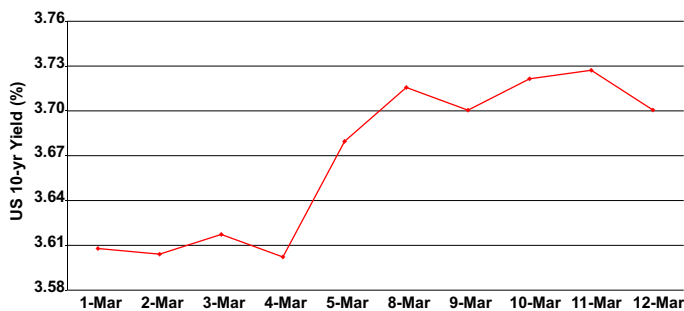
US Treasuries

US treasury yields opened the fortnight marginally higher as rise in global equities diminished the appeal of safe haven treasuries. Market also remained cautious as it awaited announcement of deficit figures of Greece. Yields came under further pressure on stronger than expected US service industry growth data for the month of February. Less than expected decline in US employment also pushed yields to nearly two-week highs. Treasuries declined further after Asian shares rose on signs that the world economy is improving. Expectations of improvement in retail sales raised odds of rate hike by Fed. Investors preferred to invest funds in shorter duration papers. Treasuries recovered after 3-yr security auction drew lower than expected yield. 10-yr security auction drew less demand while 30-yr auction received better response and was subscribed at lower than expected cut-off yield. Gains in global stocks were a prominent reason for waning of demand for treasuries. On the last trading day, 10-yr yield eased a bit, however, 2-yr yields firmed up as subsiding of concerns over crisis in Greece reduced appeal of safe haven appeal of shorter-term securities. Yield on 10-yr paper closed the fortnight at 3.70% as against previous fortnight's close of 3.61%.

International Crude Oil

Crude oil prices charted upwards gaining almost 5% during the fortnight under review. Crude oil breached the USD 80 a barrel mark in the beginning of the fortnight as rise in global equity markets bolstered appeal of commodities. Rise in operating rates of refineries also gave boost to prices. Though, rise in dollar against the euro pushed down prices marginally, less than estimated decline in US employment in February boosted sentiments. In the second week, rise in oil prices was limited by strengthening of dollar against the euro. However, decline in US jobless claims and optimism over economic recovery kept sentiments upbeat. Strong demand from world's second largest fuel consumer, China, helped oil top USD 82 barrel mark at the close of the fortnight. On the last trading day, oil price slipped marginally as US consumer confidence dipped unexpectedly in the month of March. Crude oil closed the fortnight at USD 81.24 a barrel as against previous closing of USD 79.66 a barrel.

**Rising Optimism About Economic Recovery
Diminishes Appeal of Safe Haven US Treasuries**

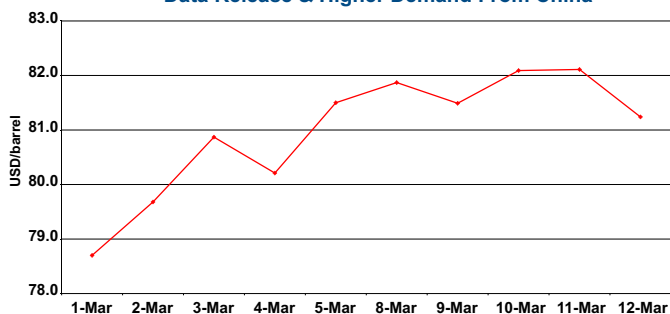


Global Economic Calendar

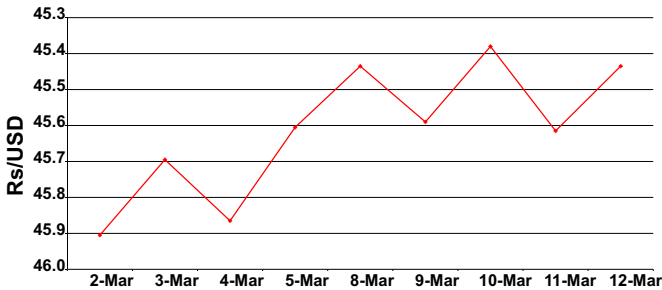
Date	Event
15-Mar	US Industrial Production, Feb (0.9%)
16-Mar	US Housing Starts, Feb (591K)
16-Mar	US FOMC Meet
17-Mar	US Producer Price Index, Feb (4.6%)
18-Mar	US Leading Indicators, Feb (0.3%)
18-Mar	US Consumer Price Index, Feb (2.6%)
23-Mar	US Existing Home Sales, Feb (5.05M)
24-Mar	US New Home Sales, Feb (309K)

*[Figures in () are prior readings]

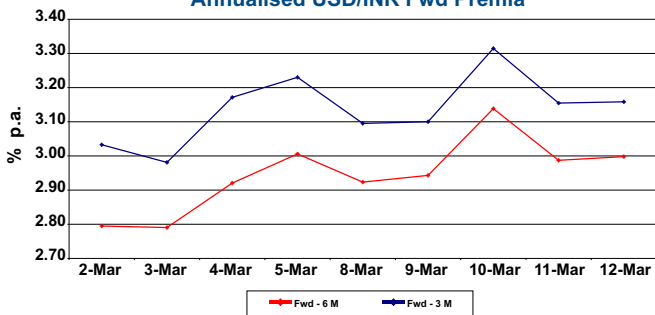
**Crude Oil Strengthens on Back of Improved Economic
Data Release & Higher Demand From China**



Foreign Inflows in Rising Domestic Equities Help Rupee Inch Higher



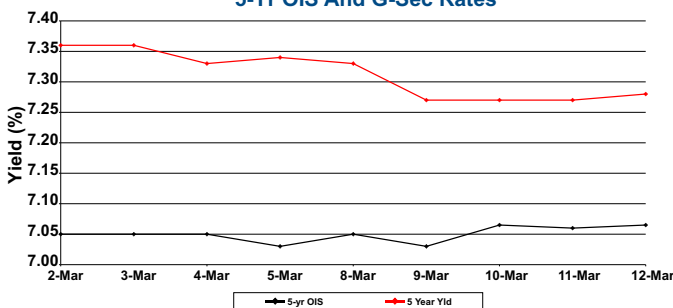
Annualised USD/INR Fwd Premia



Major Stock Indices

	26-Feb-10	12-Mar-10	% change
Indian Indices			
Sensex	16,430	17,167	4.49%
Nifty	4,922	5,137	4.36%
Banking	9,829	10,341	5.21%
Healthcare	4,913	5,061	3.01%
FMCG	2,662	2,795	4.99%
IT	5,174	5,338	3.18%
PSU	9,214	9,072	-1.54%
Auto	7,171	7,573	5.60%
Capital Goods	13,475	13,784	2.29%
World Indices			
Dow Jones	10,325	10,625	2.90%
Nikkei	10,126	10,751	6.17%
FTSE	5,355	5,626	5.06%

5-Yr OIS And G-Sec Rates



FOREX MARKET

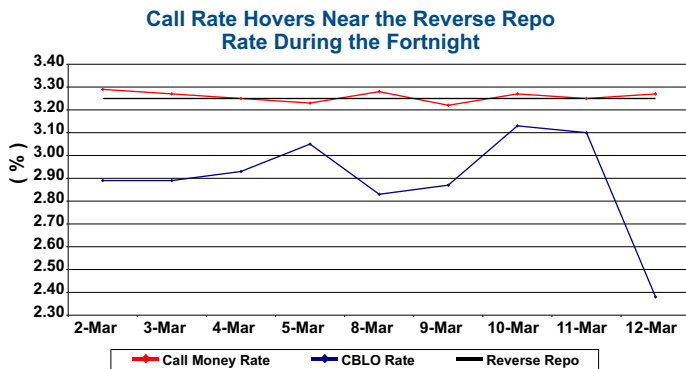
Indian rupee rose in tandem with rise in equity markets. Equity market rose considerably during the first week and consistent dollar inflows in equities boosted demand for rupee as well. Lower fiscal deficit projection for the coming fiscal also boosted appeal of the domestic unit. Weakness in dollar further accentuated the rise in rupee. Rupee rose sharply to more than 6-week high buoyed by gains in regional currencies and dollar selling by offshore players. Rupee remained volatile during the second half of the fortnight with rise in shares boosting foreign inflows while dollar buying by importers keeping sentiments cautious. Share sale by government firm attracted huge foreign inflows. At the same time, acquisition of controlling stake in a foreign firm by domestic company dampened demand for rupee. Rupee closed the fortnight at 45.43/USD as against previous fortnight's closing of 46.11/USD.

EQUITY MARKET

Domestic equity markets remained in a strengthening mode for most part of the fortnight as positive and growth-oriented budget for FY 2010-11 attracted capital inflows. Expectations of robust economic growth in the coming financial year induced heavy buying in blue chip stocks. Sensex zoomed past 17,000 level after a period of 6 weeks. Though, the rally was snapped briefly as traders booked profits amid weak global cues, sentiments remained bullish on account of improved growth prospects. Markets started the second week on a positive note as better-than-expected US jobs data fuelled hopes of a recovery in the world's largest economy. However, market remained choppy thereafter and witnessed marginal gains. NMDC's follow on public offer witnessed subdued initial response. On the last trading day, market remained rangebound owing to lack of global cues and low retail participation. Sensex and Nifty rose by 4.49% and 4.36% respectively during the fortnight.

INTEREST RATE DERIVATIVES

5-yr swap rates traded in a tight range of 7.03% - 7.06% during the fortnight. Swap rates inched up in the beginning of the fortnight after announcement of hefty borrowing quantum for the coming year. However, rates remained steady thereafter. 1-yr OIS swap rates remained firm and rose above 5.0% mark intermittently during the fortnight on renewed worries regarding liquidity condition post advance tax outflows. Trading volumes remained considerably low. The 5-year OIS



closed the fortnight at 7.07%, 3 bps above previous fortnight's level. 5-year MIFOR moved in a range of 5.95% - 6.15% vis-à-vis previous fortnight's range of 5.88% - 6.10% and closed the fortnight at 6.10%, 15 bps above previous fortnight's level of 5.95%.

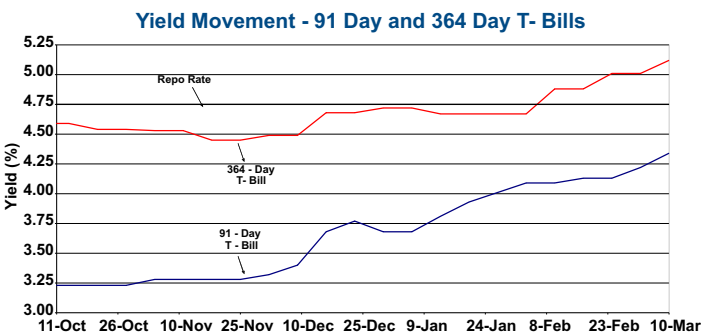
MONEY MARKET

During the fortnight, money market rates remained steady amid ample liquidity conditions. Volumes in CBLO market touched a high of Rs. 91,378 crore as cash rich mutual funds lent heavily in the collateralised market. Banks borrowed comfortably for their fortnightly reserve requirements. However money market rates are expected to inch up in the coming fortnight as advance tax outflows shall squeeze out liquidity from the system. Call rates may inch up in the coming fortnight as year end concerns and tighter liquidity may keep lenders sidelined. During the fortnight, RBI absorbed funds aggregating Rs. 68,247 crore on a daily average basis during the fortnight. Call rates ended unchanged from previous fortnight's level at 3.27%. While CBLO rates ended the fortnight at 2.38% vis-à-vis previous fortnight's closing of 2.69%.

TREASURY BILLS

Primary Market

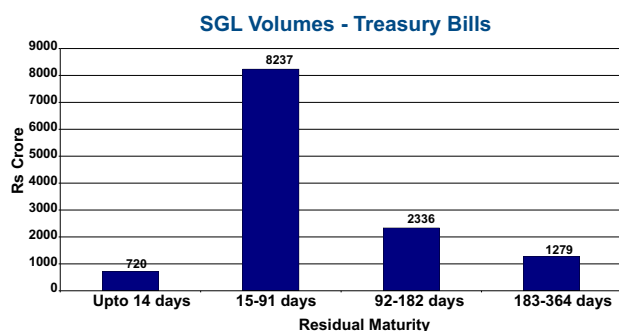
T-bill yields rose sharply in primary auctions during the fortnight, as traders feared that liquidity might tighten in the coming days owing to advance tax outflows of nearly Rs. 40,000 crore. During the fortnight, government borrowed a sum of Rs. 14,000 crore through issuance of T-bills. Cut off yield on 91 day T-bill rose sharply to 4.34% from 4.13% in the previous fortnight. Yield on 91 day T-bill has risen by nearly 66 bps in the third quarter on back of rate hike concerns.



Details of all the Treasury bill auctions held in the fortnight ended 12th March 2010 have been tabulated as under:

(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
	03 Mar	10 Mar	03 Mar	10 Mar
Cut-off Price (Rs)	98.96	98.93	97.71	95.14
Implicit Yield (%)	4.22	4.34	4.70	5.12
Weighted Avg. Yield (%)	4.17	4.26	4.66	5.09
Competitive Bids Received	7740.25	7682.86	3942.71	9135.00
Competitive Bids Accepted	4500.00	5000.00	1500.00	3000.00
Non-Competitive Bids Accepted	Nil	Nil	Nil	113.85
Total Bills Issued	4500.00	5000.00	1500.00	3113.85
Of which MSS	Nil	Nil	Nil	Nil



Major Issuances closed during the fortnight

Organization	Amount	Tenor	Coupon
	(Rs. Cr)	(yrs)	
IDBI Bank	550	Perpetual	9.65% (a)
LIC Housing Finance	500	1.25	7.05% (a)
	200	2.25	7.55% (a)
PFC	550	15	8.90% (a)
IRFC	600	15	8.95% (a)

(a)Annual

Yield on 182 day and 364 day T-bills also rose to 4.70% (4.55% in the previous fortnight) and 5.12% (5.01% in the previous fortnight) respectively.

Secondary Market

Trading volumes during the fortnight rose to Rs. 12,572 crore vis-à-vis previous fortnight's level of Rs. 10,963 crore. Average daily trading volume stood at Rs. 1,397 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs 8,237 crore was witnessed in the 15 - 91 days residual maturity bucket. During the fortnight Foreign Banks, Public Sector banks and Private Sector Banks were net buyers while, Mutual Funds and Primary Dealers were net sellers.

CORPORATE BOND MARKET

Primary Market

During the fortnight, IDBI raised Rs. 550 crore through perpetual bonds carrying annual coupon of 9.65%. LIC Housing Finance raised Rs. 700 crore during the fortnight. Rs. 500 crore worth of 15 months papers were issued at coupon of 7.05% per annum while Rs. 200 crore were raised through papers maturing in 27-months and carrying annual coupon of 7.55%. In another issuance, Power Finance Corp raised Rs. 550 crore through securities maturing in 15-yrs. The 15-yr securities carry annual coupon of 8.90%. IRFC raised Rs. 600 crore through bonds maturing in 15-yrs. These bonds offer coupon of 8.95% payable annually.

Secondary Market

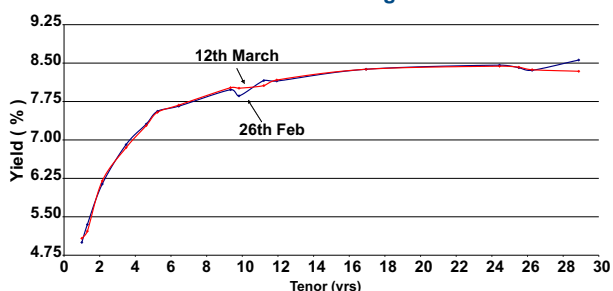
Indian corporate bond yields remained firm for most part of the fortnight. Fears of crowding out of private investments kept yields firm. Spread between corporate and government yields widened further. Traders keenly awaited release of borrowing calendar for the first half of next fiscal which will determine the availability of funds for investments by corporates. Release of IIP had little impact as the same was in line with market expectations. On the last trading day, market traded rangebound as traders turned cautious ahead of inflation data release.

GOVERNMENT SECURITIES

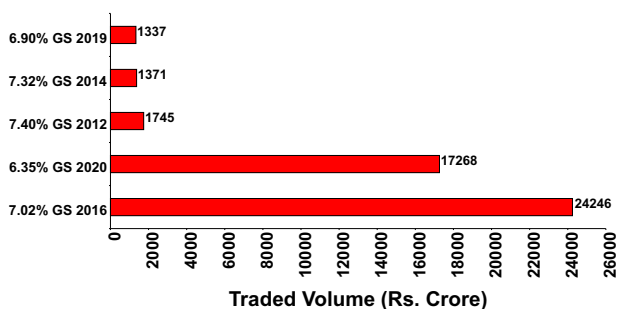
Secondary Market Developments

G-sec market traded lackluster during the fortnight as borrowing and inflation worries kept buying sentiments weak. Trading volumes remained thin and yields traded range bound with an upward bias as traders remained in a

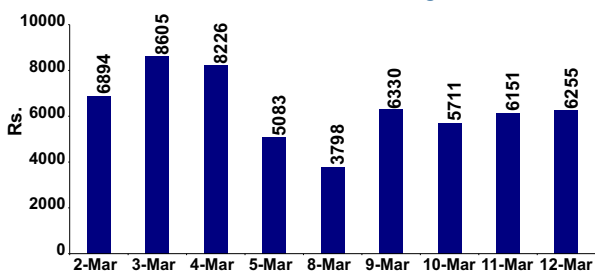
Yields Curve Remains Marginally Changed From Previous Fortnight's Level



Most Traded Securities



Dated Securities Trading Volumes



wait and watch mode ahead of release of auction schedule for the first half of the coming fiscal. Borrowings are expected to be front-loaded which may result in G-sec supply worth Rs. 12,000 crore to Rs. 13,000 crore hitting the market every week. Government borrowings for FY 2010-11 have been set at Rs. 4,57,000 crore a little higher than Rs. 4,51,000 crore borrowed in FY 2009-10. 10-yr yield rose past the crucial 8% mark during the second half of the fortnight as expectation of a new 10-year benchmark paper prompted players to remain sidelined. Though, marginal easing of yields was witnessed mainly on account of short covering by players, yields later firmed up again on continued concern over the compositions and mix of the auction calendar. Besides, sharp rise in US treasury yields and crude oil prices also weighed on market sentiments. 6.35% GOI 2020 closed the fortnight 15 bps higher at 8.01% as against previous closing of 7.86%. While spread between 30-yr and 1-yr papers declined to 334 bps from 356 bps in the previous fortnight.

Trading Volumes

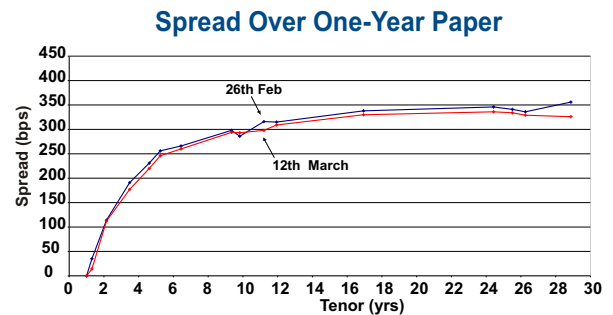
Total traded volumes declined to Rs. 57,053 crore vis-à-vis previous fortnight's level of Rs. 81,107 crore. The first week's average daily trading volume stood at Rs 7,202 crore vis-à-vis second week's level of Rs. 5,649 crore. The highest single day trading volume was Rs. 8,605 crore. 7.02% GOI 2016 and 6.35% GOI 2020 cornered 90% of the top five traded securities volume. During the fortnight Public Sector Banks were net buyers while Foreign Banks, Private Sector Banks, Mutual Funds and Primary Dealers were net sellers.

OUTLOOK

High inflation and supply fears pushed 10-yr yield to 17 month high level at 8%. In the coming fortnight, monthly inflation figure for February will be keenly watched. Inflation is expected to touch 9.5% mark which may further raise concerns of interest rate hike. Impact of advance tax outflows on the liquidity condition will also be crucial as decline in the same may further dampen demand for G-sec. After the discount rate hike by Fed in the previous month, the FOMC to be held on 16th March'10 will also be watched for Fed's take on interest rates. These concerns along with apprehension regarding the borrowing schedule for the coming fiscal are expected to keep market participants cautious. With regard to the borrowing calendar for FY 2010-11, since major proportion of G-sec redemptions is concentrated in months of May and July, borrowings are expected to be bunched in these months with other months having comparatively lower auction supply.

SPREAD MONITOR

	TTM (yrs)	YTM		Change in YTM (bps)
		26-Feb	12-Mar	
364 Day T Bill	1.00	5.00	5.08	8
9.39% GOI 2011	1.31	5.35	5.22	-13
7.40% GOI 2012	2.15	6.14	6.20	6
7.32% GOI 2014	4.61	7.31	7.28	-3
6.49% GOI 2015	5.24	7.56	7.54	-2
7.02% GOI 2016	6.44	7.66	7.68	2
6.90% GOI 2019	9.34	7.98	8.02	4
6.35% GOI 2020	9.82	7.86	8.01	15
7.94% GOI 2021	11.21	8.16	8.06	-10
8.20% GOI 2022	11.94	8.15	8.17	2
8.24% GOI 2027	16.94	8.38	8.38	0
7.50% GOI 2034	24.43	8.46	8.44	-2
7.40% GOI 2035	25.51	8.41	8.42	1
6.83% GOI 2039	28.88	8.56	8.34	-22



CASH FLOWS FOR THE FORTHCOMING FORTNIGHT GOVERNMENT SECURITIES

(Rs. crore)

INFLOWS			OUTFLOWS		
Date	Security	Coupon Receipts	Date	Security	Scheduled auction amount
21-Mar	8.13% GOI 2022	101			
21-Mar	8.28% GOI 2027	52			
21-Mar	8.33% GOI 2032	63			
25-Mar	5.69 % GOI 2018	459			
25-Mar	5.97% GOI 2025	498			
25-Mar	6.01% GOI 2028	451			
Total Inflows		1,624	Total Outflows		0

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