

## Economy & Financial Markets Review

### Domestic Developments

RBI raises repo and reverse repo rate by 25 bps each to 5% and 3.50% respectively

Y-o-Y bank credit and deposit growth rate at 16.05% and 18.14% respectively

WPI inflation rate for February rises to 9.89% on surge in fuel prices

### International Developments

Weak demand in primary auctions drive up US treasury yields

Benchmark 10-yr US treasury yield firms up by 15 bps to end the fortnight at 3.85%

Crude oil price ends the fortnight at USD 80.00 as against previous closing of USD 81.24 a barrel

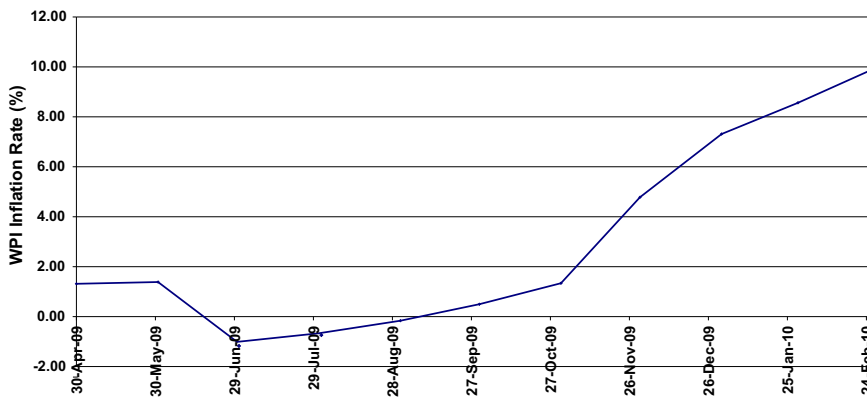
### G-sec Market

Upward revision of India's rating by S&P and value buying pull down yields

Trading volumes remain subdued on caution ahead of G-sec calendar

Yield on 6.35% GOI 2020 declines by 16 bps to end the fortnight at 7.85%

**Hike in Domestic Fuel Prices Drives up WPI Inflation Rate Near 10%**



### MACROECONOMIC INDICATORS

(Rs. Billion)

	As on 12th March'10	Variation over the fortnight	Variation over LRF of March	YOY % growth
<b>Aggregate Deposits</b>	44,029	396	5,688	18.14
<b>Bank Credit</b>	31,249	355	3,493	16.05
<b>Non - food Credit</b>	30,754	340	3,461	16.28
<b>Banks Investment in G-Sec</b>	13,799	147	2,241	17.98
<b>Broad Money M3</b>	54,745	575	7,105	17.39
<b>Reserve Money 19/03</b>	11,056	284	1,176	8.58
<b>Market Stabilisation Scheme Outstanding 19/03</b>	27	0		
<b>Forex Reserves (USD bn) 19/03</b>	278	(0.2)	26	(0.19)
<b>Credit - Deposit Ratio</b>	70.97			
<b>LAF Repo Rate (%)</b>	5.00			
<b>LAF Reverse Repo Rate (%)</b>	3.50			
<b>Cash Reserve Ratio (%)</b>	5.75			

### Money Market

Money market rates firm up on advance tax outflows and rate hike by RBI

RBI absorbs funds to the tune of Rs. 17,631 crore on a daily average basis during the fortnight

Call and CBLO rates end the fortnight at 3.70% and 3.06% respectively

### Forex Market

Rupee strengthens tracking higher equity markets

Rupee ends the fortnight at 45.24/USD vis-à-vis previous fortnight's level of 45.44/USD

Fortnightly average of 3M & 6M fwd annualized premia at 3.24% & 3.12% as against previous fortnight's level of 3.14% & 2.94% respectively

### Equity Market

Consistent buying by funds amid positive global cues drive up domestic equity markets

Sensex and Nifty rise by 2.8% each during the fortnight

## DOMESTIC DEVELOPMENTS

### RBI Hikes Repo & Reverse Repo Rate by 25 bps each

In a move that surprised most of the market participants, RBI commenced with the interest rate tightening cycle, hiking the repo and reverse repo rate by 25 bps each. Though interest rate hike by RBI was widely expected, the timing of the same came as a huge surprise. Impressive growth of the Indian industry as witnessed in the recent months and consistent hardening of inflation formed the basis of the rate hike. The central bank displayed great discomfort with inflation almost nearing double digits and also with inflationary pressures spilling over to the wider economy. RBI also stated that firming up of demand side pressures may push WPI inflation beyond double digits by March itself. 75 bps hike in CRR in the third quarter policy review and now 25 bps hike in key policy rates indicate that RBI's focus has clearly turned from supporting economic recovery to containing inflation and anchoring inflationary pressures. At the same time, RBI also acknowledged that it may not resort to strong rate hikes and may prefer to take small steps in the process of normalization of interest rates. With this, probability of another rate hike in the annual monetary policy in the month of April for FY 2010-11 remains strong.

### Spike in Fuel Prices Takes WPI Inflation Near Double Digits

India's headline inflation rate accelerated further, almost nearing double digits growing by 9.89% in the month of February as against 8.56% in January. The 16 month high inflation figure is much above RBI's target of 8.50% for March end. The sharp rise in inflation is mainly attributed to hike in petrol and diesel prices, which was brought about in the annual budget. The index of fuel group rose sharply by 10.19% as against a decline of 3.4% in the previous year. Low base effect further amplified the fuel inflation rate. On the other hand manufactured products prices surged by 7.42% on a yearly basis as against a rise of 4.78% in the corresponding period last fiscal. Primary articles inflation also remains at elevated levels showing no signs of abatement. On a yearly basis, prices of primary articles rose by 15.54% in February with food articles inflation at 17.70% during the same period. The latest inflation figures for February also brought RBI in action and it raised the repo and reverse repo rate unexpectedly by 25 bps each. The action which comes a month ahead of the annual monetary policy in April, is likely to check rise in demand side pressures which may further add to the current bout of inflation.

### Stubborn inflation & impressive IIP growth trigger RBI action

#### WPI Inflation Rate

Name of commodity	Weights	Index as on		Y-O-Y % increase	
		29-Jan-10	26-Feb-10	29-Jan-10	26-Feb-10
All commodities (WPI)	100.00	248.5	250.1	8.56%	9.89%
Primary Articles	22.02	284.7	284.7	14.52%	15.54%
Fuel, Power, Light & Lubricants	14.23	351.5	356.9	6.90%	10.19%
Manufactured Products	63.75	213.0	214.3	6.55%	7.42%

### Banks step up lending to meet year & targets

### Global Economic Calendar

Date	Event
30-Mar	US Consumer Confidence, Mar (46)
30-Mar	UK GDP Q4 Y-o-Y (-3.3%)
01-Apr	US Initial Jobless Claims Mar 28 (442k)
02-Apr	US Unemployment Rate Mar (9.7%)
05-Apr	US Pending Home Sales, Feb (-7.6%)
06-Apr	Minutes of FOMC Meeting

\*[Figures in () are prior readings]

### Bank Credit Surpasses Years Target of 16%

Bank credit growth surpassed the RBI target for the year growing by 16.05% in the fortnight ended 16<sup>th</sup> March'10. Rising for the fourth consecutive fortnight, bank credit grew by Rs. 355 billion as against Rs. 376 billion in the previous fortnight. Banks also stepped up lending near the close of the financial year to meet year end targets. Nevertheless the trend shown by credit growth in recent months has been positive reflecting the pick up in economic activity. With this the outstanding bank credit has risen to Rs.31,249 billion as on 12<sup>th</sup> March'10. On the other hand, banks also mobilized deposits aggregating Rs. 396 billion during the fortnight to a total outstanding of Rs. 44,029 billion. The annual growth rate of deposits stands at 18.14% higher than RBI's target of 18.0%.

### International Developments

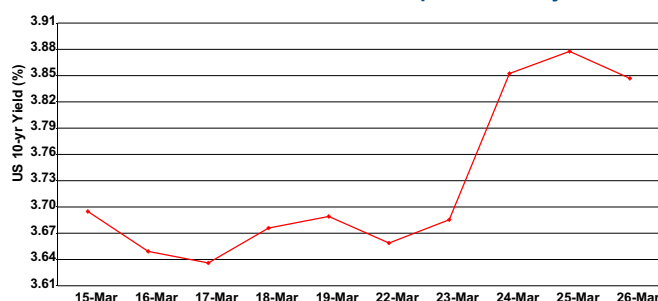
#### US Treasuries

US treasury yields eased in the beginning of the fortnight after Fed maintained its dovish stance to support the economy. Sentiments were boosted after Fed reiterated that the recovery process is slow and that interest rates shall remain benign for further period. Though, decline in initial jobless claims put upward pressure on yields, expectation of rise in demand for safe haven treasuries on account of poor financial health of Greece prevented sharp slide in US treasury prices. However in the second half of the fortnight, yields surged sharply with 10 year yield rising by more than 15 bps as heavy supply dampened sentiments. Weak demand in auctions of two, five and seven year papers in the second week from players including foreign central banks pushed 10 yr yield past 3.85%. Further with the US economy growing by 5.6% in the fourth quarter of FY 2009-10 demand for treasuries weakened. After touching a high of 3.92% in intra day trade, yield on 10-yr paper closed the fortnight at 3.85% as against previous fortnight's close of 3.70%.

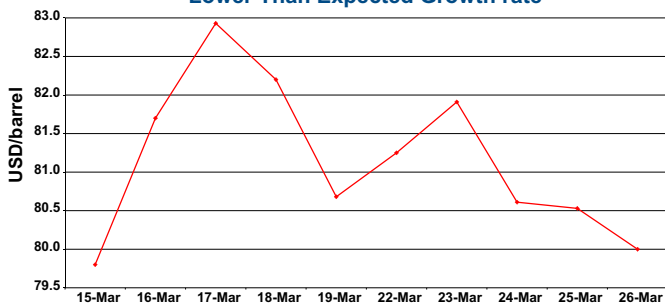
#### International Crude Oil

During the fortnight, crude oil price remained largely guided by dollar movement against major currencies. After a weak opening, oil price inched upwards as dollar declined against the euro raising demand for commodities as an alternative investment. Prices rose past USD 82 a barrel as a decline in fuel stockpiles further boosted sentiments. However, oil pared the gains and plunged below USD 80 a barrel as dollar rebounded and US equities fell curbing demand for

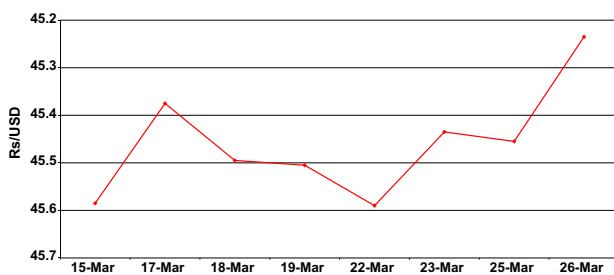
Poor Demand in Auctions Drive up US Treasury Yields



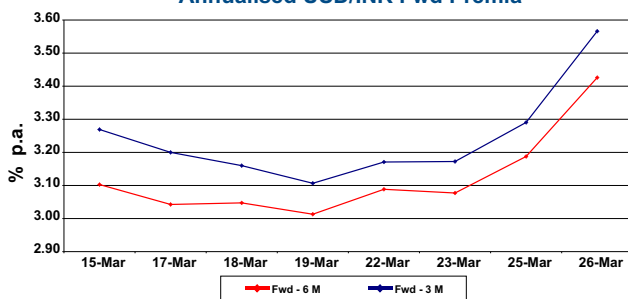
**Crude Oil Pares Gains as US Economy Registers Lower Than Expected Growth rate**



**After Trading Range Bound Rupee Ends Higher on Dollar Weakness and Rise in Equities**



**Annualised USD/INR Fwd Premia**



**Major Stock Indices**

	12-Mar-10	26-Mar-10	% change during the fortnight
<b>Indian Indices</b>			
Sensex	17,167	17,645	2.79%
Nifty	5,137	5,282	2.82%
Banking	10,341	10,636	2.85%
Healthcare	5,061	5,333	5.37%
FMCG	2,795	2,841	1.65%
IT	5,338	5,515	3.31%
PSU	9,072	8,949	-1.36%
Auto	7,573	7,624	0.68%
Capital Goods	13,784	14,074	2.10%
<b>World Indices</b>			
Dow Jones	10,625	10,850	2.12%
Nikkei	10,751	10,996	2.28%
FTSE	5,626	5,703	1.38%

commodities. In the second half of the fortnight, oil prices remained range bound moving in tandem with equity market. Larger than estimate rise in US stockpiles pushed prices down by more than a dollar. Rise in equity markets was offset by strengthening of dollar. Crude closed the fortnight at USD 80 a barrel after US economy grew a lower than estimate rate in the fourth quarter. US GDP grew at 5.6% as against an estimate of 5.9%.

**FOREX MARKET**

Indian rupee strengthened considerably during the fortnight on back of higher capital inflows in rising equities. Rupee began the fortnight on a weak note as sharp surge in dollar against euro on Greek concerns weighed on sentiments. Higher than expected inflation rate also pushed rupee lower. However rise in domestic equities helped rupee recover and rise to two month highs. Dollar's rebound against euro drove rupee lower from two months high. Traders remained wary of the surge in dollar against euro and preferred to remain sidelined waiting for clarity over Greek debt issues. In the second week of the fortnight, rupee remained subdued and dropped further as losses in domestic equities and strong dollar weighed on sentiments. Near the close of the fortnight, rupee surged as exporters sold dollars and stock markets pared losses. On the last trading day rupee strengthened to 18 months high after dollar plunged against euro after an aid for Greece was confirmed by euro leaders. While, considerable rise in Asian and domestic bourses also boosted sentiments. Rupee closed the fortnight at 45.24/USD as against previous fortnight's closing of 45.43/USD.

**EQUITY MARKET**

Domestic equity markets opened the fortnight on a positive note as higher corporate tax payments boosted sentiments immensely. Market indices gained more than 200 points on a single day led by Reliance Industries as traders anticipated better quarterly profits as the company paid Rs. 770 crore advance tax for the fourth quarter. Firm global trend also supported buying sentiments helping the indices to register sixth consecutive weekly gain. However, in the second week of the fortnight the rally was halted as markets dropped in reaction to the unexpected interest rate hike by RBI. The drop was led by decline in interest rate sensitive stocks. Strong buying amid firm global trend helped domestic markets to rebound. Equity markets inched up gradually regaining 17,500 mark on continued buying by funds in blue chip stocks. Decline in weekly food inflation rate to its lowest level in four months

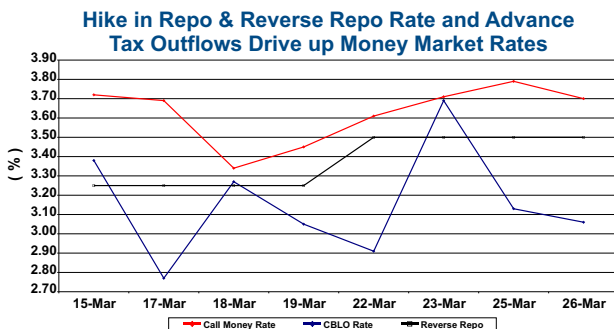
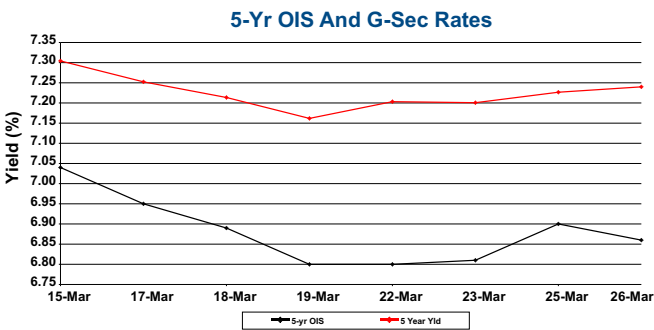
further accentuated the rise. On the last trading day, indices rose to touch a fresh two month high on back of continued buying momentum in heavy weight stocks. On back of the rally, Sensex and Nifty registered a rise of 2.79% and 2.82% respectively during the fortnight. Globally also, Dow Jones closed in the green rising by 2.12% over the previous fortnight.

### INTEREST RATE DERIVATIVES

Swap rates traded with a downward bias during the fortnight and fell to more than a month's lows tracking G-sec yields and also after Fed left the key interest rates unchanged. Moreover with the impact of advance tax outflows being less severe as earlier anticipated, swap rates declined further. However paying interest prevailed as outlook for bond yields remains negative in the near term which prevented sharp decline in swap rates. Rates inched up in the second half of the fortnight after RBI hiked the key policy rates by 25 bps each. 5-yr swap rates traded in a range of 6.80% - 7.04% during the fortnight and closed at 6.86%. While, 5-year MIFOR moved in a range of 6.15% - 6.35% and closed the fortnight at 6.35%, 25 bps below previous fortnight's level of 6.10%.

### MONEY MARKET

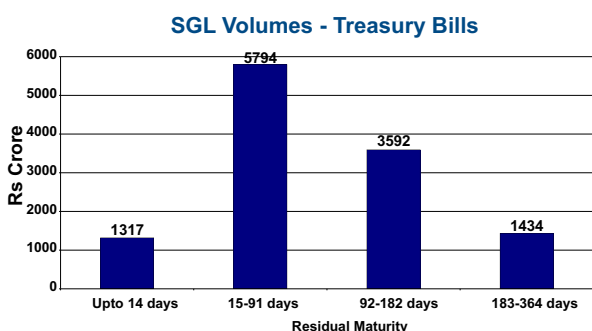
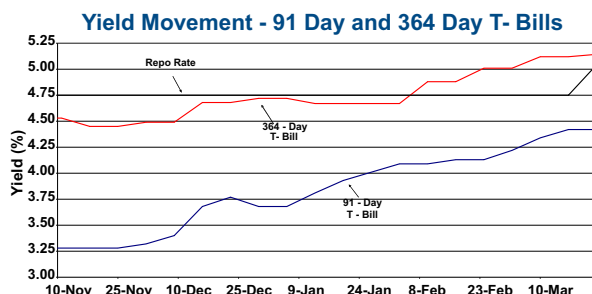
Money market rates rose sharply during the fortnight and remained volatile as advance tax outflows drained out considerable amount of liquidity from the system. Call rate shot up by almost 50 to 60 bps while reverse repo absorptions plunged drastically reflecting the strain in liquidity. In a holiday shortened fortnight, demand for funds remained strong. Also with hike in key policy rates by 25 bps each, call rate rose and adjusted to the new corridor. During the fortnight, RBI



Details of all the Treasury bill auctions held in the fortnight ended 26<sup>th</sup> March 2010 have been tabulated as under:

(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
	17 Mar	23 Mar	17 Mar	23 Mar
Cut-off Price (Rs)	98.91	98.91	97.72	95.12
Implicit Yield (%)	4.42	4.42	4.68	5.14
Weighted Avg. Yield (%)	4.34	4.38	4.64	5.11
Competitive Bids Received	15754.65	17770.10	15690.00	11726.00
Competitive Bids Accepted	5000.00	5000.00	3000.00	3000.00
Non-Competitive Bids Accepted	Nil	Nil	Nil	Nil
Total Bills Issued	5000.00	5000.00	3000.00	3000.00
Of which MSS	Nil	Nil	Nil	Nil



#### Major Issuances closed during the fortnight

Organization	Amount	Tenor	Coupon
	(Rs. Cr)	(yrs)	
UCO Bank	400	15	8.90% (s.a)
National Housing Bank	500	1.08	6.30% (a)
PFC	1470	15	8.95% (a)

(a) Annual

(s.a) Semi annual

absorbed funds aggregating Rs. 17,905 crore on a daily average basis during the fortnight. Call rates ended the fortnight at 3.70% versus previous fortnight's level at 3.27%. While CBLO rates ended the fortnight at 3.06% vis-à-vis previous fortnight's closing of 2.38%.

## TREASURY BILLS

### Primary Market

During the fortnight, with tightening of liquidity conditions and rise in overnight money market rates, yield on T-bills also inched up higher in primary auctions. T-bill yields have been on a continuous rise on concerns over interest rate hike by RBI. During the fortnight, government borrowed a sum of Rs. 16,000 crore through issuance of T-bills. Cut off yield on 91 day T-bill rose to 4.42% from 4.34% in the previous fortnight. While 182 and 364 day T-bill were sold at a cut off yield of 4.68% and 5.14 % respectively.

### Secondary Market

Trading volumes during the fortnight declined marginally to Rs. 12,137 crore vis-à-vis previous fortnight's level of Rs. 12,572 crore. Average daily trading volume stood at Rs. 1,517 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs 5,794 crore was witnessed in the 15 - 91 days residual maturity bucket. During the fortnight Public Sector banks, Private Sector Banks and Primary Dealers were net buyers while Mutual Funds and Foreign Banks were net sellers.

## CORPORATE BOND MARKET

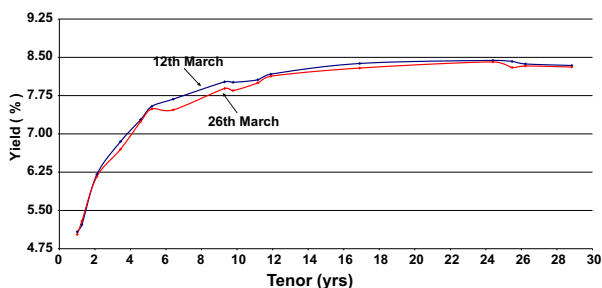
### Primary Market

Corporate bond issues remained subdued during the fortnight. During the fortnight, UCO bank raised Rs. 400 crore through bonds maturing in 15 years carrying semi annual coupon of 8.90%. NHB raised Rs. 500 crore during the fortnight. Rs. 500 crore worth of 18 months papers were issued at coupon of 6.30% per annum. In another issuance, Power Finance Corp raised Rs. 1470 crore through securities maturing in 15-yrs. The 15-yr securities carry annual coupon of 8.95%.

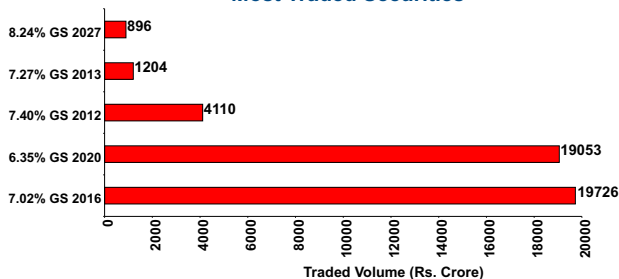
### Secondary Market

Indian corporate bond yields eased in tandem with G-sec yields in the beginning of the fortnight. However sentiments remained largely wary ahead of release of the borrowing calendar. High monthly WPI inflation figure had little impact on yields as the same was already discounted by the market. Spreads between corporate and government yields declined during the fortnight under review.

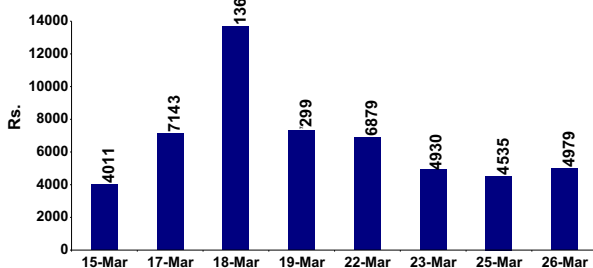
### Yields Curve Shifts Downwards During the Fortnight



### Most Traded Securities



### Dated Securities Trading Volumes



**In the coming fortnight, the borrowing schedule for FY 2010-11 will be major trigger and will set the course of yield movement**

## GOVERNMENT SECURITIES

### Secondary Market Developments

Bond yields eased considerably during the first half of the fortnight with 10-yr yield falling by 19 bps as banks purchased securities to complete SLR requirements near the close of the financial year. Dovish stance of Fed in the FOMC meet also pulled down yields. Upward revision of India's debt rating from negative to stable by S&P boosted market sentiments which had remained largely subdued owing to huge government borrowings and rising inflation. Marked decline in week on week food inflation rate too induced buying. However, unexpected interest rate hike by RBI on 19<sup>th</sup> Feb took market participants by surprise. Yields surged with 10-yr yield rising past 8% in reaction to the rate hike. However, yields retreated later on emergence of value buying at higher levels. Market remained range bound in the remaining part of fortnight amid thin volumes as traders preferred to stay sidelined ahead of release of borrowing calendar for the coming fiscal. 6.35% GOI 2020 closed the fortnight 16 bps lower at 7.85% as against previous closing of 8.01%. While spread between 30-yr and 1-yr papers rose marginally to 328 bps from 326 bps in the previous fortnight.

### Trading Volumes

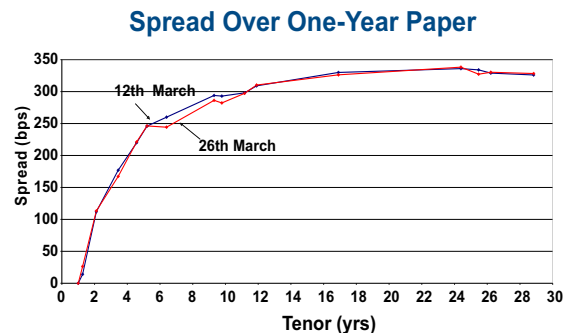
Total traded volumes remained subdued and declined during the fortnight to Rs. 53,467 crore vis-à-vis previous fortnight's level of Rs. 57,053 crore. The first week's average daily trading volume stood at Rs 8,036 crore vis-à-vis second week's level of Rs. 5,331 crore. The highest single day trading volume was Rs. 13,691 crore. 7.02% GOI 2016 and 6.35% GOI 2020 cornered 86% of the top five traded securities volume. During the fortnight Foreign Banks and Public Sector Banks were net buyers while Private Sector Banks, Mutual Funds and Primary Dealers were net sellers.

## OUTLOOK

Bond yields eased in the previous fortnight majorly on back of value buying by investors near the close of the financial year. However, trading volumes remained subdued reflecting the caution among traders ahead of release of the borrowing calendar. In the coming fortnight, the borrowing schedule for FY 2010-11 will be major trigger and will set the course of yield movement. Though market has discounted front loading of government borrowing, any major deviation from expectations regarding the same may drive up yields. Trading volumes may rise in the new financial year as ambiguity regarding the calendar will be over which may induce fresh investments.

## SPREAD MONITOR

	TTM (yrs)	YTM		Change in YTM (bps)
		12-Mar	26-Mar	
364 Day T Bill	1.00	5.08	5.03	-5
9.39% GOI 2011	1.27	5.22	5.29	7
7.40% GOI 2012	2.11	6.20	6.16	-4
7.32% GOI 2014	4.58	7.28	7.18	-10
6.49% GOI 2015	5.21	7.54	7.49	-5
7.02% GOI 2016	6.40	7.68	7.47	-21
6.90% GOI 2019	9.31	8.02	7.89	-13
6.35% GOI 2020	9.78	8.01	7.85	-16
7.94% GOI 2021	11.17	8.06	8.00	-6
8.20% GOI 2022	11.90	8.17	8.13	-4
8.24% GOI 2027	16.91	8.38	8.29	-9
7.50% GOI 2034	24.39	8.44	8.41	-3
7.40% GOI 2035	25.48	8.42	8.30	-12
6.83% GOI 2039	28.84	8.34	8.31	-3



## CASH FLOWS FOR THE FORTHCOMING FORTNIGHT GOVERNMENT SECURITIES

(Rs. crore)

INFLOWS			OUTFLOWS		
Date	Security	Coupon Receipts	Date	Security	Scheduled auction amount
5-Apr	6.85% GOI 2012	514			
9-Apr	6.30% GOI 2023	410			
<b>Total Inflows</b>		<b>923</b>	<b>Total Outflows</b>		<b>0</b>

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