

# GILT NEWS

for the fortnight ended 7th May, 2010

## Economy & Financial Markets Review

### Domestic Developments

Food prices ease during the fortnight on improved winter crop

Y-o-Y credit and deposit growth rate at 17.13% and 14.98% respectively

Exports surge by a whopping 54% in March'10

### International Developments

Fears of worsening of Greek debt crisis trigger flight to safety

Benchmark 10-yr US treasury yield plunges by 38 bps to end the fortnight at 3.43%

Crude oil dips by 11% as investors pull out funds from equity and commodities amid poor outlook of European economy

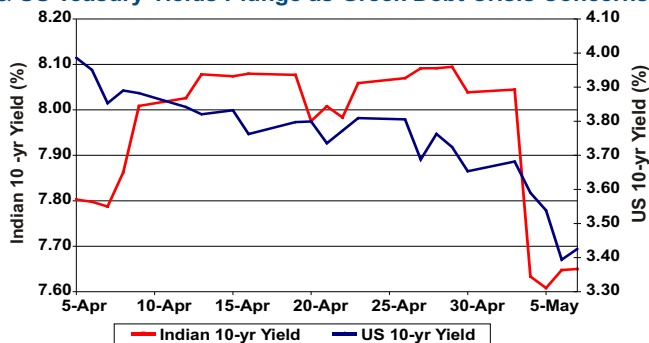
### G-sec Market

Indian bond market rallies tracking sharp fall in US treasuries amid weak global economic outlook

Government borrows Rs. 25,000 crore during the fortnight

Yield on new benchmark paper 7.80% GOI 2020 declines to 7.64% within a week of its issuance

Indian & US Treasury Yields Plunge as Greek Debt Crisis Concerns Worsen



### Money Market

Call and CBLO rates end the fortnight at 3.72% and 2.96% respectively

RBI absorbs funds to the tune of Rs. 51,359 crore on a daily average basis during the fortnight

### Forex Market

Steep decline in equity markets and surge in dollar pulls down rupee sharply

Rupee ends the fortnight at 45.48/USD vis-à-vis previous fortnight's level of 45.44/USD

Fortnightly average of 3M & 6M fwd annualized premia at 3.22% & 3.08% as against previous fortnight's level of 3.49% & 3.44% respectively

### Equity Market

Domestic stock markets plunge in sync with rout in global equity markets on Greek debt crisis fears

Sensex and Nifty decline by 5.23% & 5.39% respectively

### MACROECONOMIC INDICATORS

(Rs. Billion)

	As on 23rd April'10	Variation over the fortnight	Variation over LRF of March	YOY % growth
Aggregate Deposits	45,067	(233)	202	14.98
Bank Credit	32,147	(265)	(257)	17.13
Non - food Credit	31,668	(263)	(251)	17.48
Banks Investment in G-Sec	14,310	(171)	553	16.75
Broad Money M3	56,224	(177)	428	14.70
Reserve Money 30/04	11,654	321	102	19.77
Market Stabilisation Scheme Outstanding 30/04	27	0		
Forex Reserves (USD bn) 30/04	280	(0.5)	1	11.10
Credit - Deposit Ratio	71.33			
LAF Repo Rate (%)	5.25			
LAF Reverse Repo Rate (%)	3.75			
Cash Reserve Ratio (%)	6.00			



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## DOMESTIC DEVELOPMENTS

### Food Inflation Slows to 16.04%

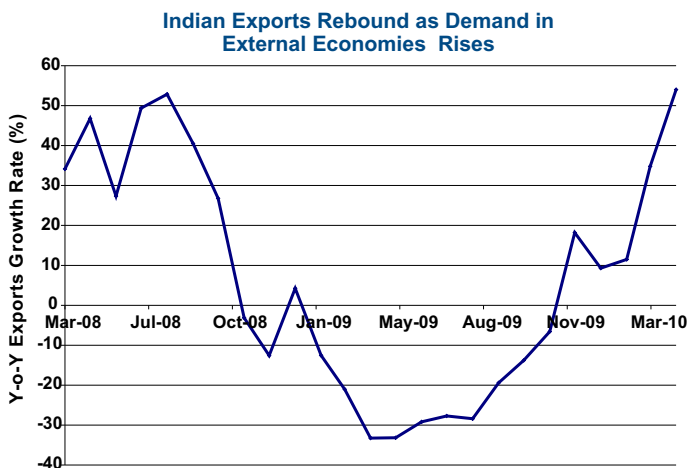
Annual food inflation rate slowed for the second successive week rising by 16.04% in the week ended 24<sup>th</sup> April'10 as against 16.61% recorded in the previous week. Food prices treaded lower extending the recent decline on back of improved kharif crops. Higher base of the previous year further contributed towards easing of food inflation. On back of marginal decline in prices of fruits, vegetable and wheat, the wholesale price index for food articles group declined to 292.3 from 292.7 in the previous week. Further, forecast of normal monsoons also helped ease speculative build up in food prices. The annual rate of inflation for primary articles for the week stood at 13.93%, higher than 13.55% for the earlier week. On the other hand the index of fuel group remained unchanged at its previous week's level of 365.10 points while the y-o-y inflation also stood unchanged at 12.69%. The WPI inflation rate stood at 9.9% for the month of March, however the same is expected to be lower for April.

### Bank Credit Dips by Rs. 265 billion During the Fortnight

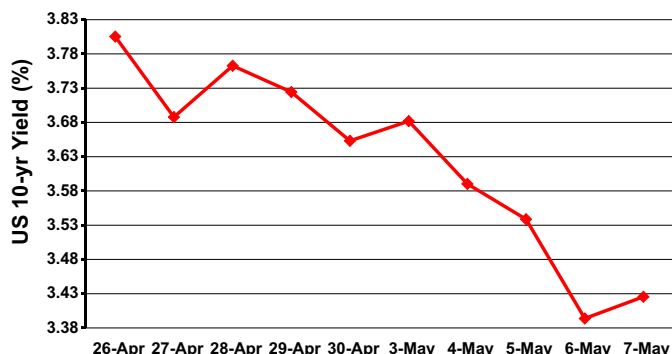
Bank credit and deposits witnessed a decline of Rs. 265 billion and Rs. 233 billion respectively during the fortnight ended 23<sup>rd</sup> April'10. On the credit side, loans rose at an annual pace of 17.13% to Rs. 32,147 billion as on 23<sup>rd</sup> April'10. Non-food credit slipped by Rs. 263 billion during the fortnight to Rs. 31,668 billion. However, credit off take is expected to pick up with economy on a strong footing and back on high growth path. Bank deposit growth also remained subdued at 14.98% rising to Rs. 45,067 billions as on 23<sup>rd</sup> April'10. Bank investments in government securities dipped by Rs. 171 billion to Rs. 14,310 billion during the fortnight.

### Exports Surge by 54% in March

Indian exports gained strong momentum in the month of March rising at the fastest pace in six years by 54% to USD 19.9 billion as demand in US and other nations strengthened. Exports growth had remained in the negative territory for almost a year since October 2008 onwards as fragile global economic conditions dampened demand in advanced economies. However with considerable improvement in global economic condition exports were able to post a rise for the fifth straight month in March. However, cumulatively exports declined by 4.7% to USD 176.5 billion in FY 2009-10. On the other hand, imports surged by 67% in March to USD 27.7 billion. While during the year imports declined by 8.2% to USD 278.7 billion from the previous fiscal's USD 303.7 billion. Consequently trade



**Fears of Spilling Over of Greek Debt Crisis Spur Flight to Safety**

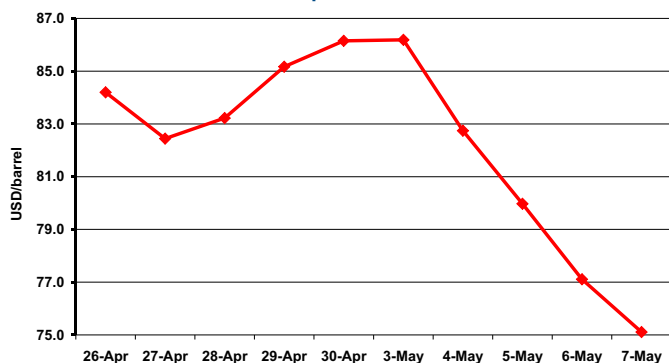


**Global Economic Calendar**

Date	Event
12-May	BoE Quarterly Inflation Report
	US Trade Balance, Mar (USD -39.7 bn)
14-May	US Industrial Production, Apr (0.1%)
18-May	US Housing Starts, Apr (626K)
	US Producer Price Index, Apr (6.0%)
19-May	US Consumer Price Index, Apr (2.3%)
20-May	US Leading Indicators, Apr (1.4%)

\*[Figures in () are prior readings]

**Crude Oil Plunges Near USD 75 as Greek Crisis Spooks Investors**



deficit for the year declined to USD 102 billion as against USD 118 billion a year ago.

**INTERNATIONAL DEVELOPMENTS**

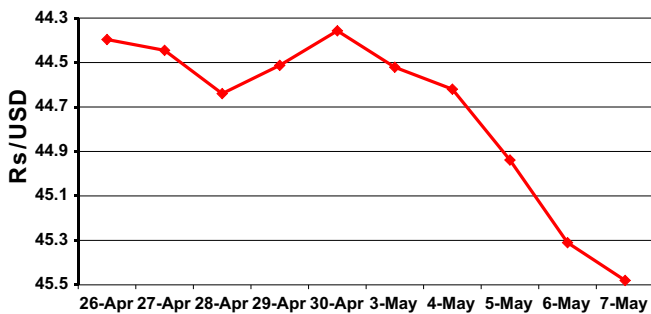
**US Treasuries**

US treasuries rallied sharply during the fortnight with 10-yr yield plunging by 38 bps as contagion risks in the Euro zone rose considerably boosting demand for safe haven assets. Despite record supplies in primary market, yields plunged drastically as rating downgrade of Greece and Portugal triggered flight to safety. S&P lowered the long- and short-term sovereign credit ratings on Greece to BB+ and B, respectively, from BBB+ and A-2 with a negative outlook. Fed's comfort with stable inflation conditions and mild inflationary expectations and its resolve to maintain interest rates at record lows further boosted sentiments. Though yields rose mildly on profit booking amid considerable supply, strong demand witnessed in the auction resulted in further decline in yields. Spread between 2 yr and 10 yr papers plunged sharply to the lowest level in almost a month resulting in flattening of the yield curve. Continued sell off in global equity markets on back of growing risk aversion and uncertainty over European bail out package and the crisis spilling over to other European nations resulted in huge inflows in safe haven US treasuries. Consequently 10 yr yield fell to nearly 5-month lows on concerns that the bail out package may not be adequate to contain the ongoing crisis. Yield on 10-yr paper closed the fortnight at 3.43% as against previous fortnight's close of 3.81%.

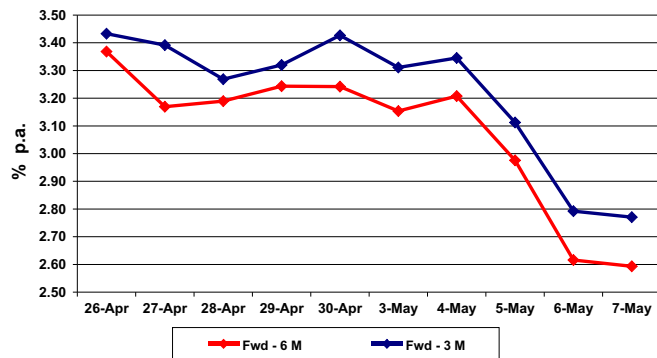
**International Crude Oil**

Crude oil opened the fortnight on a weak note as the US economy expanded at lower than anticipated rate in the fourth quarter raising concerns of subdued demand for fuel. However prices recovered and climbed steadily in the first week of the fortnight as dollar weakened against the euro after IMF and European Union pledged to support Greece in reducing its deficit. Oil prices were also supported by rise in US consumer spending. Prices scaled 18-month peak rising past USD 86 a barrel after US manufacturing expanded at the fastest pace in over six years raising hopes of improvement in demand for fuel and energy. However, oil gave up gains and plunged sharply in the second week of the fortnight as dollar surged against the euro on concerns that the Greek crisis may spread to other European nations. Decline in Chinese manufacturing too pulled down crude oil prices. Major sell off in global equities following sovereign risk concerns in the Euro zone spooked traders,

**Rupee Declines on Back of Steep Fall in Equity Markets & Strong Dollar Overseas**



**Annualised USD/INR Fwd Premia**



### Major Stock Indices

	23-Apr-10	8-May-10	% change during the fortnight
<b>Indian Indices</b>	-	-	-
<b>Sensex</b>	17,694	16,769	-5.23%
<b>Nifty</b>	5,304	5,018	-5.39%
<b>Banking</b>	11,074	10,506	-5.13%
<b>Healthcare</b>	5,323	5,314	-0.17%
<b>FMCG</b>	2,887	2,818	-2.40%
<b>IT</b>	5,381	5,135	-4.57%
<b>PSU</b>	9,031	8,907	-1.37%
<b>Auto</b>	7,771	7,515	-3.29%
<b>Capital Goods</b>	14,107	13,248	-6.09%
<b>World Indices</b>			
<b>Dow Jones</b>	11,204	10,380	-7.35%
<b>Nikkei</b>	10,914	10,365	-5.04%
<b>FTSE</b>	5,724	5,123	-10.49%

sending oil prices below USD 80 a barrel. Frazzled sentiments owing to European crisis kept persistent pressure on oil prices. Consequently crude oil closed the fortnight at USD 75.11 as against USD 85.12 in the previous fortnight.

### FOREX MARKET

Indian rupee declined during the fortnight weighed by strong dollar and concerns over Greece crisis. Rupee declined in the beginning on lacklustre domestic stock market and month-end dollar demand from importers. Speculation over spreading of Greece's debt crisis to other countries triggered a sell-off in the domestic stock market which resulted in capital outflows. Further, steep rise in dollar demand too weighed on rupee value. Rupee recovered slightly towards end of first half on the back of recovery in equity markets and profit booking in dollar. Rupee declined consistently during the second half weighed by sharp gains in the dollar against major currencies, particularly Euro which hovered near a one-year low, and tracking a drop in the domestic share market. Dollar selling by large corporates provided some support to rupee but failed to prevent rupee from weakening below 45/USD. RBI is also suspected to have intervened in the market to prevent sharp slide in rupee value. Rupee closed the fortnight at 45.48/USD as against previous fortnight's closing of 44.44/USD.

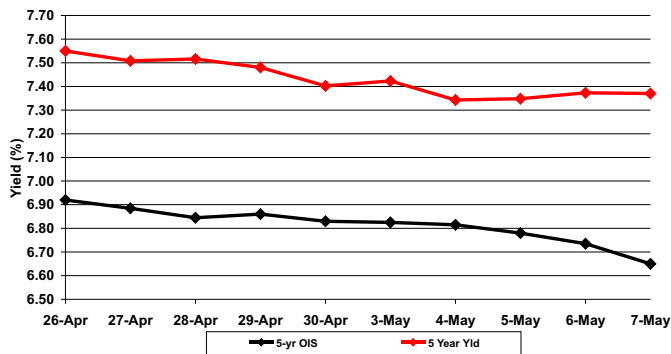
### EQUITY MARKET

Domestic stock markets started the fortnight on positive note with robust earnings inducing buying in equities along with firm Asian cues. However, emergence of profit booking capped gains. Market declined sharply thereafter as concerns over European debt crisis turned global sentiments cautious. Rating downgrade of Greece and Portugal triggered sell-off in markets world over. Market recovered slightly on the back of IMF aid package for Greece and positive cues from Asian markets. However, market declined sharply during the second week on cues of worsening of debt crisis. Haunted by weak global cues, Sensex lost over 600-points during the second half. Many foreign investors withdrew funds from emerging markets on rising risk aversion. Sensex and Nifty declined by 5.23% and 5.39% respectively during the fortnight. Globally, Dow Jones declined by 7.35%. FTSE declined steeply and lost 10.49% during the fortnight.

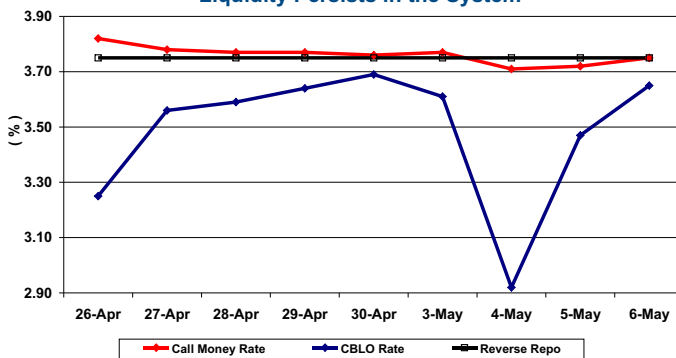
### INTEREST RATE DERIVATIVES

Swap rates eased constantly during the fortnight as need for hedging declined in view of considerable decline in G-sec yields. The market has largely priced in near-term interest rate and liquidity expectations. Abundant cash in the system is

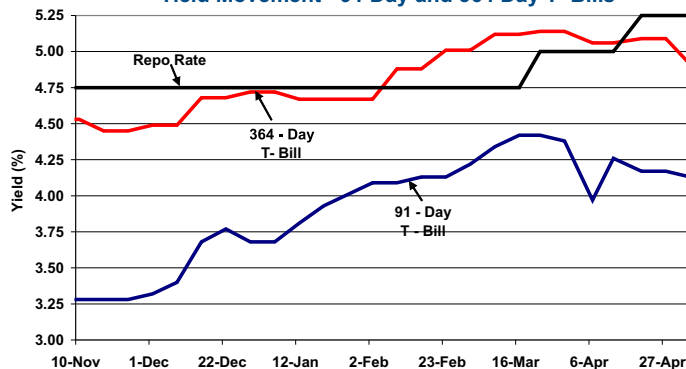
5-Yr OIS And G-Sec Rates



Call Rates Hover Near the Reverse Repo Rate as Easy Liquidity Persists in the System



Yield Movement - 91 Day and 364 Day T-Bills



keeping investors away from receiving floating by paying fixed rates. Swap rates declined sharply in the second week as rating downgrade of Greece and Portugal triggered demand for G-sec. 5-yr swap rates declined to 6.65% from 6.91% during the previous fortnight. 5-year MIFOR rate too declined sharply from 6.15% during the previous week to 5.40%.

### MONEY MARKET

During the fortnight, call money rates remained comfortable well supported near the reverse repo rate on back of ample liquidity in the system. Slowed credit growth resulted in surplus cash in the banking system. Volumes remained heavy in both call and CBLO market and averaged at Rs. 10,794 crore and Rs. 51,612 crore respectively. During the fortnight, RBI absorbed funds aggregating Rs. 51,359 crore on a daily average basis. Call rates ended the fortnight at 3.72% versus previous fortnight's level at 3.65%. While CBLO rates ended the fortnight at 2.96% vis-à-vis previous fortnight's closing of 2.08%.

### TREASURY BILLS

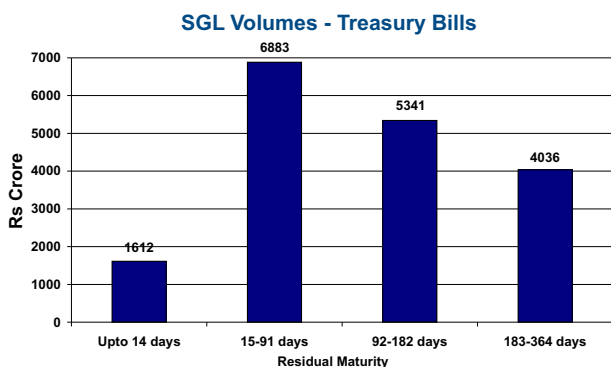
#### Primary Market

During the fortnight, government raised Rs. 18,000 crore through issuance of T-bills. GOI issued Rs. 7,000 crore worth of 91-day T-bill in both weeks and 182-day T-bill and 364-day T-bill auctions were conducted for Rs. 2,000 crore each. Demand in auctions remained strong owing to ample liquidity conditions and positive market sentiments. Resultantly, 91-day T-bill cut-off yield declined to 4.13% in the second week from 4.17% in the first week. On the other hand 182 day and 364 day T-bills were sold at a yield of 4.55% and 4.91% respectively.

Details of all the Treasury bill auctions held in the fortnight ended 7<sup>th</sup> May 2010 have been tabulated as under:

(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
	28 Apr	05 May	28 Apr	05 May
Cut-off Price (Rs)	98.97	98.98	97.78	95.33
Implicit Yield (%)	4.17	4.13	4.55	4.91
Weighted Avg. Yield (%)	4.13	4.09	4.53	4.89
Competitive Bids Received	21054.50	26195.70	10035.00	11140.00
Competitive Bids Accepted	7000.00	7000.00	2000.00	2000.00
Non-Competitive Bids Accepted	Nil	Nil	Nil	Nil
Total Bills Issued	7000.00	7000.00	2000.00	2000.00
Of which MSS	Nil	Nil	Nil	Nil



## Secondary Market

Trading volumes during the fortnight declined to Rs. 17,872 crore vis-à-vis previous fortnight's level of Rs. 21,813 crore. Average daily trading volume stood at Rs. 1,787 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs 6,883 crore was witnessed in the 15 - 91 days residual maturity bucket. During the fortnight Public Sector Banks and Mutual Funds were net buyers while Private Sector Banks, Foreign Banks and Primary Dealers were net sellers.

## GOVERNMENT SECURITIES

### Primary Market

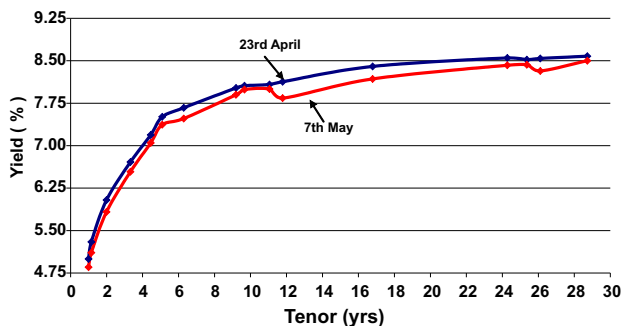
In the first week of the fortnight, Government raised Rs. 12,000 crore through issue of 5-yr paper, 7.38% GOI 2015 (Rs. 5,000 crore), New 10-yr paper (Rs. 5,000 crore) and 22-yr paper, 8.28% GOI 2032 (Rs. 2,000 crore). Auction of 10-yr paper brought cheer to the market and the underwriting cut-offs plunged sharply in absence of devolvement concerns. 7.38% GOI 2015 was underwritten at 0.33 paise while new 10-yr paper was underwritten at even lower rate of 0.27 paise. Underwriting fee for long-term paper declined to 0.90 paise. Auction witnessed splendid response with 10-yr and 22-yr paper registering bid-to-cover ratio of 3.80 and 3.71 respectively. 5-yr paper witnessed slightly lower demand and bid-to-cover ratio stood at 2.68. 5-yr paper was subscribed at Rs. 99.86 (YTM: 7.41%) while 8.28% GOI 2032 was subscribed at Rs. 98.50 (YTM: 8.43%). Traders bid aggressively for 10-yr paper and the same was subscribed at 7.80% as against market expectation of 7.85%.

In the second week, GOI raised Rs. 15,000 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), 17-yr paper 8.26% GOI 2027 (Rs. 3,000 crore) and 22-yr paper 8.32% GOI 2032 (Rs. 2,000 crore). Papers were completely underwritten at a fee of 0.28 paise, 0.33 paise, 0.73 paise and 0.77 paise respectively. All papers witnessed good demand and bid-to-cover remained above 2 except for 12-yr paper for which bid-to-cover ratio stood at 1.59. Cut-offs for 6-yr paper, 17-yr paper and 22-yr paper remained below market expectations at Rs. 98.15 (YTM: 7.39%), Rs. 101.25 (YTM: 8.12%) and Rs. 100.90 (YTM: 8.23%). Cut-off yield for 12-yr paper at 7.78% (Rs. 103.20) remained much above market expectation of 7.72%.

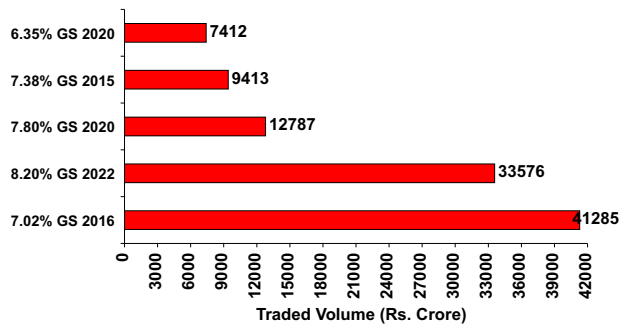
### Secondary Market Developments

Indian bond market witnessed a sharp rally during the fortnight in conjunction with the rally in US treasury market on concerns that the Greek crisis may spill over to other European nations as well. Ample liquidity in the system and growing deposit base further accentuated

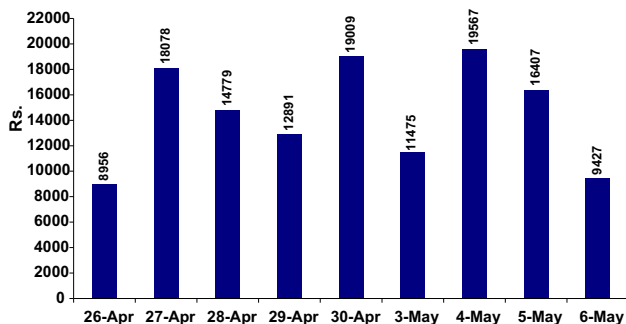
**Yields Ease Across the Curve During the Fortnight**



**Most Traded Securities**



**Dated Securities Trading Volumes**



demand for bonds. Announcement of auction of new 10-yr benchmark paper prompted players to exit from 6.35% GOI 2020 and yield on the same rose steadily during the first week. Though market sentiments turned slightly cautious ahead of Fed policy meet and G-sec supplies aggregating Rs. 12,000 crore in the first week, aggressive bidding in the new 10-yr paper reflected the bullish market undertone. Further with Fed reiterating its resolve to maintain interest rates at record lows, yields treaded downwards. In the second week, bond market continued with the rally and yields tumbled sharply tracking steep decline in US treasury yields and on hopes that Greece's debt woes may lead to benign global rates for an extended period. However, near the close of the fortnight, bonds trimmed gains as traders emptied position ahead of G-sec auction of Rs. 15,000 crore. Though the auction witnessed good demand, yields closed the fortnight higher as yields at nearly a months low deterred traders from carrying positions over the weekend. Yield on the new 10-yr benchmark paper closed at 7.64% as against 7.80% at which it was auctioned in the first week. While spread between 30-yr and 1-yr papers rose marginally to 365 bps from 358 bps in the previous fortnight.

**Trading Volumes**

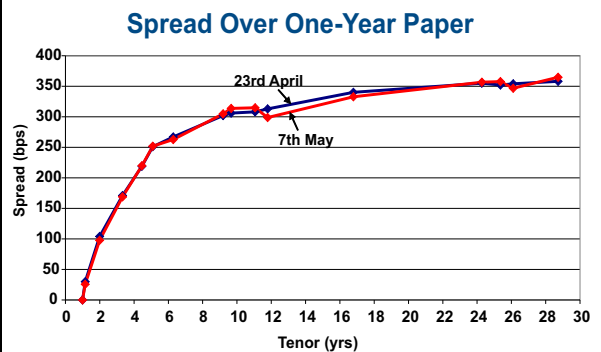
Total trading volumes surged sharply during the fortnight to Rs. 1,52,634 crore vis-à-vis previous fortnight's level of Rs. 1,08,270 crore. The first week's average daily trading volume stood at Rs 14,743 crore vis-à-vis second week's level of Rs. 15,784 crore. The highest single day trading volume was Rs. 22,045 crore. During the fortnight, trading volumes in 6.35% GOI 2020 fell considerably following the announcement of auction of new 10-yr paper. 7.02% GOI 2016 and 8.20% GOI 2020 cornered 72% of the top five traded securities volume. During the fortnight Foreign Banks, Private Sector Banks and Mutual Funds were net buyers while Public Sector Banks and Primary Dealers were net sellers.

**OUTLOOK**

The Greek debt crisis had a resounding impact on both equity and debt markets in India in the previous fortnight. Domestic bond markets rallied sharply on global cues despite heavy supplies and yield tumbled to their lowest levels in over five months. With global economic condition still remaining shaky, expectations of modest rise in domestic interest rates gained ground. The new 10-yr paper was welcomed cheerfully and the yield on same touched a low of 7.50% in intraday trade during the fortnight. In the coming fortnight sentiments are expected to remain positive as uncertainty over the European economy continues. Further inflation figure for the month of April are anticipated to be a tad lower than the previous month. Also huge redemptions of over Rs. 26,000 crore may induce demand for G-sec.

## SPREAD MONITOR

	TTM (yrs)	YTM		Change in YTM (bps)
		23-Apr	7-May	
364 Day T Bill	1.00	5.00	4.85	-15
9.39% GOI 2011	1.16	5.30	5.11	-19
7.40% GOI 2012	1.99	6.04	5.83	-21
7.32% GOI 2014	4.46	7.19	7.05	-14
6.49% GOI 2015	5.09	7.51	7.37	-14
7.02% GOI 2016	6.29	7.67	7.48	-19
6.90% GOI 2019	9.19	8.02	7.90	-12
6.35% GOI 2020	9.67	8.06	7.99	-7
7.94% GOI 2021	11.06	8.08	8.00	-8
8.20% GOI 2022	11.79	8.13	7.84	-29
8.24% GOI 2027	16.79	8.40	8.18	-22
7.50% GOI 2034	24.28	8.55	8.42	-13
7.40% GOI 2035	25.36	8.52	8.43	-9
6.83% GOI 2039	28.73	8.58	8.50	-8



## CASH FLOWS FOR THE FORTHCOMING FORTNIGHT GOVERNMENT SECURITIES

(Rs. crore)

INFLOWS				OUTFLOWS		
Date	Security	Coupon Receipts	Redemptions	Date	Security	Scheduled auction amount
10-May	4.63% FRB, 2012	116		May 10 - 14	5-9 year	5000-6000
12-May	7.50 % 2010	55	1456		10-14 year	4000-5000
12-May	11.83 % 2014	680			20-yr and above	2000-3000
14-May	7.55% 2010	960	25420	May 17-21	5-9 year	6000-7000
14-May	8.35% 2022	1837			10-14 year	5000-6000
15-May	6.07% 2014	1214			15-19 year	2000-3000
19-May	10.79%2015	145				
20-May	4.01% FRB, 2014	100				
21-May	11.50% 2015	205				
<b>Total Inflows</b>		<b>5,311</b>	<b>26,876</b>	<b>Total Outflows</b>		<b>25,000</b>

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