GILT NEWS

for the fortnight ended 08 August, 2014

Economy & Financial Markets Review

Domestic Developments

Eight infrastructure industries shown a growth of 7.3%
HSBC's India Manufacturing PMI rose to 17 month high (53 Vs 51.5 in June).
RBI Kept the policy on hold in its bimonthly policy.
SLR reduced to 22% of NDTL

International Developments

10-yr US treasury yield ends the fortnight at 2.42% as against previous fortnight closing of 2.47%.
Crude oil ends fortnight at USD 97.65 as against previous fortnight's closing of USD 102.09 per barrel

G-sec Market

Bond market remained bearish, on back to back auction of same security under multiple price auctions.
RBI guidance eroded the hope of rate cut in medium term as upside inflation risk is there.
New ten year paper closes at 8.63% against previous closing of 8.39%

Money Market

Average repo injection during the fortnight stood at Rs. 15,160 crore against previous fortnight average of Rs. 20,263 crore.

Forex Market

Rupee ends at 60.15/USD vis-a-vis 60.11/USD during previous fortnight.

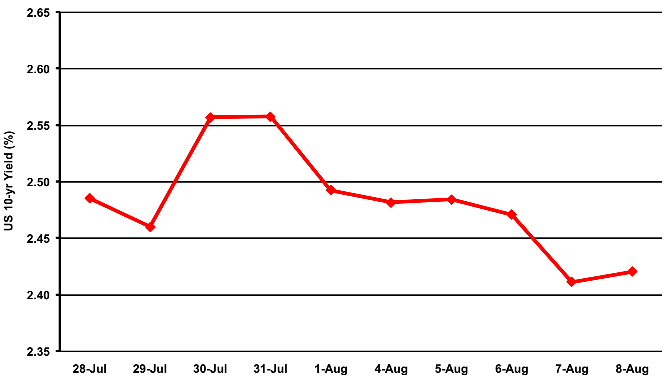
Nifty and Sensex fall by 2.85% and 3.05% respectively.

MACROECONOMIC INDICATORS (Rs. Billion)

	As on July 25	Variation over the fortnight	Variation over LRF of March	YOY % growth
Aggregate Deposits	79,858	(103)	2,802	12.99
Bank Credit	61,125	(89)	1,184	13.29
Non - food Credit	60,000	(77)	1,044	13.33
Banks Investment in G-Sec	23,214	119	1,102	6.61
Broad Money M3	98,432	(251)	3,459	12.71
Reserve Money (Aug 01)	17,095	(130)	(233)	10.53
Forex Reserves (USD bn) (Aug 01)	293	1.6	16	17.13
Credit – Deposit Ratio	76.54			
LAF Repo Rate (%)	8.00			
LAF Reverse Repo Rate (%)	7.00			
CRR Cash Reserve Ratio (%)	4.00			
MSF/Bank Rate	9.00			

PNB Gilts Ltd. 5, Sansad Marg, New Delhi-110 001. *Visit us at : www.pnbgilts.com*

USTreasury yield movement during the fortnight



DOMESTIC DEVELPOMENTS

RBI keeps repo rate unchanged, cuts SLR for banks to expand credit to productive sector.

The Reserve Bank of India (RBI) kept its key policy repo rate unchanged as widely expected, but warned about inflationary risks should a shortfall in monsoon rains spark a surge in food prices. The major highlights of policy are as under.

With the Union Budget for 2014-15 renewing commitment to the medium-term fiscal consolidation roadmap and budgeting 4.1 per cent of GDP as the fiscal deficit for the year, space has opened up further for banks to expand credit to the productive sectors in response to its financing needs as growth picks up. Accordingly, the SLR is reduced by a further 0.5 per cent of NDTL.

In order to enable banks greater participation in financial markets, the ceiling of securities to be held under HTM category is being brought down from 24.5 per cent to 24 per cent of NDTL with effect from the fortnight beginning August 9, 2014

Inflation: - While inflation at around 8 per cent in early 2015 seems likely, it is critical that the disinflationary process is sustained over the medium-term. The balance of risks around the medium-term inflation path, and **especially the target of 6 per cent by January 2016, are still to the upside, warranting a heightened state of policy preparedness to contain these risks if they materialize.** In the months ahead, government actions on food management and to facilitate project completion should improve supply, but as consumer and business confidence pick up, aggregate demand will also strengthen. The Reserve Bank will act as necessary to ensure sustained disinflation**.**

Growth:-Prospects for reinvigoration of growth have improved modestly. The firming up of export growth should support manufacturing and service sector activity. If the recent pick-up in industrial activity is sustained in an environment conducive to the revival of investment and unlocking of stalled projects, with ongoing fiscal consolidation releasing resources for private enterprise, external demand picking up and international crude prices stabilizing, the central estimate of real GDP growth of 5.5 per cent within a likely range of 5 to 6 per cent that was set out in the April projection for 2014-15 can be sustained. On the other hand, if risks relating to the global recovery, the monsoon and geo-political tensions intensify, the balance of risks could tilt to the downside.

INTERNATIONAL DEVELOPMENTS

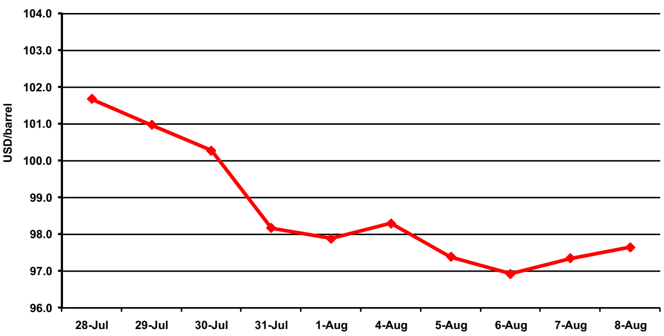
US Treasury

U.S. treasury yield moved northward during the first week of the fortnight in anticipation of the Federal Open Market

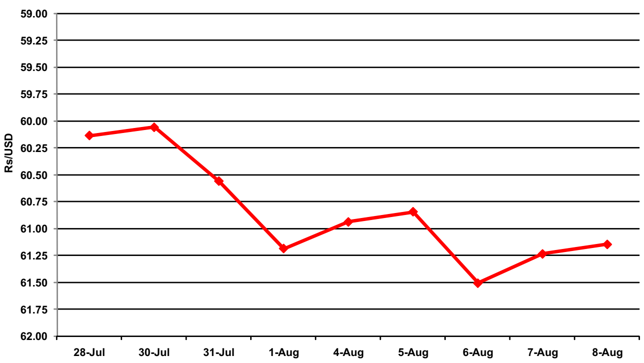
Events for Next Fortnight

Date	Event	Period	Prior
14-Aug-14	Initial Jobless Claims	9-Aug	289 k
	industrial Production	July	0.20%
15-Aug-14	Capacity Utilization	July	79.10%
19-Aug-14	CPI YoY	July	2.10%
20-Aug-14	FOMC Meeting Minutes	-	-
21-Aug-14	Initial Jobless Claims	16-Aug	-

Crude oil price movement during the fortnight



Rupee movement during the fortnight



Committee moving --outlining some kind of forward strategy for possibility of tighten rates. Treasuries rose on opening day of the week, as a fixed-income rally in Europe enhanced the allure of higher-yielding U.S. debt. However yield rose consequent days as the Federal Reserve continued to trim asset purchases amid data showing faster-than-estimated economic growth. The July jobs report that is forecast to show a sixth-straight month of 200,000-plus gains, backing speculation that economic growth is accelerating. The 10 yr benchmark yield further moved north on closing day of first week of the fortnight after data showed the U.S. added fewer jobs than forecast in July damped bets the Federal Reserve will accelerate a reduction of monetary stimulus forecast for 2015. Market sentiment was cautious in the initial period of second week but closed on the bullish note towards end of the fortnight on concern of geological tension. Treasuries rose as investor demand for safety increased on concern that tensions are escalating between Russia and western nations over Ukraine. Evidence of slow economic recovery from Germany to Australia further boosts demand for safe heaven asset. Treasury yield rose on the closing day of the fortnight, pushing 10-year note yields to a two-month low. Yield on ten year note closed at 2.42 % as against previous close at 2.47%.

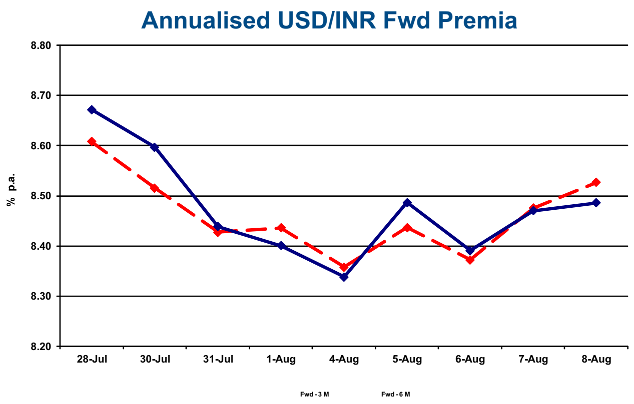
COMMODITIES

International Crude Oil

Crude oil price plunged during first week of the fortnight where as remained range bound during second week of the fortnight. Crude price opened with a bearish note as the flow of oil from the Middle East was unaffected by the surge in violence in Libya and Iraq. Supply was not disrupted as fighting remains concentrated in the north where as conflict hasn't spread to the south, the source of more than three-quarters of the country's oil output. Oil fell further on concern the shutdown of the Coffeyville refinery in Kansas may reduce crude demand. Crude fell below $100 a barrel after a government report showed that U.S. gasoline supplies gained as demand slipped. First week of the fortnight closed at its lowest in last six month before economic data from the U.S., the world's biggest oil consumer. The oil fell further on initial days of the second week on speculation that refineries will slow operations, easing demand. However crude price advance from a nine-month low after militants captured a dam in Iraq, bolstering concern that unrest will spread in OPEC's second-biggest oil producer. Crude oil fell on last day of the fortnight and closed at USD 97.65 per barrel against the previous fortnight close of USD 102.09 per barrel.

FOREX MARKET

Rupee witnessed losses and fell sharply during the fortnight. The first week began with rupee falling to six-



year low as a revival in seasonal rains tempered concern that the inflation will accelerate. The deficit in the June-September monsoon narrowed to 24 percent of the 50-year average since June 1, compared with 43 percent on July 11, according to the weather department. Sentiments turned positive and the domestic currency posted gains as fund inflows into local assets countered dollar demand from importers. Rupee erased the little gains it made on concern capital inflows to emerging markets will slow as the Federal Reserve cuts its asset purchases. The Fed reduced its monthly bond buying by $10 billion to $25 billion this week, on pace to end the program in October. The rupee also dropped as importers boosted dollar purchases to pay month-end bills. The first week ended with rupee falling the most in six months as an improving U.S. economy boosted the dollar and a debt default by Argentina damped demand for riskier assets. The second week started with rupee rising the most in three weeks after disappointing U.S. jobs data eased speculation the Federal Reserve will raise interest rates. The rupee rose further as gains in domestic shares after foreign investors turned buyers following a three-day selling streak helped overcoming some volatility. The Reserve Bank of India in its third bi-monthly monetary policy review kept interest rates unchanged as widely expected and voiced a commitment to bring down inflation, which may be supportive for the rupee in the longer term. Rupee erased earlier gains and fell sharply as demand for dollars increased after U.S. data signaled the world's largest economy is improving. An American non-manufacturing index rose in July at the fastest pace since December 2005 and factory orders beat estimates. The Indian rupee a little recovered after hitting a near five-month low aided by dollar sales by the RBI, but movements in other Asian currencies and the global geo-political situation remained key to its movement in the near-term. Rupee ended the fortnight at 61.15 against the US dollar amid geo-political tension with concerns about the continuation of foreign fund inflows into local debt and equity hurting the overall sentiment.

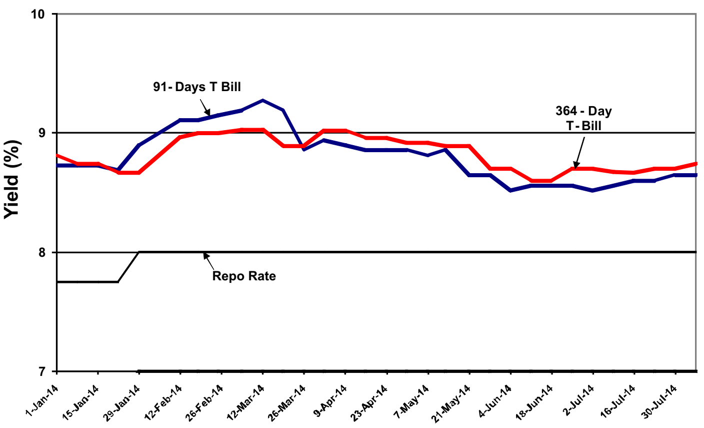
EQUITY MARKET

Indian equities swing between gains and losses during the fortnight. The first week started on a rather dry note as profit taking hit shares of blue chips. Caution also prevailed ahead of the expiry of monthly derivatives contract. Market gained a little momentum after companies like Bharti Airtel & Lupin earning's beat their estimates. On the other hand, Nifty fell weighed down by foreign investors' sales after earnings at blue chips such as Maruti Suzuki Ltd failed to impress markets. The losses were exacerbated as European shares fell after data showed annual inflation in the euro zone fell in July to its lowest since the height of the financial crisis in 2009, and by the expiry of domestic monthly derivative contracts. The second week began with Indian shares ending higher after two days of losses as software

Major Stock Indices

	25-Jul-14	8-Aug-14	% Change
	Indian Indices		
Sensex	26127	25329	-3.05%
Nifty	7790	7569	-2.85%
FMCG	7158	7112	-0.65%
IT	9789	9731	-0.60%
Banking	17543	16904	-3.64%
Auto	15610	15544	-0.42%
Capital Goods	15604	14159	-9.26%
Healthcare	12136	12092	-0.36%
PSU	8102	7805	-3.67%
	World Indices		
Dow Jones	16961	16554	-2.40%
Nikkei	15458	14778	-4.40%
FTSE	6792	6568	-3.30%

Yield Movement - 91 Day and 364 Day T- Bills



services exporters such as Infosys rallied on a weaker rupee while lenders gained a day before the central bank's policy review. Indian shares gained further after the central bank lowered minimum bond holding requirements for lenders to spur investment, sending blue-chips such as mortgage lender HDFC and Tata Motors higher. The Reserve Bank of India kept its key policy repo rate unchanged as widely expected in its third bi-monthly monetary policy review, but cut the statutory liquidity ratio by half a percentage point to 22.0 percent of deposits, effective from Aug. 9. Sentiment also got a boost after overseas investors, who were supporting a 22.9 percent rally in India's broader NSE index so far this year, turned buyers. Thereafter, Indian shares fell as lenders such as State Bank of India and ICICI Bank slumped on worries that a sell-off in government bonds would hit the value of their debt holdings. A slump in global shares also dented sentiment after Wall Street fell overnight and on reports of a build-up of Russian troops near the border with Ukraine. Nifty fell further IT outsourcers such as Infosys fell after global rival Cognizant cut its annual revenue guidance. Falls also tracked lower global shares as a Russian troop build-up on the border with Ukraine and sanctions between the West and Moscow kept risk appetite in check. The fortnight ended with equities falling as blue chips slumped on global risk aversion after US President authorized targeted air strikes in Iraq.

MONEY MARKET

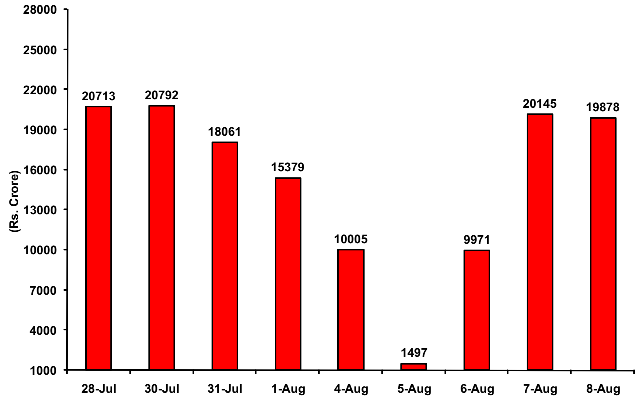
Repo injection through LAF averaged at Rs. 15,160 crore as against Rs. 20,263 crore a fortnight ago. Average call rate stood at 8.11% during the first week and 8.02 % in the second week of the fortnight, while CBLO and Repo averaged at 8.07% and 8.25% respectively during the past fortnight. Average volume in Call and CBLO market during the fortnight stood at Rs. 14,962 crore and Rs. 70,554 crore respectively.

Details of all the Treasury bill auctions held in the fortnight ended 8th August 2014 have been tabulated as under:

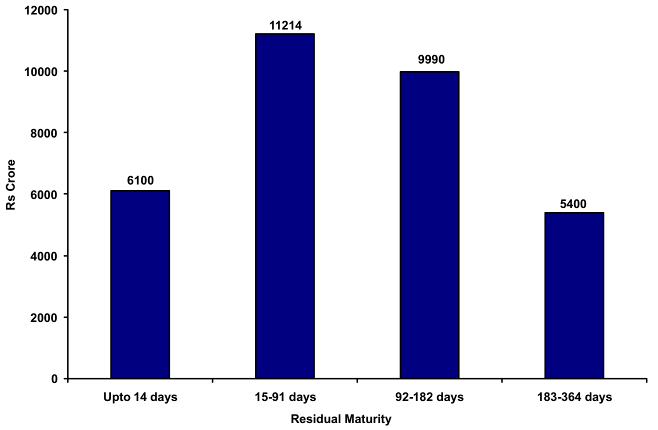
(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
Date Of Auction	30 Jul	06 Aug	30 Jul	06 Aug
Cut-off Price (Rs)	97.89	97.89	95.84	91.98
Implicit Yield (%)	8.65	8.65	8.71	8.74
Weighted Avg. Yield (%)	8.60	8.65	8.68	8.67
Competitive Bids Received	17445.90	26022.65	12365.00	21605.00
Competitive Bids Accepted	9000.00	9000.00	6000.00	6000.00
Non-Competitive Bids Accepted	10550.00	7655.00	0.00	2.55
Total Bills Issued	19550.00	16655.00	6000.00	6002.55
Of which MSS	0.00	0.00	0.00	0.00

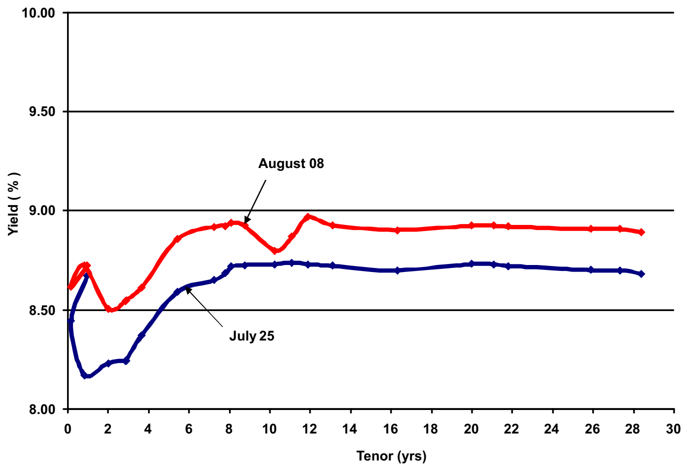
Repo Injections During the Fortnight



SGL Volumes - Treasury Bills



Yield Curve Movement



TREASURY BILLS

Primary Market

During the fortnight, RBI issued Rs. 15,000 crore in both the weeks of the fortnight in T-bills segment. Cut off yield on 91 day T-bill stood at 8.65% for the both the weeks as compared to previous cut off 8.60 % in the last week of previous fortnight. Cut off yield on 182-day T-bill stood at 8.71% and on 364 day T-bill stood at 8.74%.

Secondary Market

Trading volumes during the fortnight increased to Rs. 32,704 crore vis-à-vis previous fortnight's level of Rs. 27,259 crore. Average daily trading volume stood at Rs. 3,634 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs. 11,214 crore was witnessed in the 15-91 days residual maturity bucket. During the fortnight, Private Sector Banks and Primary Dealers were net sellers while Public Sector Banks, Foreign Banks and Mutual funds were net buyers.

GOVERNMENT SECURITIES

Primary Market

Government borrowed Rs. 14,000 crores through dated securities in the first week of fortnight .RBI had issued 8.27% GS 2020 (Rs 2000 crore), 8.40% GS 2024 (Rs 9000 crore) and 9.23% GS 2043 (Rs 2000 crore).The under writing fees in the New 6-yr paper, new 10-yr benchmark and 9.23% GS 2043stood at 0.50, 0.79, 0.95 paisa respectively. The cut off yield on 6-yr, 10-yr, and 29-yr papers stood at 8.55%, 8.52%, 8.76% respectively.

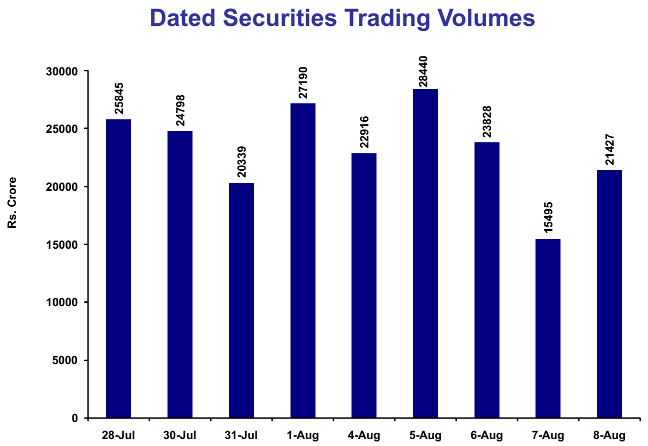
Government borrowed Rs. 14,000 crores through dated securities in the second week of fortnight .RBI had issued 8.35% GS 2022 (Rs 2000 crore), 8.60% GS 2028 (Rs 7000 crore), 9.20% GS 2030 (Rs 2000 crore) and 8.30% GS 2042 (Rs 3000 crore).The under writing fees in the short term paper, 8.60% GS 2028 and long term paper 9.20% GS 2030, 8.30% GS 2042 stood at 1.97, 4.39, 4.79 and 4.95 paisa respectively. The cut off yield on 8-yr, 14-yr, 16-yr and 28-yr papers stood at 8.95, 8.84%, 8.92% and 8.92% respectively.

Secondary Market Developments

During the past fortnight bond market remained bearish biased. First week of the fortnight started on weak note on back to back supply of new ten year paper 8.40% GOI 2024.RBI announced an auction of three securities against the expectation of four securities amounting INR 140 billion. This includes an additional 90 billion rupees of new 10-year debt auctioned last week. The quantum was

Buying/ Selling Activity during Fortnight: **Rs. Crore)**

	Total_G_Sec	Total_T_Bill
Foreign Banks	-7191.98	2565.86
Public Sector Banks	16829.88	2311.49
Private Sector Banks	4527.74	-997.66
Primary Dealers	-9926.16	-4228.17
Mutual Funds	-5908.27	518.08
Others	1668.78	-169.60



higher than the expected, that to on multiple price auction. All these factors along with subdued participation by FIIs led to bearish sentiment in the market and old ten year paper yield crossed the level of 8.70%.Some value buying seen in the market on higher yield but selling pressure weighed on the sentiment. Devolvement of Rs 482 Cr in 8.27% GS 2020 and Rs 2,963.5 Cr in 8.40% GS 2024 gave the indication of yield perception of RBI and some recovery seen in the market however continuous selling by market participant weighed on market. Second week of the fortnight started on positive note in expectation of status quo on policy with dovish forward guidance by RBI. However RBI announced a hawkish guidance on inflation front with status quo on policy rate. Market reacted adversely and bond market fell by 8 to 10 bps .On liquidity front RBI reduced the SLR by 0.5 per cent and HTM holding is also reduced. Market taken theses liquidity measures negatively as more stocks will be available to trade in the market and old ten year yield surged to the level of 8.88%.New ten year benchmark closed at 8.63% as against the previous fortnight closing of 8.39%

Trading Volumes

Trading volumes during fortnight decreased to Rs. 2, 10,276 crore as against Rs.3, 54,617 crore in the previous fortnight. The first week's average daily trading volume stood at Rs. 24,543 crore vis-à-vis second week's level of Rs. 22,421 crore. The highest single day trading volume was Rs. 28,440 crore. Top two traded securities 8.83% GOI 2023 & 8.40% GOI 2024 cornered 70 percent of the top five traded securities volume. During the fortnight Primary Dealers, Mutual Funds and Foreign Banks were net sellers while, Public Sector Banks and Private Sector Banks were net buyers.

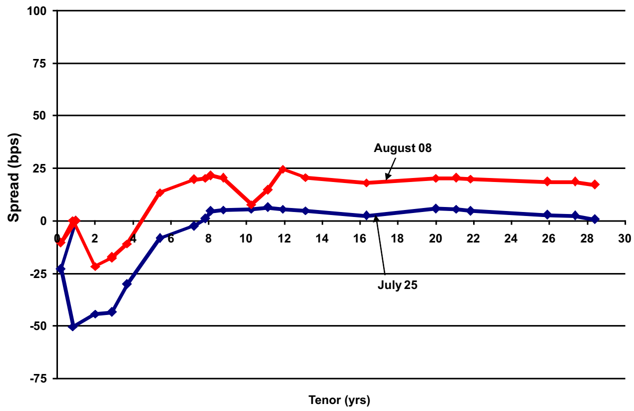
OUTLOOK

Coming fortnight is expected to be bullish as auction size announced by RBI for forthcoming week is Rs 8000Cr only, Rs 6000Cr lesser than the usual auction size. During the coming fortnight inflation expectation will also guide the market although RBI governor has already said that no cut in policy rate in medium term as there is an upside risk of inflation. On global front escalating tension between Russia and western countries and US involvement in Iraq crisis may weigh on Indian bond market. Under these circumstances new ten year is expected to trade in a range of 8.52% to 8.65%.

SPREAD MONITOR

	TTM (yrs)	YTM		Change in YTM (bps)
		25-Jul	8-Aug	
364 Day T Bill	1.00	8.67	8.72	5
7.32% GOI 2014	0.20	8.44	8.62	17
7.17% GOI 2015	0.85	8.17	8.72	55
7.02% GOI 2016	2.03	8.23	8.50	27
8.07% GOI 2017	2.90	8.24	8.54	30
7.99% GOI 2017	2.92	8.24	8.55	31
8.24%GOI 2018	3.71	8.37	8.61	24
8.19% GOI 2020	5.44	8.59	8.85	27
8.79% GOI 2021	7.26	8.65	8.92	27
8.79% GOI 2021	7.26	8.65	8.92	27
8.15% GOI 2022	7.85	8.68	8.92	24
8.13% GOI 2022	8.13	8.72	8.94	22
7.16% GOI 2023	8.79	8.72	8.92	20
9.15% GOI 2024	10.28	8.73	8.80	7
8.20% GOI 2025	11.14	8.74	8.87	13
8.33% GOI 2026	11.93	8.73	8.97	24
8.28% GOI 2027	13.13	8.72	8.93	21
8.97% GOI 2030	16.34	8.70	8.90	20
7.50% GOI 2034	20.02	8.73	8.92	19
7.40% GOI 2035	21.10	8.73	8.92	20
8.33% GOI 2036	21.85	8.72	8.92	20
8.30% GOI 2040	25.92	8.70	8.91	21
8.83% GOI 2041	27.36	8.70	8.91	21
8.30% GOI 2042	28.42	8.68	8.89	21

Spread Over One-Year Paper



(in Rs. Crore)

INFLOWS			OUTFLOWS		
Date	**Security**	**Coupon Receipts**	**Date**	**Security**	**Scheduled auction amount**
12-Aug-14	10.47% GS 2015	196	**Aug 11-15, 2014**	The auction amount has been reduced from Rs. 14,000 crore to Rs. 8,000 crore	
15-Aug-14	8.20 % GS 2022	2363			
	8.24 % GS 2027	3848			
	8.28 % GS 2032	3754	**Aug 18-22, 2014**	5-9 years	2000-3000
17-Aug-14	7.02% GS 2016	2106		10-14 years	6000-7000
				15-19 years	2000-3000
				15-19 years	2000-3000
Total Inflows		**12267**	**Total Outflows**	**22000**	

PNB GILTS LTD

Tel. : 2332 5831/2373 6585/6586. Visit us at : www.pnbgilts.com
For any enquiries contact Sr. Exec. Vice President and for deal
enquiries contact Exec. Vice-President (Dealing)

BRANCHES

PNB House, Sir P.M. Road, Fort, Mumbai - 400 001. Tel. No. 022-22693314-17, 22614823, 22691812 Fax No. 022-22691811, 22692248.
C/o PNB Back Office, 3rd Floor, Kuralagam Building , NSC Bose Road, Chennai - 600108, Tel: 044-25331751/1752, Fax: 044-25330179
8, Ground Floor,Parshwanath Chambers, Near New RBI, Income Tax, Ahmedabad-380014
Ph: (079) 27544245,27542455, Fax -(079)27541808, Mo-9825309292, Email - d.parmar@pnbgilts.com