

for the fortnight ended 22 August, 2014

Economy & Financial Markets Review

Domestic Developments

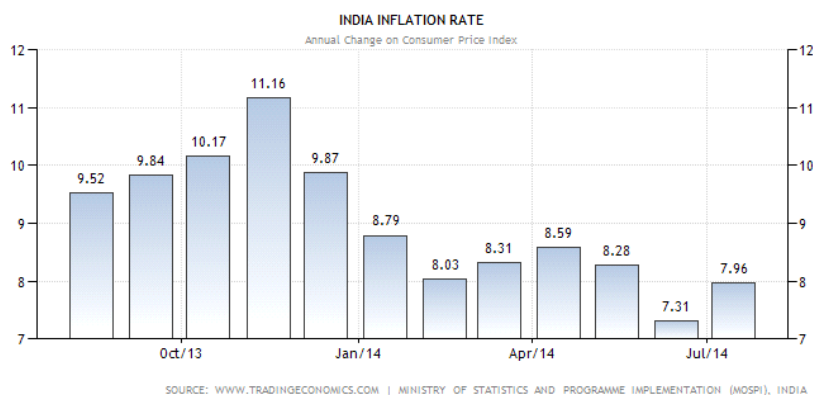
CPI inflation rose to the level of 7.96% in the month of July. IIP print for the month of June 2014 came at 3.4% against 5 % (Revised) in previous month. WPI inflation print came at 5.19% for the month of July 2014.

International Developments

10-yr US treasury yield ends the fortnight at 2.40% as against previous fortnight closing of 2.42%. Crude oil ends fortnight at USD 93.65 as against previous fortnight's closing of USD 97.65 per barrel

G-sec Market

Bond market remained bullish biased during the fortnight. G-Sec auction Size reduced by Rs 2000 Cr T-Bill auction size reduced by Rs 2000Cr. New ten year paper closes at 8.52% against previous closing of 8.63%



Money Market

Average repo injection during the fortnight stood at Rs. 18,591 crore against previous fortnight average of Rs. 15,160 crore.

Forex Market

Rupee ends at 60.47/USD vis-a-vis 60.15/USD during previous fortnight.

Nifty and Sensex gain by 4.55% and 4.30% respectively.

MACROECONOMIC INDICATORS

(Rs. Billion)

	As on Aug 08	Variation over the fortnight	Variation over LRF of March	YOY % growth
Aggregate Deposits	80,579	721	3,524	13.87
Bank Credit	61,287	162	1,346	11.64
Non - food Credit	60,204	204	1,248	11.87
Banks Investment in G-Sec	23,666	452	1,554	10.54
Broad Money M3	99,206	773	4,233	13.31
Reserve Money (Aug 15)	17,274	180	(53)	10.11
Forex Reserves (USD bn) (Aug 15)	292	(0.6)	16	16.12
-	76.06			
LAF Repo Rate (%)	8.00			
LAF Reverse Repo Rate (%)	7.00			
CRR Cash Reserve Ratio (%)	4.00			
MSF/Bank Rate	9.00			

DOMESTIC DEVELOPMENTS

Retail Inflation accelerates 7.96% in July 2014

The annual rate of inflation, based on monthly CPI, stood at 7.96% (provisional) for the month of July, 2014 (over July, 2013) as compared to 9.64% during the corresponding month of the previous year. The final figure of combined CPI (Rural as well as Urban CPI) for month of June has revised up by 15 bps to 7.46% from provisional figure of 7.31%. Retail inflation which has been witnessing softening trend in past three month could not follow the same path because of higher food and beverage prices. The food, Beverage and Tobacco component which constitute 49.3% of overall retail inflation quickened to 9.14% from 7.96% in previous month because of surge in price of vegetable component (Index for Vegetables which constitute of 5.4% of overall retail inflation has seen of increment of 17.3% M-0-M). However only silver lining of yesterday's print is core inflation, which constitutes 50.3% of overall inflation has remained unchanged at 7.4% compared to previous month.

Component Wise Break Up of Retail Inflation:

% Weight	49.71		9.49		9.77		4.73		26.31		100.00		50.3	
	A.1) Food, Beverages and Tobacco		A.2) Fuel and Light		A.3) Housing		A.4) Clothing, Bedding and Footwear		A.5) Miscellaneous		All Group		Core CPI	
Jul-13	136.7	10.96%	134.3	8.39%	130.9	10.56%	140.9	9.31%	125	6.75%	133.0	9.47%	128.3	8.0%
Jun-14	145.0	7.89%	139.3	4.58%	142.0	9.15%	152	8.65%	131.9	6.46%	141.0	7.31%	136.7	7.4%
Jul-14	149.2	9.16%	140.3	4.47%	142.6	8.94%	153.2	8.73%	133.2	6.56%	143.7	7.96%	137.8	7.4%

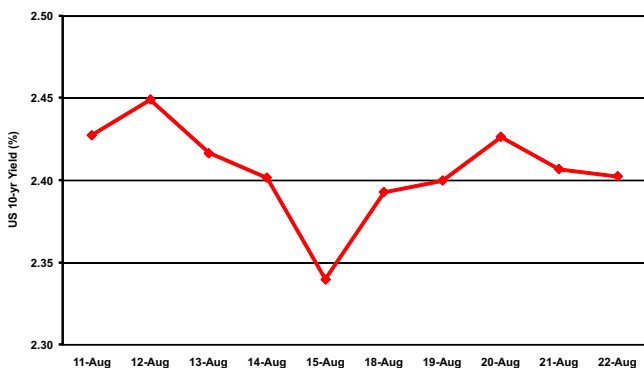
WPI eased to 5.19% for the month of JULY 2014 against the expectation of 5.10%.

India's wholesale price inflation in July eased to a five-month low of 5.19 percent, helped mainly by a moderation in fuel costs, Mineral, chemical and Chemical product and Textile. However food product inflation increased from 2.33% to 4.11%.

In June, wholesale prices rose 5.43 percent year-on-year, their slowest pace in four months. The reading for May WPI inflation was revised to 6.18 percent from 6.01 percent earlier.

Core inflation also eased from 3.93% to 3.61%. Details of major groups with weights are as under.

USTreasury yield movement during the fortnight

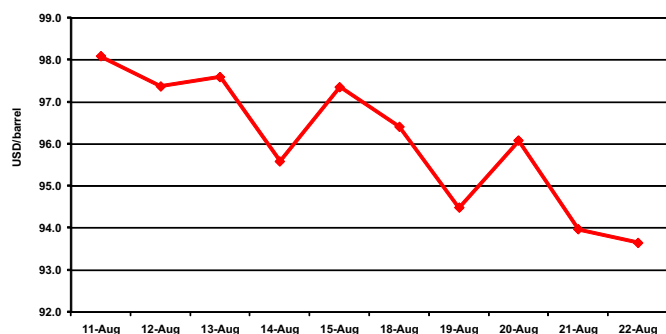


Events for Next Fortnight

Date Time	Events	Survey	Actual	Prior
8/25/2014	New Home Sales	Jul	429K	406K
	New Home Sales MoM	Jul	5.70%	8.10%
8/26/2014	House Price Purchase Index QoQ	2Q	5.00%	1.30%
	MBA Mortgage Applications	22-Aug		1.40%
8/28/2014	Initial Jobless Claims	23-Aug	300K	298K
	GDP Annualized QoQ	2Q S	3.90%	4.00%
9/2/2014	ISM Manufacturing	Aug	56.7	57.1
9/3/2014	ISM Manufacturing	Aug	56.7	
9/4/2014	Initial Jobless Claims	30-Aug		
9/5/2014	Change in Nonfarm Payrolls	Aug	208K	209K

Items in Head Line Inflation for July 2014		Weightage (%)	Jun-14	Jul-14
Head Line Inflation		100	5.43%	5.19%
A.	Primary Article	20.12	6.84%	6.78%
	(1) Food Article	14.34	8.14%	8.43%
	(2) Non Food Article	4.26	3.49%	3.32%
	(3) Mineral	1.52	4.44%	2.37%
B.	Fuel & Power	14.91	9.04%	7.40%
C.	Manufacturing	64.97	3.61%	3.67%
	Food Product	9.97	2.33%	4.11%
	Non Food Mfg Product	55.00	3.93%	3.61%
	(1) BEVERAGES, TOBACCO & TOBACCO PRODUCTS	1.76	8.64%	9.30%
	(2) TEXTILES	7.33	5.73%	5.11%
	(3) WOOD & WOOD PRODUCTS	0.59	6.55%	5.10%
	(4) PAPER & PAPER PRODUCTS	2.03	6.19%	6.19%
	(5) LEATHER & LEATHER PRODUCTS	0.84	3.85%	1.12%
	(6) RUBBER & PLASTIC PRODUCTS	2.99	4.82%	4.58%
	(7) CHEMICALS & CHEMICAL PRODUCTS	12.02	4.86%	4.00%
	(8) NON-METALLIC MINERAL PRODUCTS	2.56	0.48%	0.60%
	(9) BASIC METALS, ALLOYS & METAL PRODUCTS	10.75	2.83%	2.84%
	(10) MACHINERY & MACHINE TOOLS	8.93	2.37%	2.37%
	(11) TRANSPORT, EQUIPMENT & PARTS	5.21	2.26%	1.88%

Crude oil price movement during the fortnight



INTERNATIONAL DEVELOPMENTS

US Treasury

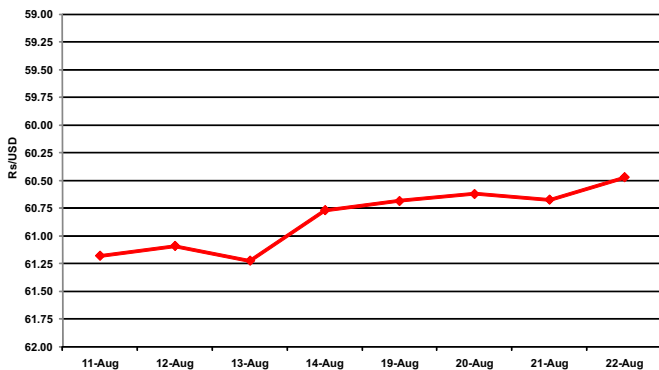
US treasury remained bullish during first week of the fortnight whereas remained range bound during second week of the fortnight. The first week opened with bullish note as investors sought safety amid turmoil in Ukraine and Iraq. Treasuries rose, pushing 10-year yields toward a one-year low, as a report showing U.S. retail sales were little changed in July amid tepid wage growth added to signs the economy will struggle to gain momentum. The yield fell further after data printed showed a weaker-than-expected 2Q GDP data in Germany and France lead to enhance demand for safe heaven asset. On closing day of the first week, 10 yr bond yield plunged by 6 bps to 2.33% as conflict in Ukraine spurred investor demand for safety and reports signaled the U.S. economy will struggle to gain traction. However on opening day of the second week yield retreated to previous level of 2.39% on 10 yr paper as investor demand for safety ebbed amid truce talks on the Ukraine conflict and bets that data this week will show economic improvement in the U.S. Yield further moved towards north day as investors considered prospects for interest-rate increases before Federal Reserve Chair Janet Yellen speaks at a conference in Jackson Hole. However treasury price rose during closing days of the fortnight as traders speculated Federal Reserve Chair Janet Yellen will emphasize weakness in the U.S. labor market in her speech tomorrow at a conference of central bankers. Yield on ten year note closed at 2.40% as against previous close at 2.42%.

COMMODITIES

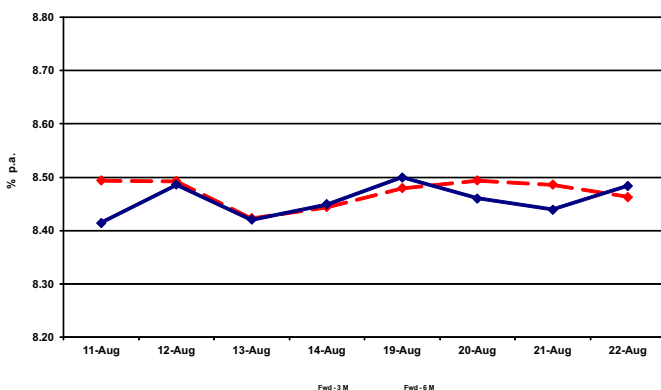
International Crude Oil

Crude oil price remained range bound during first week of the fortnight whereas exhibited sign of weakness during second week of the fortnight. Crude opened with bullish sentiment on estimates that U.S. oil inventories dropped as refineries processed record amounts of crude for this time of year. WTI-Brent spread narrowed as Libya resumed crude loadings at Ras Lanuf and API. West Texas Intermediate fell amid speculation that U.S. oil demand is slowing after a government report showed weekly crude inventories expanded for the first time since June. Brent declined on signs the euro area's economic recovery stalled. The second week of the fortnight opened with bearish note as it oil tumbled to a seven-month low as investors sold September crude before expiration and

Rupee movement during the fortnight



Annualised USD/INR Fwd Premia



purchased cheaper contracts for future delivery. However crude price rose as U.S. inventories declined more than expected last week. It advanced further as U.S. economic data pointed to stronger growth in the world's biggest oil-consuming nation. Brent was little changed after Chinese manufacturing slowed. Crude oil fell on last day of the fortnight amid rising U.S. output, stockpiles and closed at USD 93.65 per barrel against the previous fortnight close of USD 97.65 per barrel.

FOREX MARKET

Rupee registers continued losses during the fortnight. The first week began with rupee trading slightly lower as sentiment remained cautious on concerns foreign investors would pare some of their domestic equity or debt holdings, but easing global geopolitical tensions limited the fall. The rupee rose slightly as gains in local shares improved sentiment even as global currency markets continued to see-saw because of conflicting signs coming from geo-political flashpoints such as eastern Ukraine. Further the rupee fell after higher-than-expected consumer inflation and dull June industrial output hit sentiment. Emerging market currencies were also subdued due to weaker retail sales data from China. Broader losses were, however, capped as domestic shares managed to edge higher on the back of brighter corporate results. The first week ended with the rupee closing the day at 60.76 against the US dollar. The dollar's weakness against other currencies overseas and a higher opening in the domestic equity market supported the rupee. The second week opened with rupee strengthening on bunched up dollar inflows after a four-day weekend and as shares hit second consecutive record high. Trading in the foreign exchange market resumed after two trading holidays on Friday and Monday, leading to bunched up dollar inflows, helping the rupee appreciate. India's BSE and NSE indexes, which were open for trading on Monday, hit second consecutive record highs on Tuesday on the back of good institutional demand, both from home and abroad. Thereafter, the rupee rose to a near three-week high against the dollar on the back of strong foreign investor buying in the debt market, although greenback demand from importers and a fall in shares limited further gains. The rupee weakened slightly as the dollar rallied broadly after minutes from the Federal Reserve July meeting suggested potentially earlier-than-expected rate hikes. The US dollar traded at 11-month highs against a basket of major currencies after the Fed's minutes suggested any strong jobs market recovery could lead it to raise interest rates earlier than it had been anticipating. The fortnight ended with the rupee rising on continued strong buying of debt and shares by foreign investors, while gains in emerging market currencies also contributed to the improved sentiment. The rupee was also helped after Bloomberg quoted an analyst at Standard & Poor's calling the Indian government's target to lower the fiscal deficit a positive for the country's ratings, helping the currency rise to a session's high.

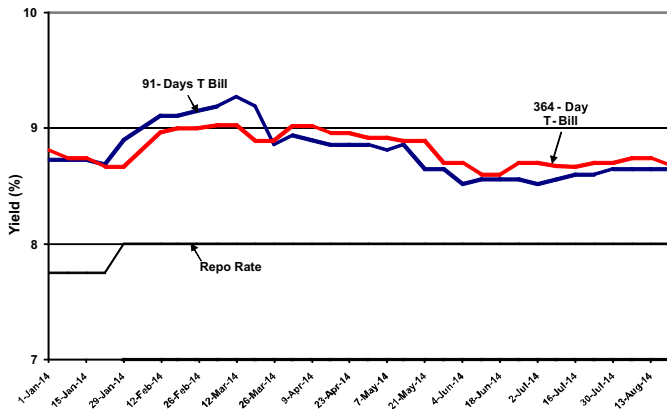
Major Stock Indices

	8-Aug-14	22-Aug-14	% Change
Indian Indices			
Sensex	25329	26420	4.30%
Nifty	7569	7913	4.55%
FMCG	7112	7170	0.81%
IT	9731	9948	2.23%
Banking	16904	18100	7.08%
Auto	15544	17034	9.59%
Capital Goods	14159	14874	5.05%
Healthcare	12092	13190	9.07%
PSU	7805	8172	4.70%
World Indices			
Dow Jones	16554	17001	2.70%
Nikkei	14778	15539	5.15%
FTSE	6568	6775	3.16%

EQUITY MARKET

Domestic equities make smart gains during the fortnight as continued foreign funds keeps the sentiments upbeat. The first week opened with Indian shares rising nearly 1 percent after auto stocks surged on healthy earnings while strength in global shares on easing tensions over Ukraine also helped. News of Tata Motors tripling its quarterly net profit helped the indices gain further momentum. Indian shares edged higher as a weak rupee boosted IT firms although broader gains were capped by disappointing earnings from blue chips such as Bharat Heavy Electricals Ltd. Gains were also limited after data showed higher-than-expected consumer price inflation in July, reducing prospects the Reserve Bank of India would cut interest rates any time soon. The first week ended with equities closing on a positive note tracking higher Asian stocks as soft economic data globally kept up hopes of continued stimulus from central banks. The second week opened with sentiments getting a boost from a strong rebound in European stocks on reduced tension over Ukraine. PM Modi's Independence Day speech where he vowed to fire up the bureaucracy to deliver results added to the confidence with indices marking new highs amid heavy foreign flows. Brent crude prices hovering near 14-month lows also helped indices gain an upbeat. Indices fell a little as investors took profits in blue chips; falls also tracked lower global stocks ahead of minutes from the US Fed's July's policy meeting. The fortnight ended with NSE index rising as software stocks such as Infosys gained after upbeat U.S. and German data drove confidence about the sector's business outlook, while higher global shares also helped.

Yield Movement - 91 Day and 364 Day T-Bills

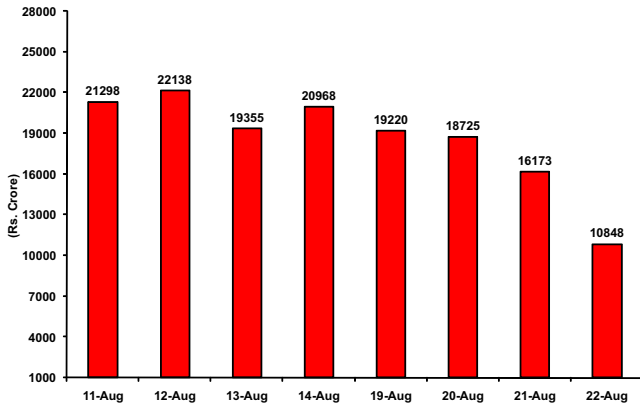


Details of all the Treasury bill auctions held in the fortnight ended 22nd August 2014 have been tabulated as under:

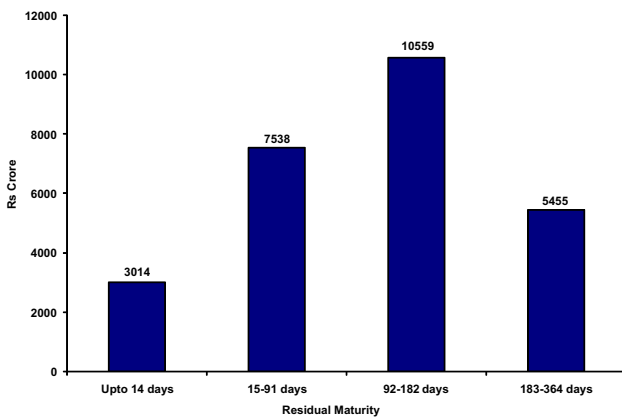
(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
	13 Aug	20 Aug	13 Aug	20 Aug
Date Of Auction				
Cut-off Price (Rs)	97.89	97.89	95.84	92.03
Implicit Yield (%)	8.65	8.65	8.71	8.68
Weighted Avg. Yield (%)	8.65	8.60	8.70	8.67
Competitive Bids Received	20934.00	21200.25	11989.00	19919.30
Competitive Bids Accepted	9000.00	8000.00	3829.00	5000.00
Non-Competitive Bids Accepted	3317.19	1000.00	1.00	2.00
Total Bills Issued	12317.19	9000.00	3830.00	5002.00
Of which MSS	0.00	0.00	0.00	0.00

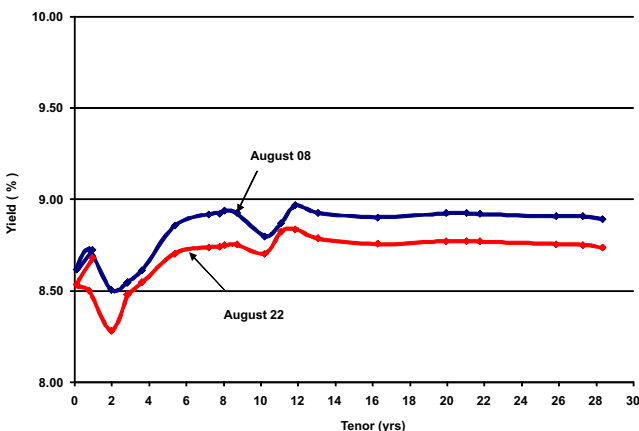
Repo Injections During the Fortnight



SGL Volumes - Treasury Bills



Yield Curve Movement



MONEY MARKET

Repo injection through LAF averaged at Rs. 18,591 crore as against Rs. 15,160 crore a fortnight ago. Average call rate stood at 8.16% during the first week and 7.87 % in the second week of the fortnight, while CBLO and Repo averaged at 8.09% and 8.21% respectively during the past fortnight. Average volume in Call and CBLO market during the fortnight stood at Rs. 12,060 crore and Rs. 70,620 crore respectively.

TREASURY BILLS

Primary Market

During the fortnight, RBI issued Rs. 15,000 crore in the first week and Rs. 13,000 crore in the second week of the fortnight in T-bills segment. The auction has been reduced by Rs. 2000 crore for every week from now on till 30th September. Cut off yield on 91 day T-bill stood at 8.65% for the both the weeks as compared to previous cut off 8.65 % 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 8.68%.

Secondary Market

Trading volumes during the fortnight decreased to Rs. 26,565 crore vis-à-vis previous fortnight's level of Rs. 32,704 crore. Average daily trading volume stood at Rs. 3,321 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs. 10,559 crore was witnessed in the 92-182 days residual maturity bucket. During the fortnight, Private Sector Banks, Foreign Banks and Primary Dealers were net sellers while Public Sector Banks and Mutual funds were net buyers.

GOVERNMENT SECURITIES

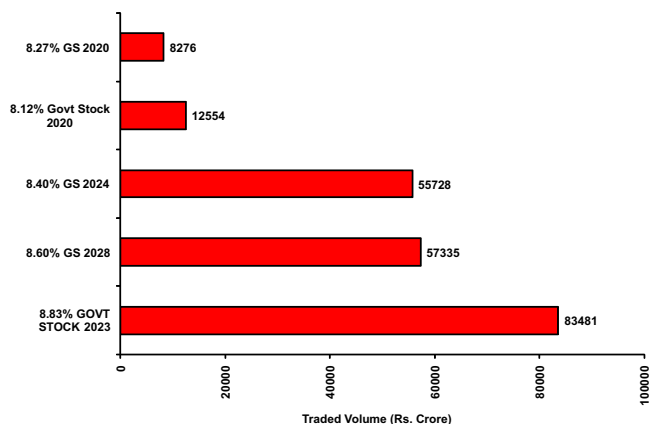
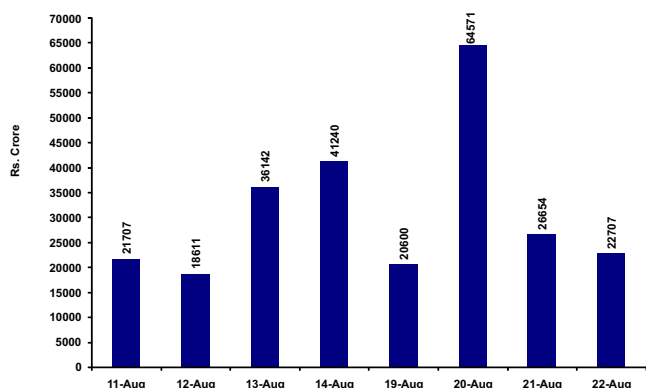
Primary Market

Government borrowed Rs. 8,000 crores through dated securities in the first week of fortnight .RBI had issued 8.40% GS 2024 (Rs 4000 crore), 8.32% GS 2032(Rs. 2000 crore) and 9.23% GS 2043 (Rs 2000 crore).The under writing fees in the new 10-yr benchmark, 8.32% GS 2032 and 9.23% GS 2043stood at 0.42, 0.64, 0.74 paisa respectively. The cut off yield on 10-yr, 18-yr and 29-yr papers stood at 8.57%, 8.86%, 8.82% respectively.

Government borrowed Rs. 12,000 crores through dated securities in the second week of fortnight .RBI had issued 8.27% GS 2020 (Rs 2000 crore), 8.60% GS 2028 (Rs 6000 crore), 9.20% GS 2030 (Rs 2000 crore) and 8.30% GS 2042 (Rs 2000 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 0.32, 0.41, 0.47 and 0.47 paisa respectively. The cut off yield on 6-yr, 14-yr, 16-yr and 28-yr papers stood at 8.59%, 8.68%, 8.74% and 8.74% respectively.

Buying/ Selling Activity during Fortnight: Rs. Crore)

	Total_G_Sec	Total_T_Bill
Foreign Banks	17297.92	-2153.67
Public Sector Banks	-6082.27	842.04
Private Sector Banks	-1151.11	-74.80
Primary Dealers	-9118.73	-6101.97
Mutual Funds	-1699.06	3394.61
Others	753.24	4093.79

Most Traded Securities

Dated Securities Trading Volumes

Secondary Market Developments

During the fortnight bond market remained bullish biased. First week of the fortnight started on positive note on account of reduced borrowing by Rs 6000 Cr on upcoming Friday. However the bullishness could not sustained due to high inflation expectation and inflation print at 7.96% evaporated the gains. The value buying and light positioning of the market led to some rally in bond market. The positive sentiment in the market fueled by the expectation of reduction in Government securities as well as in T –Bill borrowing, on account of comfortable cash position of government. WPI inflation print came on expected line at 5.19% and core WPI inflation moderated to the level of 3.58%. These factors sustained the bullish sentiment of the market and new ten year paper touched the level of 8.52%. Second week of the fortnight also started on positive note with the reduction in auction size of government securities as well as in Treasury bills by Rs 2000 Cr for the remaining period of first half. The positive sentiment of the bond market got momentum by rupee appreciation and decline in crude prices due to eased tension in Middle East and Ukraine. The prices of government bonds increased and yield on new paper touched the level of 8.48% however this rally could not continued as RBI shown its concern on inflation in its Annual report of 2013-14. New ten year paper closed at 8.52% as against the previous fortnight closing of 8.63%.

Trading Volumes

Trading volumes during fortnight increased to Rs. 2, 52,231 crore as against Rs. 2, 10,276 crore in the previous fortnight. The first week's average daily trading volume stood at Rs. 29,425 crore vis-à-vis second week's level of Rs. 33,633 crore. The highest single day trading volume was Rs. 64,571 crore. Top two traded securities 8.83% GOI 2023 & 8.60% GOI 2028 cornered 65 percent of the top five traded securities volume. During the fortnight Primary Dealers, Mutual Funds, Private Sector Banks and Public Sector Banks were net sellers while, Foreign Banks were net buyers.

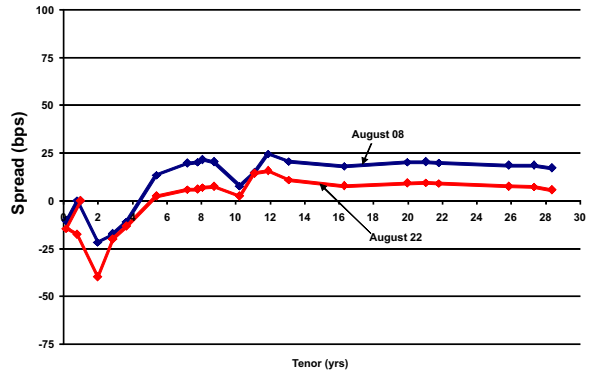
OUTLOOK

Coming fortnight is expected to bearish biased or flat on account of absence any major trigger other than GDP growth data. The market may take cue from rupee and crude movement. If the appreciation in rupee and decline in crude prices continued, the bond market likely to ease otherwise there will be consolidation in the bond market. The range between which ten year paper may trade in coming fortnight is 8.48% to 8.58%.

SPREAD MONITOR

	TTM (yrs)	YTM		Change in YTM (bps)
		8-Aug	22-Aug	
364 Day T Bill	1.00	8.72	8.68	-4
7.32% GOI 2014	0.16	8.62	8.53	-8
7.17% GOI 2015	0.81	8.72	8.50	-22
7.02% GOI 2016	1.99	8.50	8.28	-22
8.07% GOI 2017	2.87	8.54	8.48	-7
7.99% GOI 2017	2.88	8.55	8.48	-7
8.24% GOI 2018	3.67	8.61	8.54	-7
8.19% GOI 2020	5.41	8.85	8.70	-15
8.79% GOI 2021	7.22	8.92	8.74	-18
8.79% GOI 2021	7.22	8.92	8.74	-18
8.15% GOI 2022	7.81	8.92	8.74	-18
8.13% GOI 2022	8.09	8.94	8.75	-19
7.16% GOI 2023	8.75	8.92	8.75	-17
9.15% GOI 2024	10.24	8.80	8.70	-10
8.20% GOI 2025	11.10	8.87	8.82	-5
8.33% GOI 2026	11.89	8.97	8.83	-13
8.28% GOI 2027	13.09	8.93	8.79	-14
8.97% GOI 2030	16.30	8.90	8.76	-15
7.50% GOI 2034	19.98	8.92	8.77	-15
7.40% GOI 2035	21.06	8.92	8.77	-15
8.33% GOI 2036	21.81	8.92	8.77	-15
8.30% GOI 2040	25.88	8.91	8.75	-15
8.83% GOI 2041	27.33	8.91	8.75	-16
8.30% GOI 2042	28.38	8.89	8.74	-16

Spread Over One-Year Paper



(in Rs. Crore)

INFLOWS			OUTFLOWS		
Date	Security	Coupon Receipts	Date	Security	Scheduled auction amount
28-Aug-14	7.46% GS 2017	2159	Aug 25-29, 2014 -> The auction quantum has been reduced by Rs. 2000 crore to Rs. 12,000 crore	5-9 years	2000-3000
	5.87% GS 2022 (conv)	323		10-14 years	6000-7000
				15-19 years	2000-3000
7.95% GS 2032	2345	15-19 years		2000-3000	
		5-9 years		2000-3000	
3-Sep-14	7.38% 2015 (conv)	2118		10-14 years	6000-7000
			15-19 years	2000-3000	
Total Inflows			Sep 1-5, 2014	15-19 years	2000-3000
6945			Total Outflows	26000	



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