

for the fortnight ended 05 September, 2014

## Economy & Financial Markets Review

### Domestic Developments

India's April-June GDP grows by 5.7% YoY better than market expectation

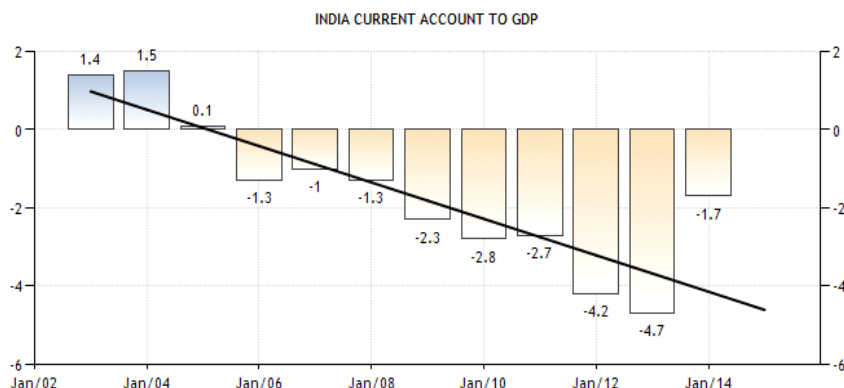
The country's current account deficit (CAD) marginally widens to \$7.8 billion (1.7% of GDP) during the first quarter of FY15 from 1.2 billion (0.2% of GDP) in Q4 of 2013-14.

### International Developments

10-yr US treasury yield ends the fortnight at 2.46% as against previous fortnight closing of 2.40%. Crude oil ends fortnight at USD 93.29 as against previous fortnight's closing of USD 93.65 per barrel

### G-sec Market

Bond market remains range bound in absence of triggers during the fortnight. New ten year paper closes at 8.52% against previous closing of 8.52%



### Money Market

Average repo injection during the fortnight stood at Rs. 6,869 crore against previous fortnight average of Rs. 18,591 crore.

### Forex Market

Rupee ends at 60.41/USD vis-a-vis 60.47/USD during previous fortnight.

Nifty and Sensex gain by 2.19% and 2.30% respectively.

### MACROECONOMIC INDICATORS

(Rs. Billion)

	As on Aug 22	Variation over the fortnight	Variation over LRF of March	YOY % growth
Aggregate Deposits	80488	(91)	3433	13.58
Bank Credit	61175	(112)	1234	10.94
Non - food Credit	60097	(107)	1141	11.04
Banks Investment in G-Sec	23644	(22)	1532	10.07
Broad Money M3	99036	(170)	4062	13.03
Reserve Money (Aug 22)	17295	21	(32)	11.25
Forex Reserves (USD bn) (Aug 22)	291	(0.7)	15	17.78
Credit – Deposit Ratio	76			
LAF Repo Rate (%)	8			
LAF Reverse Repo Rate (%)	9			
CRR Cash Reserve Ratio (%)	4			
MSF/Bank Rate	9			

## DOMESTIC DEVELOPMENTS

### **India April-June GDP Grew 5.7% On-Year**

India's economy expanded at its fastest pace in more than two years last quarter as corporate and consumer demand rose on hope the government and central bank are at last steering Asia's third-largest economy out of a slowdown.

India's gross domestic product in the three months ended June 30 grew 5.7% from a year earlier. That was a big step up from the 4.6%, on-year expansion in the previous quarter and the highest growth the country has seen since the three months ended March 31, 2012.

Data shows output of the country's manufacturing sector, which had been one of the biggest drags on the economy, rose 3.5% last quarter, rebounding from a 1.2% contraction a year earlier. Output of electricity and some utilities grew 10.2%. Services such as community, social and personal services recorded 9.1% expansion while financing and insurance services rose 10.4%. Farm output also expanded 3.8%.

### **Relief under Balance of Payment front helps government to cheer after the positive growth data**

After the Indian economy rebounded to grow at 5.7% in the first quarter (April-June) of the current fiscal year, more good news on the external economy front has brought a smile on the face of the Government. India's current account deficit (CAD) narrowed sharply to \$7.8 billion (1.7 per cent of gross domestic product) in the first quarter of 2014-15 from \$21.8 billion (4.8 per cent of GDP) in the year ago period. However, it was higher than \$1.2 billion (0.2 per cent of GDP) in Q4 of 2013-14.

The lower CAD was primarily on account of a contraction in trade deficit contributed by both a rise in exports and a decline in imports. The decline in imports was primarily led by a steep drop of 57.2 per cent in gold imports, which amounted to \$7 billion, significantly lower than \$16.5 billion. Non-gold imports recorded a modest rise of 1.3 per cent as against a decline of 0.6 per cent in the corresponding quarter of last year reflecting some revival in economic activity. As a result, merchandise trade deficit (BoP basis) contracted by about 31.4 per cent to \$34.6 billion in the first quarter of 2014-15 from \$50.5 billion in the corresponding quarter a year ago.

## Events for Next Fortnight

Date	Event	Period	Prior
11-Sep-14	initial jobless claims	6-Sep	302 K
12-Sep-14	Import Price Index YoY	August	0.80%
15-Sep-14	Industrial Production	August	0.40%
	CPI YoY	August	2.00%
	Current Account Balance	2Q	(\$111.2) Bn
17-Sep-14	FOMC Rate Decision	17th Sept	0.25%

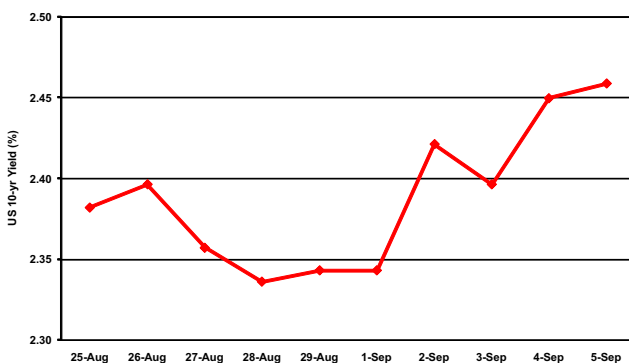
Buoyed by the sharp surge in inflows, under both the portfolio (\$12.4 billion) and FDI route (\$8.2 billion), capital account recorded a surplus of \$19 billion in the June quarter compared to \$ 7.1 bn in previous quarter. The portfolio flows to the country surged after investor sentiment surged following the BJP's victory in the general election, more than offsetting the outflow on the current account. In all, there was net accretion of \$11.2 billion in India's foreign exchange reserves during the first quarter of the current fiscal year, compared with a drawdown, to the tune of \$0.3 billion in the same period last year.

## INTERNATIONAL DEVELOPMENTS

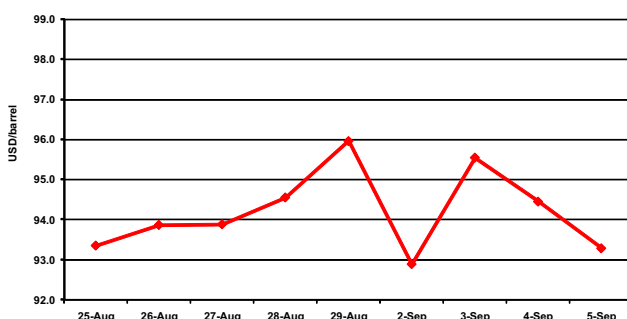
### US Treasury

US treasury market remained highly volatile during the fortnight. The 10 yr benchmark yield dropped down to 2.33% during closer of the first week where as treasury pared all gains during second week of the fortnight. The fortnight opened with bullish note and Treasury 10-year notes offered the highest yields over similar maturity German bonds in 15 years with the Federal Reserve and European Central Bank outlining diverging paths on monetary policy. Treasury price further appreciated as the collapse of yields in Europe prompted investors to reach for higher-yielding U.S. government bonds. Yield fell on closing day of first week of the fortnight , as rising tension in Ukraine and speculation the European Central Bank will buy bonds overshadowed data showing the U.S. economy strengthened. The second week opened with negative note as yield rose by almost 8 bps on 10 yr benchmark paper as U.S. manufacturing grew the fastest in three years ahead of a report that may show continued U.S. job growth and amid a wave of corporate-bond sales. Treasury price fell further on subsequent days as investors continued to seek a haven in U.S. government securities amid skepticism about efforts to resolve the five-month conflict in Ukraine. After touching a low yield of 2.33% in first week of the fortnight on 10 yr benchmark, yield rose by almost 12 bps and closed at 2.46% as against previous close at 2.40%.

USTreasury yield movement during the fortnight



Crude oil price movement during the fortnight

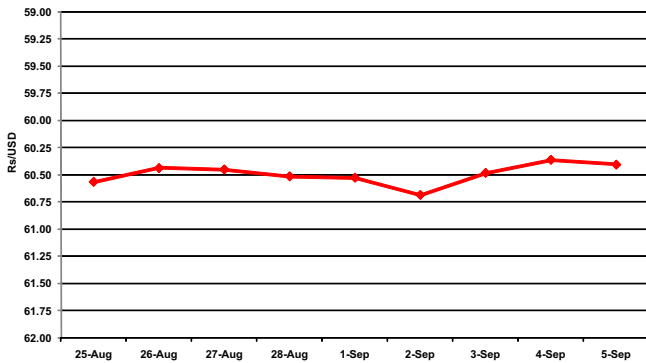


## COMMODITIES

### International Crude Oil

Crude oil price remained range bound during the fortnight. The crude fell on opening day of the fortnight fell amid speculation that supplies at Cushing, Oklahoma. However West Texas Intermediate oil rose from a seven-month low as U.S. durable goods data

**Rupee movement during the fortnight**

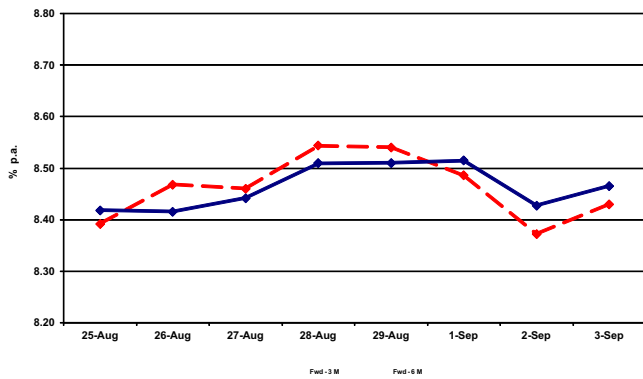


and consumer confidence boosted economic optimism. Crude gained further for a third day as the U.S. economy expanded more than previously forecast in the second quarter, boosting expectations for strong oil demand. Oil headed for the first weekly gain in more than a month on speculation an improving U.S. economy will boost fuel demand. The second week opened with bearish note as OPEC's production was seen increasing and manufacturing gauges in Europe and China missed estimates. Crude fell further amid speculation that weakening manufacturing from Germany to China will cap global oil demand. Brent declined in London. WTI crudes dropped on closing day of the fortnight and closed at USD 93.29 per barrel against the previous fortnight close of USD 97.65 per barrel after weaker-than-estimated U.S. jobs growth in August and as Ukraine and pro-Russian separatists agreed to a cease-fire.

**FOREX MARKET**

Rupee remained range bound during the fortnight. The fortnight opened with bearish note as Rupee dropped on opening day after Federal Reserve Chair Janet Yellen refrained from giving a clear indication on when U.S. interest rates would be raised. Slack remains in the U.S. labor market, though borrowing costs could be raised sooner than expected, Yellen said in Jackson Hole, Wyoming on Aug. 22. Rupee dropped further on account of Ukraine tensions. However currency appreciated as foreign investors bought local assets amid optimism growth in Asia's third-largest economy is reviving. After better than expected economy growth at 5.7% for Q1 FY 2014-15, shrinkage in current a/c deficit and enhancement in forex reserve boost market sentiment for domestic as well as foreign investors. The April-June shortfall in the broadest measure of trade was \$7.8 billion, lower than the \$21.8 billion gap a year earlier. Currency rose the most in more than a week after foreigners boosted holdings of local assets amid reviving economic growth and indications of progress toward a Russian-backed cease-fire with Ukraine. Rupee depreciated slightly on closing day of the fortnight and closed at 60.41 per US Dollar compared to previous close 60.47 per US Dollar.

**Annualised USD/INR Fwd Premia**



**EQUITY MARKET**

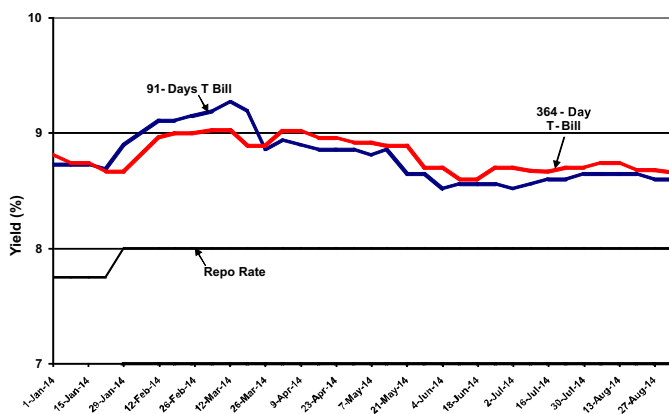
Indian equities make sharp gains with the benchmark indices touching their all time highs during the fortnight. The first week started on a slight weak note as gains in blue chips were offset by a slump in resources firms following top court's ruling on coal allocations. India's Supreme Court held illegal all coal blocks allocated by

## Major Stock Indices

	22-Aug-14	3-Sep-14	% Change
<b>Indian Indices</b>			
<b>Sensex</b>	26420	27027	2.30%
<b>Nifty</b>	7913	8087	2.19%
<b>FMCG</b>	7170	7359	2.64%
<b>IT</b>	9948	10405	4.59%
<b>Banking</b>	18100	18298	1.09%
<b>Auto</b>	17034	17573	3.17%
<b>Capital Goods</b>	14874	15421	3.68%
<b>Healthcare</b>	13190	17360	31.62%
<b>PSU</b>	8172	8298	1.54%
<b>World Indices</b>			
<b>Dow Jones</b>	17001	17137	0.80%
<b>Nikkei</b>	15539	15669	0.83%
<b>FTSE</b>	6775	6855	1.18%

the government to various firms between 1993 and 2009 adding that a final decision on the fate of the blocks would be taken soon. Thereafter, the shares rose as expectations of further monetary stimulus in the Euro Zone raised hopes of continued foreign inflows. The first week ended with equities posting their seventh consecutive monthly gain as continued buying from foreign investors lifted blue chips. Despite some flare-ups in geopolitical tensions, sentiment in Indian market remained supported by optimism about an improving economy and expectations Prime Minister Narendra Modi will usher a period of significant fiscal and economic reforms. On start of the second week, Nifty was seen surging past psychologically important level of 8000 after better than expected quarterly economic growth data. Gains made were extended after the BoP was seen in surplus for a third straight quarter, while the CAD widened but stayed within comfort; on strong US economic data; falling oil prices and rise in global stocks after Ukraine said it reaches a ceasefire agreement with Russia. The fortnight ended with equities falling as profit taking continued in blue chips while foreign investor sales in equity derivatives also weighed.

**Yield Movement - 91 Day and 364 Day T-Bills**



## MONEY MARKET

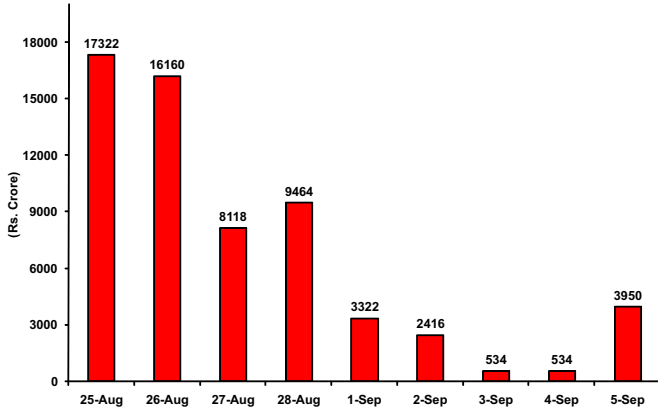
During the fortnight liquidity situation remained very comfortable and RBI conducted variable reverse Repo to reduce the volatility in money market. Repo injection through LAF averaged at Rs. 6,869 crore as against Rs. 18,591 crore a fortnight ago. Average call rate stood at 7.99% during the first week and 7.47% in the second week of the fortnight, while CBLO and Repo averaged at 7.66% and 7.80% respectively during the past fortnight. Average volume in Call and CBLO market during the fortnight stood at Rs. 12,393 crore and Rs. 68,963 crore respectively.

Details of all the Treasury bill auctions held in the fortnight ended 3<sup>rd</sup> September 2014 have been tabulated as under:

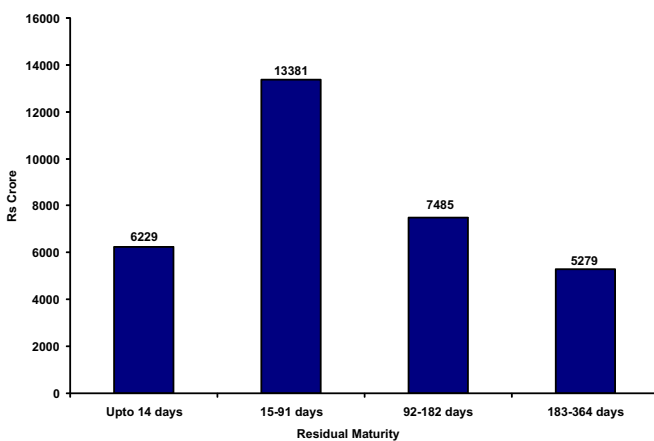
(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
	27 Aug	03 Sep	27 Aug	03 Sep
<b>Date Of Auction</b>	<b>27 Aug</b>	<b>03 Sep</b>	<b>27 Aug</b>	<b>03 Sep</b>
<b>Cut-off Price (Rs)</b>	97.90	97.90	95.85	92.05
<b>Implicit Yield (%)</b>	8.60	8.60	8.68	8.66
<b>Weighted Avg. Yield (%)</b>	8.60	8.56	8.66	8.65
<b>Competitive Bids Received</b>	25010.52	24794.47	17126.00	23920.00
<b>Competitive Bids Accepted</b>	8000.00	8000.00	5000.00	5000.00
<b>Non-Competitive Bids Accepted</b>	2500.00	5003.00	0.00	8.00
<b>Total Bills Issued</b>	10500.00	13003.00	5000.00	5008.00
<b>Of which MSS</b>	0.00	0.00	0.00	0.00

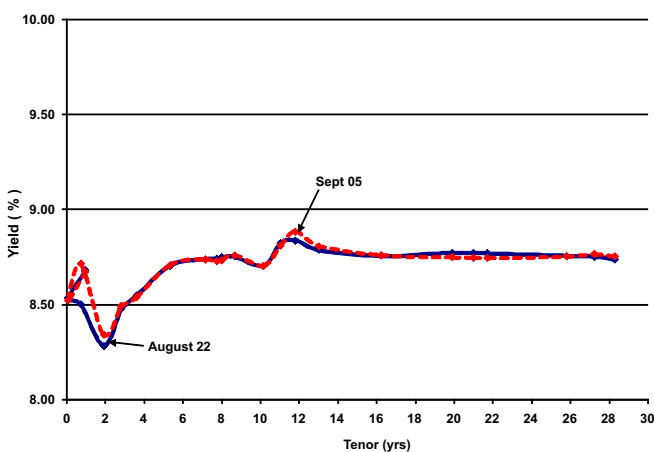
**Repo Injections During the Fortnight**



**SGL Volumes - Treasury Bills**



**Yield Curve Movement**



**TREASURY BILLS**

**Primary Market**

During the fortnight, RBI issued Rs. 13,000 crore in both the weeks of the fortnight in T-bills segment. Cut off yield on 91 day T-bill stood at 8.60% 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 8.68% and on 364 day T-bill stood at 8.66%.

**Secondary Market**

Trading volumes during the fortnight increased to Rs. 32,373 crore vis-à-vis previous fortnight's level of Rs. 26,565 crore. Average daily trading volume stood at Rs. 3,597 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs. 13,381 crore was witnessed in the 15-91 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. 12,000 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 6000 crore), 8.32% GS 2032(Rs. 2000 crore) and 9.23% GS 2043 (Rs 2000 crore).The under writing fees in the 6-yr paper, new 10-yr benchmark, 8.32% GS 2032 and 9.23% GS 2043 stood at 0.29, 0.34, 0.44, 0.44 paisa respectively. The cut off yield on 6-yr, 10-yr, 18-yr and 29-yr papers stood at 8.66%, 8.59%, 8.78%, 8.79% respectively.

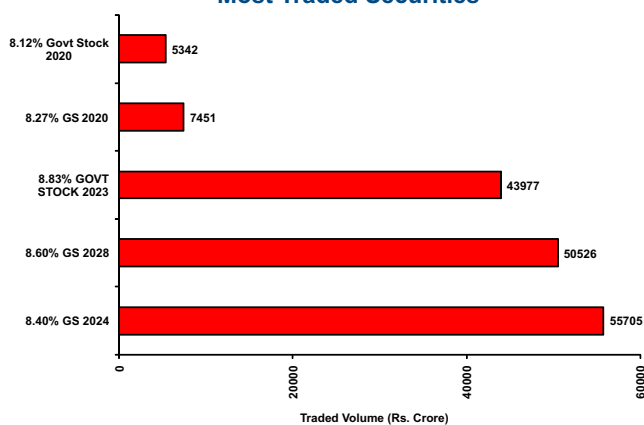
Government borrowed Rs. 12,000 crores through dated securities in the second week of fortnight .RBI had issued 8.27% GS 2020 (Rs 2000 crore), 8.60% GS 2028 (Rs 6000 crore), 9.20% GS 2030 (Rs 2000 crore) and 8.30% GS 2042 (Rs 2000 crore).The under writing fees in the short term paper, 8.60% GS 2028 and long term paper 9.20% GS 2030, 8.30% GS 2042 stood at 0.27, 0.29, 0.40 and 0.44 paisa respectively. The cut off yield on 6-yr, 14-yr, 16-yr and 28-yr papers stood at 8.62%, 8.70%, 8.75% and 8.76% respectively.

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

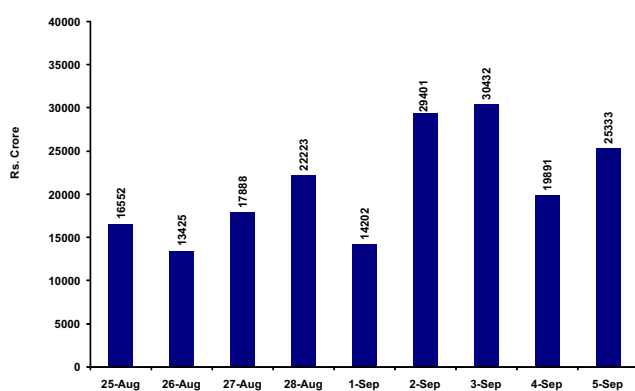
	Total G Sec	Total T Bill
<b>Foreign Banks</b>	<b>-1715.97</b>	<b>-607.90</b>
<b>Public Sector Banks</b>	385.34	5570.36
<b>Private Sector Banks</b>	3519.96	<b>-2189.80</b>
<b>Primary Dealers</b>	<b>-1557.02</b>	<b>-4725.40</b>
<b>Mutual Funds</b>	<b>-811.16</b>	201.26
<b>Others</b>	178.84	1751.48

**Secondary Market Developments**

During the past fortnight bond market moved in a tight range in absence of any triggers. First week of the fortnight started on weak note with ten yield surging to the level of 8.57%. Bond market witnessed a lackluster session throughout the week on subdued participation. Yield rose across the curve on press reports, citing that government is not contemplating any hike in FII debt limit. On Thursday auction of government securities sailed through smoothly and aggressive cut off somehow eased the bond market but soon paired all the gains towards the close. Second week of the fortnight started on flat note and no effect seen on the bond market of high GDP growth of 5.7%. Bond market improved as market was abuzz with rumours around likely introduction of Euroclear settlement. News reports quoted finance ministry sources suggesting that Fin Min and RBI may meet next week to discuss listing of Indian debt on Euroclear. This would entail discussions over FII limit in G-Sec and possible changes in ECB norms to make overseas rupee bonds more attractive. The sources also indicated the need to evaluate whether amendment to government security act is required for joining Euroclear. Improvement in sentiment led to rally in the market however it could not sustained due to profit booking by market participant. New ten year closed at 8.52% as against the previous closing of 8.52%.

**Most Traded Securities**

**Trading Volumes**

Trading volumes during fortnight decreased to Rs. 1, 89,347 crore as against Rs. 2, 52,231 crore in the previous fortnight. The first week's average daily trading volume stood at Rs. 17,522 crore vis-à-vis second week's level of Rs. 23,852 crore. The highest single day trading volume was Rs. 30,432 crore. Top two traded securities 8.40% GOI 2024 & 8.60% GOI 2028 cornered 65 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.

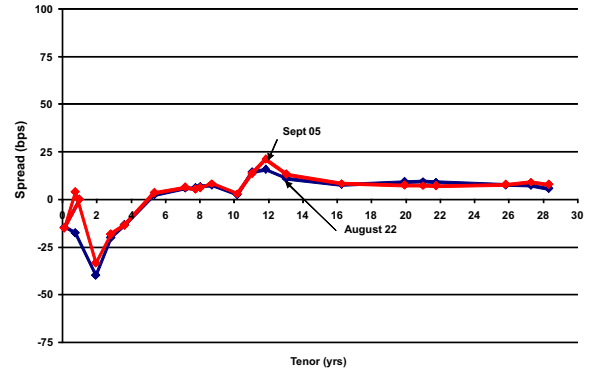
**Dated Securities Trading Volumes**

**OUTLOOK**

Coming fortnight is expected to be bullish, in absence of auction in first week of the fortnight and lower inflation expectation. CPI and WPI Inflation is scheduled to release in coming fortnight and high base effect of last year inflation may led to low inflation print in coming fortnight. Under these circumstances new ten year is expected to trade in a range of 8.46% to 8.56%

### SPREAD MONITOR

	TTM (yrs)	YTM		Change in YTM (bps)
		22-Aug	5-Sep	
364 Day T Bill	1.00	8.68	8.67	0
7.32% GOI 2014	0.12	8.53	8.52	-1
7.17% GOI 2015	0.77	8.50	8.71	21
7.02% GOI 2016	1.95	8.28	8.34	6
8.07% GOI 2017	2.83	8.48	8.49	1
7.99% GOI 2017	2.84	8.48	8.49	1
8.24%GOI 2018	3.63	8.54	8.54	-1
8.19% GOI 2020	5.37	8.70	8.71	1
8.79% GOI 2021	7.18	8.74	8.74	0
8.79% GOI 2021	7.18	8.74	8.74	0
8.15% GOI 2022	7.77	8.74	8.73	-1
8.13% GOI 2022	8.05	8.75	8.73	-1
7.16% GOI 2023	8.71	8.75	8.76	1
9.15% GOI 2024	10.20	8.70	8.70	0
8.20% GOI 2025	11.06	8.82	8.81	-1
8.33% GOI 2026	11.85	8.83	8.88	5
8.28% GOI 2027	13.05	8.79	8.81	2
8.97% GOI 2030	16.26	8.76	8.76	0
7.50% GOI 2034	19.94	8.77	8.75	-2
7.40% GOI 2035	21.02	8.77	8.75	-3
8.33% GOI 2036	21.77	8.77	8.74	-2
8.30% GOI 2040	25.84	8.75	8.75	0
8.83% GOI 2041	27.29	8.75	8.76	1
8.30% GOI 2042	28.34	8.74	8.75	2

Spread Over One-Year Paper



(in Rs. Crore)

INFLOWS			OUTFLOWS		
Date	Security	Coupon Receipts	Date	Security	Scheduled auction amount
9-Sep-14	7.40% GS 2035	1924	No auction for first week		
			5-9 years	2000-3000	
11-Sep-14	10.18%GS 2026	758	Sept 15-19, 2014	10-14 years	6000-7000
			15-19 years	2000-3000	
<b>Total Inflows</b>		<b>2682</b>	<b>Total Outflows</b>	<b>12000</b>	



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