

for the fortnight ended 19 September, 2014

Economy & Financial Markets Review

Domestic Developments

Easing prices of vegetables, cereals and petroleum products brings down retail inflation marginally to 7.8 per cent in August.

India's wholesale inflation rate plunges to 3.74% in August, the lowest in almost five years, supported by a sharp drop in vegetable and petrol prices.

International Developments

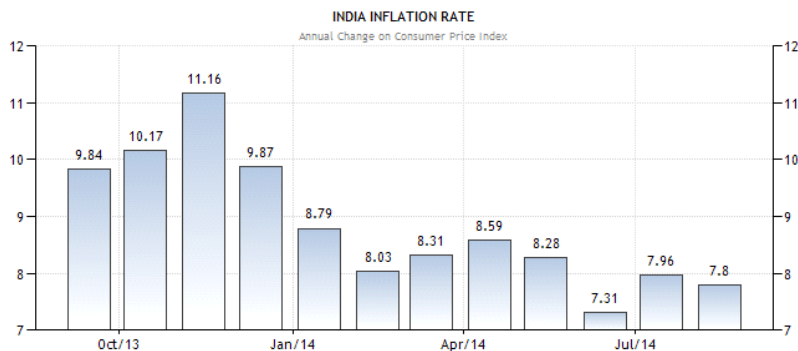
10-yr US treasury yield ends the fortnight at 2.57% as against previous fortnight closing of 2.46%.

Crude oil ends fortnight at USD 92.41 as against previous fortnight's closing of USD 93.29 per barrel

G-sec Market

During the fortnight bond market moved in tandem with expectation rate hike by Federal Reserve.

New ten year paper closes at 8.45% against previous closing of 8.50%



Money Market

Average repo injection during the fortnight stood at Rs. 12,121 crore against previous fortnight average of Rs. 6,869 crore.

Forex Market

Rupee ends at 60.83/USD vis-a-vis 60.41/USD during previous fortnight.

Nifty and Sensex gain by 0.43% and 0.24% respectively.

MACROECONOMIC INDICATORS

(Rs. Billion)

	As on Sept 05	Variation over the fortnight	Variation over LRF of March	YOY % growth
Aggregate Deposits	81,327	839	4,272	13.78
Bank Credit	61,409	234	1,468	9.68
Non - food Credit	60,366	269	1,410	9.81
Banks Investment in G-Sec	24,278	634	2,167	13.54
Broad Money M3	99,980	845	4,907	13.21
Reserve Money (Sept 12)	17,189	(107)	(139)	7.31
Forex Reserves (USD bn) (Sept 12)	289	(2.6)	12	16.79
Credit – Deposit Ratio	75.51			
LAF Repo Rate (%)	8			
LAF Reverse Repo Rate (%)	9			
CRR Cash Reserve Ratio (%)	4			
MSF/Bank Rate	9			

DOMESTIC DEVELOPMENTS

Retail Inflation accelerates 7.8% in August 2014

Data released by the government showed that easing prices of vegetables, cereals, petroleum products & miscellaneous items brought down Consumer Price Index (CPI) based inflation marginally to 7.8% in August 2014 from 7.96% in previous month. The corresponding provisional inflation rates for rural and urban areas for August 2014 are 8.35% and 7.04%, respectively compared to 8.37% and 7.42% respectively on month of July 14. As correctly pointed out by Mr. Subir Gokarn, Dy. Governor RBI in its speech before 3 months, Rural inflation hardly showed any sign of waning in recent months. The rate of price rise in vegetables stood at 15.15% in August as against 16.88% in the previous month. CPI inflation decline in August 2014 was mainly driven by fall in inflation for miscellaneous items to 5.94% compared to 6.56% in previous month. The core CPI inflation eased to 6.9% in August 2014 from 7.4% in July 2014. The core CPI inflation reading of 6.9% for August 2014 was the lowest reading for the CPI data with the Base 2010: 100.

mm-yy	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
Aug-13	10.95%	7.50%	10.54%	8.91%	7.13%	9.52%	8.2%
Jul-14	9.14%	4.47%	8.94%	8.73%	6.56%	7.96%	7.4%
Aug-14	9.22%	4.15%	8.48%	8.53%	5.94%	7.80%	6.9%

With declining global commodity prices and a stable rupee, the core inflation is likely to see a decline as this may offset some demand led pressures on prices. The outlook on inflation seems less discomfoting than it was a month back. Recent development on monsoons and sliding oil prices augur well for the inflation trajectory in the subsequent months.

Wholesale price inflation print at 3.74%, lowest in nearly five years

Inflation data based on wholesale price index (WPI) for August hit a five year low at 3.74 percent; low WPI inflation is contributed by declining vegetable prices and other food articles. Food inflation came in at 5.15% compared to 8.43% in July 2014 on a monthly basis, the lowest level since January 2012, while fuel and power inflation was at 4.54% compared to 7.40% in July 2014. Core inflation also declined from 3.61% (July 14) to 3.46%.

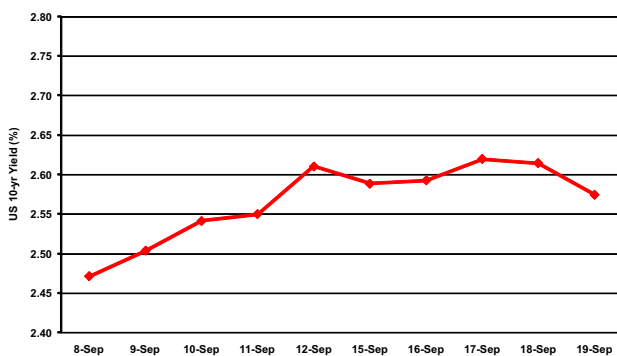
The fall in wholesale inflation, is likely to trigger calls for cuts in the repo rate, although RBI is observing CPI for taking decision on policy rates. Adding to the clamour will be the low 0.5% growth in July in industrial production, and a marginal easing of retail inflation rate of 7.8% in August.

Items in Head Line Inflation for Aug 2014		Weightage (%)	Jul-14	Aug-14
Head Line Inflation		100	5.19%	3.74%
A. Primary Article		20.12	6.78%	3.89%
	(1) Food Article	14.34	8.43%	5.15%
	(2) Non Food Article	4.26	3.32%	4.19%
	(3) Mineral	1.52	2.37%	-4.59%
B. Fuel & Power		14.91	7.40%	4.54%
C. Manufacturing		64.97	3.67%	3.45%
	Food Product	9.97	4.11%	3.43%
	Non Food Mfg Product	55.00	3.61%	3.46%
	(1) BEVERAGES, TOBACCO & TOBACCO PRODUCTS	1.76	9.30%	9.55%
	(2) TEXTILES	7.33	5.11%	4.57%
	(3) WOOD & WOOD PRODUCTS	0.59	5.10%	4.27%
	(4) PAPER & PAPER PRODUCTS	2.03	6.19%	6.17%
	(5) LEATHER & LEATHER PRODUCTS	0.84	1.12%	2.16%
	(6) RUBBER & PLASTIC PRODUCTS	2.99	4.58%	3.93%
	(7) CHEMICALS & CHEMICAL PRODUCTS	12.02	4.00%	4.05%
	(8) NON-METALLIC MINERAL PRODUCTS	2.56	0.60%	2.17%
	(9) BASIC METALS, ALLOYS & METAL PRODUCTS	10.75	2.84%	2.15%
	(10) MACHINERY & MACHINE TOOLS	8.93	2.37%	2.67%
	(11) TRANSPORT, EQUIPMENT & PARTS	5.21	1.88%	1.57%

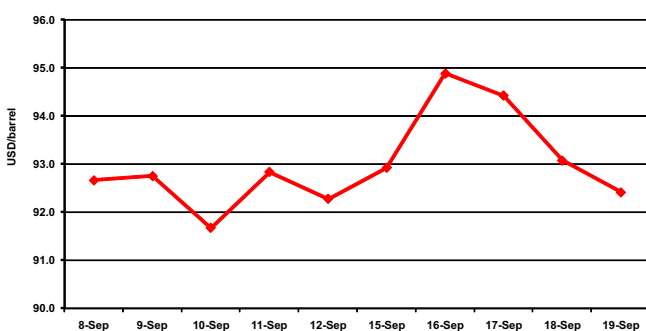
Events for Next Fortnight

Date	Event	Period	Prior
22-Sep-14	Existing Home Sales MoM	Aug	2.40%
26-Sep-14	GDP Annualized QoQ	2Q T	4.20%
	Core PCE QoQ	2Q T	2.00%
29-Sep-14	PCE Core YoY	Aug	1.50%
2-Oct-14	Initial Jobless Claims	27-Sep	-
3-Oct-14	Trade Balance	Aug	(\$40.5) Bn

USTreasury yield movement during the fortnight



Crude oil price movement during the fortnight



INTERNATIONAL DEVELOPMENTS

US Treasury

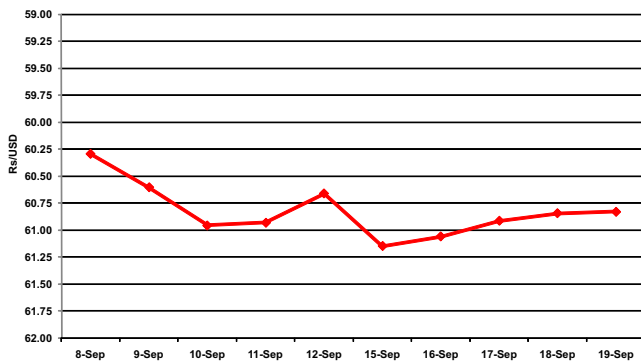
US treasury market remained bullish biased during the fortnight on account of expectation of increase in policy rate by Federal Reserve on FOMC meeting. First week of the fortnight started on weak note on account of drop in nonfarm payroll. U.S. government debt fell for a fifth day, the longest skid in three months, amid concern investors are underestimating when the Federal Reserve will raise borrowing costs next year. However treasuries rose for the first time in six days as concern that political tension in the Middle East will intensify stoked demand for the safest assets. Gain made by treasuries could not sustained as treasuries headed for the longest losing streak in more than a year after data showing retail sales rose bolstered the case for the Federal Reserve to raise interest rates. Brent crude declined. Second week of the fortnight started on weak note however yield reverts back on account of unexpectedly decline in industrial production. The positive sentiment is supported by Wall Street Journal reporters speculated during a webcast that Fed policy makers would retain the pledge to keep benchmark overnight rates low for a “considerable time. The Federal Reserve maintained a commitment to keep interest rates near zero for a “considerable time” after asset purchases are completed, this led to rally in bond market. Some volatility seen in the bond market towards end of the fortnight and us ten treasury yield closed at 2.57.

COMMODITIES

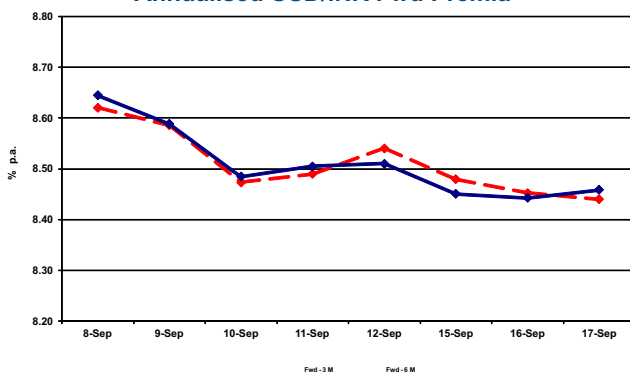
International Crude Oil

WTI Crude remained range bound during the fortnight. Brent fell below \$100 a barrel for the first time since June 2013 as a slowdown in imports into China reinforced signs of surplus supply where as WTI dropped to the lowest in almost eight months. The fortnight opened with positive note as WTI advanced before a government report that may show U.S. supplies fell for a fourth week. Both Brent as well as WTI advanced further as tension between Russia and west escalate. However Crude fell on closing day of the first week of the fortnight on amid speculation that global fuel consumption is slowing while production climbs. Crude advanced on opening day of the second week before a Federal Reserve meeting. Market remained jittery before the

Rupee movement during the fortnight



Annualised USD/INR Fwd Premia



FOMC policy day amid speculation about the tone of the policy decision rather than policy action. However Crude fell on rising U.S. supplies and as a stronger dollar weighed on commodity prices. WTI crudes dropped on closing day of the fortnight and closed at USD 92.41 per barrel against the previous fortnight close of USD 93.29 per barrel.

FOREX MARKET

Rupee plummeted during the fortnight after opening on a positive note. A weaker than expected US jobs data raised hopes about additional foreign inflows, which led to rupee appreciation in the beginning although broader gains were capped after the central bank was spotted intervening. Thereafter the rupee started to fall as investors covered short dollar positions following a Fed Study while losses in the domestic share market also hurt sentiment. The Fed's easy monetary stance had sparked big foreign inflows into emerging markets, including India and a return to normalcy is now reducing these flows and hurting the rupee. Continued dollar demand from importers and some banks too weighed on the rupee value. The first week ended with rupee snapping earlier losses, closely mirroring the domestic share market. The rupee posted its sharpest fall in nearly a month and half against the dollar in the beginning of the second week, in line with other major Asian currencies which weakened partly over fears that interest rates may soon start going up in the US. A sharp drop in local share prices further pulled the currency lower. Thereafter the sentiments remain more or less cautious before the Fed meeting outcome. The Indian rupee was seen making smart gains tracking other Asian currencies, on expectations the U.S. Federal Reserve would not move to hike interest rates at the end of its meeting. Emerging markets were also helped by news that China's central bank is injecting a combined 500 billion Yuan (\$81.35 billion) of liquidity into the country's top banks to shore up a faltering economy. The Indian rupee rose as the fortnight ended, boosted by strong foreign fund flows into markets, although the local currency fell against the dollar for the week, in line with losses in other emerging Asian currencies. Scotland's decision to stay in the United Kingdom also eased investor concerns after a recent run of global political obstacles. Rupee closed at 60.83 per US Dollar compared to previous close 60.41 per US Dollar.

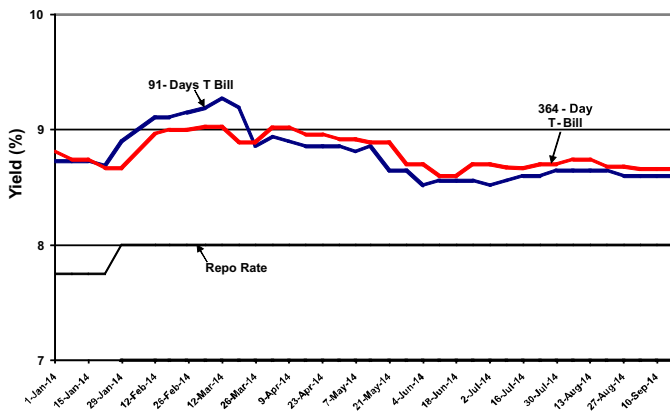
Major Stock Indices

	5-Sep-14	20-Sep-14	% Change
Indian Indices			
Sensex	27027	27090	0.24%
Nifty	8087	8121	0.43%
FMCG	7359	7480	1.64%
IT	10405	10572	1.60%
Banking	18298	18479	0.99%
Auto	17573	18094	2.96%
Capital Goods	15421	15080	-2.21%
Healthcare	17360	13991	-19.41%
PSU	8298	8052	-2.96%
World Indices			
Dow Jones	17137	17280	0.83%
Nikkei	15669	16321	4.16%
FTSE	6855	6838	-0.25%

EQUITY MARKET

Indian equities swing between gain and losses during the fortnight. The first week began with Indian shares rising as strong foreign buying and weak oil prices stoked buying in blue chips. Weak global economic growth combined with ample supply had pushed oil prices below \$100 a barrel for the first time in 14 months on start of the week. This was accompanied by a fall in the shares as investors chose to book profits in the recent outperformers such as banks. Fall of Indian shares continued as worries that the Federal Reserve would raise interest rates sooner than expected hit blue-chips such as Infosys. The weak sentiments in the global share market also spoiled the sentiment; overseas investors sold Indian shares worth 99 million rupees in a day. Indian shares market continued to show declining trend as after China's factory output slowed and caution ahead of the Federal Reserve meeting this week. However some respite given by the low CPI and WPI inflation data. Share market's sentiment got boost from the news that China's central bank injected \$81 billion into banks to stimulate the world's second-largest economy. Share market gained the momentum as the concerns of earlier-than-expected hike US interest rates eased, bulls took the charge. Fresh buying and bout of short-coverings helped the Nifty cross 8,100 marks. The sentiment of equities market further improved amid optimism trade ties with China will attract foreign inflows and boost economic growth. The nifty indices was likely to touch another all time high level but profit booking around this level led to market closed at 8121.

Yield Movement - 91 Day and 364 Day T-Bills

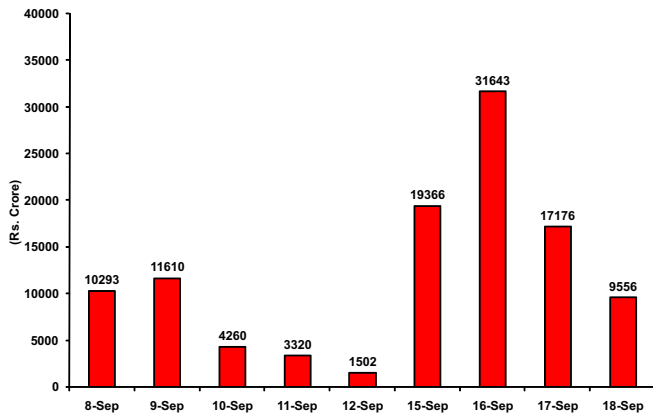


Details of all the Treasury bill auctions held in the fortnight ended 19th September 2014 have been tabulated as under:

(Rs. Crore)

Particulars	91 Day		182 Day	364 Day
	10 Sep	17 Sep	10 Sep	17 Sep
Date Of Auction				
Cut-off Price (Rs)	97.90	97.90	95.84	92.05
Implicit Yield (%)	8.60	8.60	8.71	8.66
Weighted Avg. Yield (%)	8.56	8.60	8.68	8.65
Competitive Bids Received	30775.55	31217.27	15020.00	22672.00
Competitive Bids Accepted	7000.00	7000.00	5000.00	5000.00
Non-Competitive Bids Accepted	4200.75	5892.68	0.00	7.00
Total Bills Issued	11200.75	12892.68	5000.00	5007.00
Of which MSS	0.00	0.00	0.00	0.00

Repo Injections During the Fortnight



MONEY MARKET

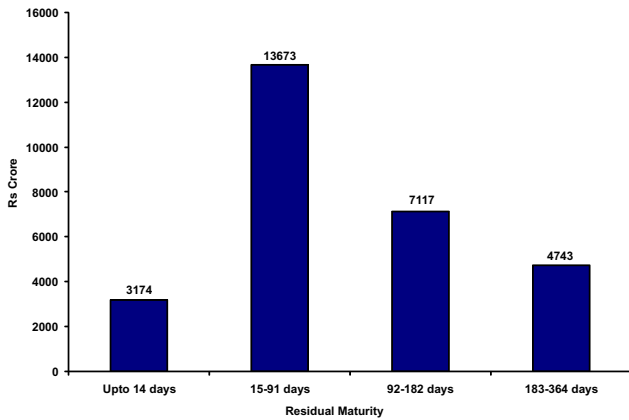
Repo injection through LAF averaged at Rs. 12,121 crore as against Rs. 6,869 crore a fortnight ago. Average call rate stood at 7.83% during the first week and 7.97 % in the second week of the fortnight, while CBLO and Repo averaged at 7.92% and 8.05% respectively during the past fortnight. Average volume in Call and CBLO market during the fortnight stood at Rs. 13,147 crore and Rs. 75,152 crore respectively.

TREASURY BILLS

Primary Market

During the fortnight, RBI issued Rs. 12,000 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 8.60 % 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 8.66%.

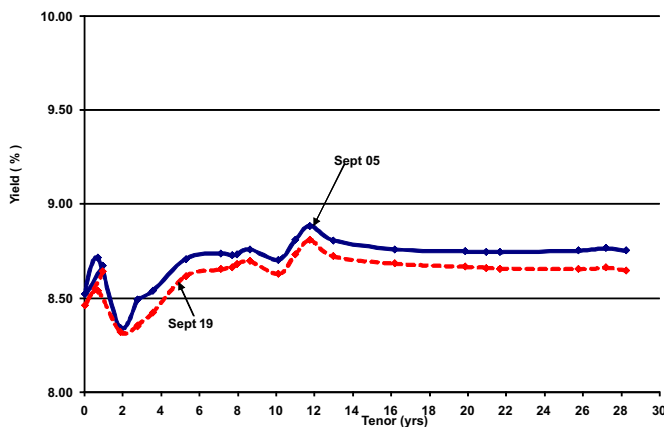
SGL Volumes - Treasury Bills



Secondary Market

Trading volumes during the fortnight decreased to Rs. 28,706 crore vis-à-vis previous fortnight's level of Rs. 32,373 crore. Average daily trading volume stood at Rs. 2,871 crore. Segment wise trades in treasury bills are given in the exhibit. Highest volume of Rs. 13,673 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.

Yield Curve Movement



GOVERNMENT SECURITIES

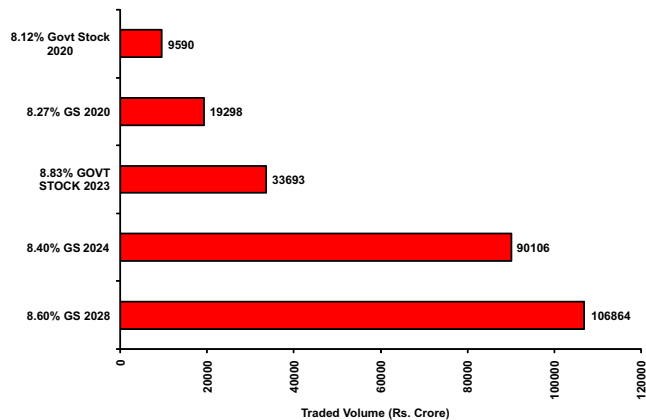
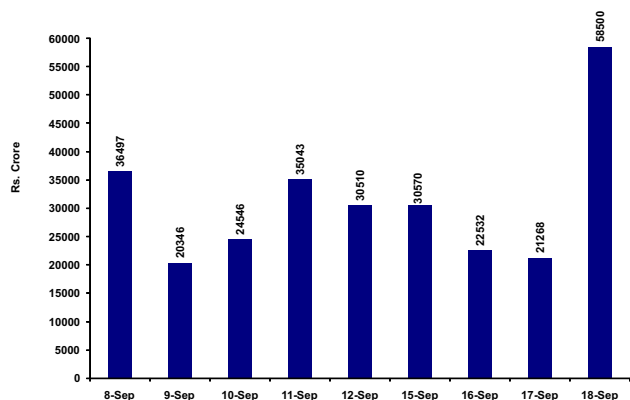
Primary Market

No auction was held in the first week of the fortnight.

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), 8.40% 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 0.22, 0.24, 0.39, 0.39 paisa respectively. The cut off yield on 6-yr, 10-yr, 18-yr and 29-yr papers stood at 8.52%, 8.46%, 8.66%, 8.68% respectively.

Buying/ Selling Activity during Fortnight: Rs. Crore)

	Total_G_Sec	Total_T_Bill
Foreign Banks	9073.94	-3192.74
Public Sector Banks	-16829.66	6751.73
Private Sector Banks	11191.06	-793.58
Primary Dealers	-4994.24	-4870.36
Mutual Funds	1696.56	2134.63
Others	-137.66	-29.67

Most Traded Securities

Dated Securities Trading Volumes

Secondary Market Developments

Bond market remained range bound during the first week of the fortnight however it took bullish path in second week. First week of the fortnight started on positive note taking cue from drop in nonfarm pay roll data of US. Buying support seen in the market due to absence auction in the week however bond market gave up the gain made, due to strengthening of dollar globally and new ten year paper crossed the level of 8.54%. In media report of likely buyback by RBI boosted the sentiment of the market, the positive sentiment got strength from falling crude prices and dollar. On press release of conducting buyback worth Rs 20000 Cr of short term securities led to some rally in the market however CPI inflation print post closing of market kept the sentiment cautious. Second week of the fortnight started on positive note following the decline in CPI inflation from 7.96% to 7.80%. The wholesale inflation also came unexpectedly five years low at 3.74% and bond market reacted positively however the apprehension of increase in interest rate by US in FOMC met led to subdued participation by market participant. Ahead of FOMC meeting bond market moved in a thin range. In FOMC meeting it is decided to keep low interest rate for considerable time and this led to rally in Indian bond market and new ten year paper touched the level of 8.44%. New ten year benchmark closed at 8.45% as against the previous closing of 8.50%

Trading Volumes

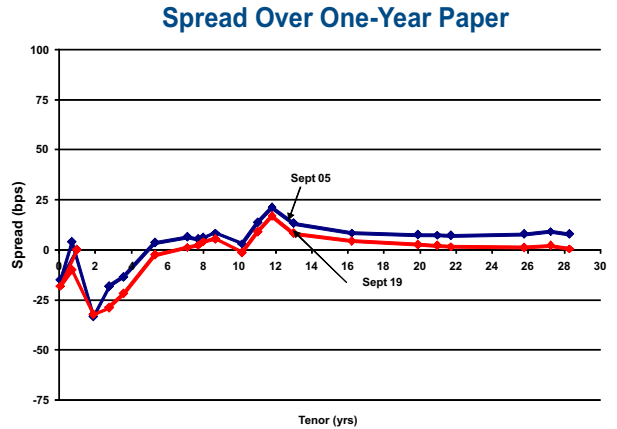
Trading volumes during fortnight increased to Rs. 11,292 crore as against Rs. 1,89,347 crore in the previous fortnight. The first week's average daily trading volume stood at Rs. 29,389 crore vis-à-vis second week's level of Rs. 32,870 crore. The highest single day trading volume was Rs. 58,500 crore. Top two traded securities 8.40% GOI 2024 & 8.60% GOI 2028 cornered 76 percent of the top five traded securities volume. During the fortnight Primary Dealers and Public Sector Banks were net sellers while, Private Sector Banks, Mutual Funds and Foreign banks were net buyers.

OUTLOOK

Coming fortnight is expected to be range bound, the borrowing calendar for second half of the financial year is expected to release in coming fortnight. Monetary policy review is also scheduled in coming fortnight. There is a high expectation of status quo on policy front by RBI. Under these circumstances new ten year paper is expected to trade in a broad range of 8.42% to 8.52%.

SPREAD MONITOR

	TTM (yrs)	YTM		Change in YTM (bps)
		5-Sep	19-Sep	
364 Day T Bill	1.00	8.67	8.64	-3
7.32% GOI 2014	0.08	8.52	8.46	-6
7.17% GOI 2015	0.73	8.71	8.54	-17
7.02% GOI 2016	1.91	8.34	8.32	-2
8.07% GOI 2017	2.79	8.49	8.35	-14
7.99% GOI 2017	2.81	8.49	8.35	-14
8.24% GOI 2018	3.59	8.54	8.42	-12
8.19% GOI 2020	5.33	8.71	8.62	-9
8.79% GOI 2021	7.14	8.74	8.65	-8
8.79% GOI 2021	7.14	8.74	8.65	-8
8.15% GOI 2022	7.73	8.73	8.66	-6
8.13% GOI 2022	8.01	8.73	8.68	-5
7.16% GOI 2023	8.67	8.76	8.69	-6
9.15% GOI 2024	10.16	8.70	8.63	-8
8.20% GOI 2025	11.02	8.81	8.73	-8
8.33% GOI 2026	11.81	8.88	8.81	-8
8.28% GOI 2027	13.01	8.81	8.72	-8
8.97% GOI 2030	16.22	8.76	8.68	-7
7.50% GOI 2034	19.90	8.75	8.67	-8
7.40% GOI 2035	20.99	8.75	8.66	-9
8.33% GOI 2036	21.73	8.74	8.66	-9
8.30% GOI 2040	25.80	8.75	8.65	-10
8.83% GOI 2041	27.25	8.76	8.66	-10
8.30% GOI 2042	28.30	8.75	8.65	-11



(in Rs. Crore)

INFLOWS			OUTFLOWS		
Date	Security	Coupon Receipts	Date	Security	Scheduled auction amount
24-Sep-14	8.20% GS 2025	3690	Sept 22-26, 2014	5-9 years	2000-3000
25-Sep-14	5.69 % GS 2018(Conv)	459		10-14 years	6000-7000
	5.97 % GS 2025 (Conv)	498		15-19 years	2000-3000
	6.01% GS 2028 (C Align)	451		15-19 years	2000-3000
Total Inflows		5098		Auction schedule for H2 is yet to be announced	
			Total Outflows	12000	



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