

Debt Market Watch

09 May, 2022



Government Security Market Update :

The 10-year benchmark moved sharply by 31 bps after the policy repo rate and Cash Reserve Ratio (CRR) hiked by the RBI in an unscheduled meeting by 40 & 50 bps respectively. The standing deposit facility rate is now at 4.15% while the marginal standing facility rate and bank rate stand at 4.65%. Also in the last week the Fed increased rates by 50 bps and indicated further tightening. During the week three states sold 6 to 20 years loan in the range of 7.15 to 7.4691 percent. In a weekly Treasury bill auction the RBI sold 91; 182 & 364 DTB at a yield of 4.0290; 4.4325 & 4.8351 percent respectively. In a weekly auction the RBI sold 5.74% GS 2026; GOI FRB 2028; 6.67% GS 2035 & 6.99% GS 2051 at a yield of 7.20; 5.3010; 7.6114 & 7.7198 percent respectively.

The yield on the 6.54% government bond due January 2032 rose to 7.4507% from last week level of 7.1401%

Global Debt Market Update:

The yield on the benchmark U.S. 10-year Treasury note rose 6 basis point to 3.1240%. It hit 3.146% at one point, its highest level since 2018. The yield on the 30-year Treasury bond rose about 6 basis points to 3.2210% after Fed raised the key benchmark rates by 50 bps. In addition, weaker labor market data released on Thursday is also likely to have added to concerns. A labor productivity reading for the first quarter showed worker output had fallen at the fastest pace since 1947, while weekly unemployment insurance claims also came in slightly higher than expected. However, April's nonfarm payrolls grew by 428,000 for April, coming in ahead of Dow Jones estimates of 400,000. The unemployment rate was expected to fall to 3.5% but stood at 3.6%. Bond investors have been parsing measures of worker pay because rising wages are seen as a crucial long-term driver of overall inflation. Rapidly rising consumer prices have driven bond yields sharply higher this year by lifting expectations for how high the Fed will raise interest rates over the next year in an effort to control inflation.

Bond Market Ahead:

With a sustained double-digit WPI inflation (wholesale price index) for over 12 months and the CPI inflation (consumer price index) crossing the Reserve Bank of India target for the last three consecutive months, the Reserve Bank of India (RBI) has decided to hike the repo rate by 40 basis points to 4.4 per cent and the Cash Reserve Ratio (CRR) by 50 basis points to 4.5 per cent. Inflation likely to remain elevated for a sustainable period of time due to higher energy prices and ongoing war between Russia and Ukraine will disrupt the supply and we will witness the higher commodities prices for a prolonged period of time. The RBI MPC will continue with their withdrawal measures and will raise the repo rate by 35 bps in the June policy. The market will take a breather in the range of 7.50 to 7.55 percent and after consolidation a small relief rally of 10 to 15 bps can be seen in the near term. The yield curve of the state loan will get aligned after the Tuesday's scheduled auction and 15 years and above loan SDLs might be trading around 7.90 percent and at these levels the buying will emerge.

Bond Strategy:

- Buy 6.54% GOI 2032 around 7.52/7.53 with a target of 7.45 and a stop loss of 7.57 percent.
- Buy 6.67% GOI 2035 around 7.67/69 with a target of 7.61 and a stop loss of 7.74 percent.

Source: Bloomberg, GEPL Capital Research

Economic Calendar

DATA	DATE
Japan Monetary Policy Meeting Minutes	09-May-22
Malaysian IIP Data	09-May-22
Italian IIP Data	10-May-22
Greek IIP Data	10-May-22
German CPI Data	11-May-22
Portuguese CPI	11-May-22
OPEC Meeting	11-May-22
U.S CPI Data	11-May-22
Brazil CPI Data	11-May-22
Philippines GDP Data	12-May-22
GBP IIP & GDP Data	12-May-22
Indian IIP Data	12-May-22
OPEC Monthly Report	12-May-22
U.S Jobless Claims	12-May-22

(Source: Bloomberg)

Economic Indicator

Particulars	06-May-22	29-Apr-22	Change
5 Year Indian Govt. Bond(%)	7.19	6.5	0.69
10 Year Indian Govt. Bond(%) (6.54% GS 2032)	7.45	7.14	0.31
15 Year Indian Govt. Bond(%)	7.64	7.33	0.31
Call Money Market (%)	2.5	3.3	-0.8
Brent Crude Oil (in Dollar/barrel)	113.22	106.08	7.14
US 10 Year Treasury (%)	3.14	2.94	0.2
UK 10 Year Treasury (%)	2.02	1.92	0.1
Rs. vs Dollar	76.95	76.52	0.43
FOREX Reserves with RBI (in Dollar/bn)	603.69	600.42	3.27

Policy Rates

Repo Rate	4.00%
Reverse Repo Rate	3.35%
CRR	4.00%

— Adverse + Favour

(Source: Bloomberg/www.rbi.org.in)

DATA	Mar-2022 (released on 12-Apr-2022)	Feb-2022 (released on 14-Mar-2022)	Change
CPI DATA (%) (Monthly)	6.95	6.07	0.88

DATA	Feb-2022 (released on 12-Apr-2022)	Jan-2022 (released on 11-Mar-2022)	Change
IIP DATA (Monthly)	1.7	1.3	0.4



Yield Outlook for the week

The 10 year Benchmark 6.54% GS 2032 likely to move in the range of 7.45% to 7.53% (GEPL Capital Research)

Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	05-May-22	29-Apr-22	Change
6.10% GOI 2031	26-May-2022	36499	31344	5155

IRF PRICE (w.o.w)				
Security	Contract	05-May-22	29-Apr-22	Change
6.10% GOI 2031	26-May-2022	90.80	92.45	-1.65

(GEPL Capital Research)

Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
10-May-22	SDL	5 States	Auction	10,700
11-May-22	T-Bills	91 DTB	Auction	13,000
11-May-22	T-Bills	182 DTB	Auction	12,000
11-May-22	T-Bills	364 DTB	Auction	8,000
13-May-22	G-Sec	4.56% GS 2023	Auction	4,000
13-May-22	G-Sec	7.10% GS 2029	Auction	7,000
13-May-22	G-Sec	6.54% GS 2032	Auction	13,000
13-May-22	G-Sec	6.95% GS 2061	Auction	9,000

(Source: www.rbi.org.in)+



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One Stop Investment Avenue



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