



Debt Market Watch

16 May, 2022



Government Security Market Update :

Indian 10-year benchmark bond yields plunged 22 basis points in the last week from a high of 7.49 percent, mirroring the gains in US Treasury yields. A drop in US 10-year treasury yields to 2.86 from 3.20 and lower crude prices led to a steep rise in government securities prices. Brent crude oil, too, fell nearly three-fourth of a percentage point. During the week the five state governments raised Rs 10,700 crore for a tenor of 7 to 20 years in the range of 7.61 to 7.78 percent. The cut-off yields came at levels lower than average market expectations, reflecting a drop in the benchmark yield. In a Treasury bill auction the Reserve Bank of India sold 91; 182 & 364 DTB at a yield of 4.9538; 4.5292 & 5.9249 percent respectively. In a weekly scheduled auction the RBI sold 4.56% GOI 2023; 7.10% GOI 2029; 6.54% GOI 2032 & 6.95% GOI 2061 at a yield of 6.1533; 7.24; 7.3290 & 7.6317 percent respectively .

The yield on the 6.54% government bond due January 2032 fell to 7.3184% from last week level of 7.4507%

Global Debt Market Update:

The yield on the benchmark U.S 10-year Treasury note dropped nearly 5 basis points to 2.866% after rising to its highest level since 2018 earlier in the week. The yield on the U.S 30-year Treasury bond moved lower to 3.034% as the sell-off in equities continued, investors moved back into bonds in search of safety. April's consumer price index, released Wednesday, rose 8.3% year-on-year. That was higher than the anticipated 8.1% growth in inflation, but was below March's 8.5% CPI reading. The 10-year Treasury yield climbed back above 3% following the release of the report, but then eased back. Earlier, in the week the 10-year rises to the highest of 3.17% since November 2018 amid concerns of surging inflation pressures and slowing economic growth.

Bond Market Ahead:

India's headline retail inflation skyrocketed to an 8-year high of 7.79 percent in April against the Reuters poll of 7.50 percent. As it stands, it is now pretty much a given that the RBI MPC will follow up last week's rate action with a fresh rate hike in June. Given that the repo rate was lowered from 5.15 percent to a record low of 4 percent in 2020, it would require interest rates to be raised by another 75 basis points to reverse the pandemic - era rate cuts. But, given the magnitude of the surge in inflation and with hardening Brent crude oil and other commodities prices keeping upside risks to inflation elevated, markets are abuzz with speculation that the RBI MPC may have to raise rates by another 75 basis points going ahead. The rate hike will slow down the economic growth but the central bank need to step-in to rein the price pressure as the erosion of the purchasing price has started to exert a toll on economic growth as individuals realign spending patterns amid price hike in a wide range of consumer items. Currently, the demand for the G-sec is high amid the higher yield and some expectations are building up that the Reserve Bank of India will intervene from time to time to cool off the yield either through the secondary market purchase or can conduct Operation Twist.

Bond Strategy:

- Buy 6.54% GOI 2032 around 7.34/7.33 with a target of 7.24 and a stop loss of 7.37 percent.
- Buy 6.67% GOI 2035 around 7.47/48 with a target of 7.37 and a stop loss of 7.54 percent.
- Buy 10-year SDL which are trading at a Spread of 40 basis points to the 10-year benchmark yield.

(Source: Bloomberg, GEPL Capital Research)

Economic Calendar

DATA	DATE
German CPI Data	16-May-22
Thailand GDP Data	17-May-22
RBA Meeting Minutes	17-May-22
India WPI Data	17-May-22
EURO GDP Data	17-May-22
Italian CPI Data	17-May-22
US IIP Data	17-May-22
Japan GDP Data	18-May-22
GBP CPI Data	18-May-22
EURO CPI Data	18-May-22
RBI MPC Meeting Minutes	18-May-22
Canada CPI Data	18-May-22
Philippines Interest rate Decision	18-May-22
US Job claims Data	18-May-22
Japan CPI Data	20-May-22
Switzerland IIP Data	20-May-22

(Source: Bloomberg)

Economic Indicator

Particulars	13-May-22	06-May-22	Change
5 Year Indian Govt. Bond(%)	6.99	7.19	-0.20
10 Year Indian Govt. Bond(%) (6.54% GS 2032)	7.32	7.45	-0.13
15 Year Indian Govt. Bond(%)	7.47	7.64	-0.17
Call Money Market (%)	3.5	2.5	1.00
Brent Crude Oil (in Dollar/barrel)	111.55	113.22	-1.67
US 10 Year Treasury (%)	2.81	3.14	-0.33
UK 10 Year Treasury (%)	1.74	2.02	-0.28
Rs. vs Dollar	77.72	76.95	0.77
FOREX Reserves with RBI (in Dollar/bn)	595.95	597.73	-1.78

Policy Rates

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

— Adverse + Favour

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

DATA	Apr 2022 (released on 12-May-2022)	March-2022 (released on 12-April-2022)	Change
CPI DATA (%) (Monthly)	7.79	6.95	0.84

DATA	March-2022 (released on 12-May-2022)	Feb-2022 (released on 12-April-2022)	Change
IIP DATA (Monthly)	1.9	1.7	0.20



Yield Outlook for the week

The 10 year Benchmark 6.54% GS 2032 likely to move in the range of 7.24% to 7.34% (GEPL Capital Research)

Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	12-May-22	05-May-22	Change
6.10% GOI 2031	26-May-2022	32891	36499	-3608

IRF PRICE (w.o.w)				
Security	Contract	12-May-22	05-May-22	Change
6.10% GOI 2031	26-May-2022	91.75	90.80	0.95

(GEPL Capital Research)

Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
17-May-22	SDL	3 States	Auction	8,500
18-May-22	T-Bills	91 DTB	Auction	13,000
18-May-22	T-Bills	182 DTB	Auction	12,000
18-May-22	T-Bills	364 DTB	Auction	8,000
20-May-22	G-Sec	5.74% GS 2026	Auction	9,000
20-May-22	G-Sec	GOI FRB 2034*	Auction	4,000
20-May-22	G-Sec	NEW GS 2036	Auction	10,000
20-May-22	G-Sec	6.99% GS 2051	Auction	9,000

(Source: www.rbi.org.in)



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One Stop Investment Avenue



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