

# Debt Market Watch

30 May, 2022

One Stop Investment Avenue



## Government Security Market Update :

The market was in the range of 6 to 8 bps for throughout the week as the RBI MPC minutes suggests that the policy makers are worried about the rising price but at the same time want to take the measures which will not hamper the economic activities. Even the government has taken several steps to control the higher inflation as they reduced the taxes on the oil prices and other food items which have a direct effect on the inflation basket. During the week seven states sold eight to sixteen years loan in the range of 7.62 to 7.73 percent and in the treasury bill auction the Reserve Bank of India sold 91; 182 & 364 DTB at a yield of 4.8869; 5.4294 & 5.91 percent respectively. In a weekly auction the RBI sold 4.56% GOI 2023; 7.10% GOI 2029; 6.54% GOI 2032 & 6.95% GOI 2061 at a yield of 6.1488; 7.2307; 7.3390 & 7.6286 percent respectively.

The yield on the 6.54% government bond due January 2032 fell to 7.3500% from last week level of 7.3589%.

## Global Debt Market Update:

The yield on the benchmark 10-year Treasury note moved lower by 1 basis point to 2.743%. The yield on the 30-year Treasury bond fell 2 basis points to 2.972%. Yields slipped as fears over the Federal Reserve's plans to aggressively hike interest rates appeared to ease and a key inflation reading showed a slowing rise in prices. The Fed's preferred inflation metric showed a 4.9% year-over-year rise in April. This result matched expectations and could be a sign that inflation is starting to decline. The Fed's plans to aggressively raise interest rates to combat inflation had caused concern among investors that this would contribute to an economic downturn. Minutes from the Fed's May meeting, released on Wednesday, showed that the Fed saw a need to raise rates quickly and potentially go further than the market had expected. The Fed did leave room for a pause in hikes if the economy weakens. Analysts said the consumer spending and inflation data was encouraging and supported growth estimates for the second quarter that are mostly above a 2.0 annualized rate.

## Bond Market Ahead:

With India's Consumer Price Index-based inflation soaring well past the RBI's mandated target band of 2-6 per cent and factors such as surging global commodity prices presenting strong upside risks to consumer prices, it is taken as a given that more rate hikes are on the cards. With global crude oil prices sustaining well above the \$110 per barrel mark, the odds are tilted in favour of more rate hikes than less, bond traders believe. Global crude oil prices have surged around 50 per cent in 2022 owing to supply disruptions caused by Russia's invasion of Ukraine. Given that India imports more than 80 per cent of its oil needs, this poses a major upside risk to inflation. After surging to a two-month high on Thursday, Brent crude futures eased marginally on Friday, trading 11 cents lower at \$117.29 a barrel on Friday. The RBI expected to hike rates by 35 bps in the June policy and further hikes depends upon the development in the inflation trajectory. The key areas of focus of the Reserve Bank for the year 2022-23 will be smooth completion of the government borrowing programme in line with the guiding principles of debt management, while ensuring a stable debt structure and proactively taking appropriate policy actions, if necessary. The weighted average yield (WAY) of G-sec issuances during the year increased by 49 basis points from a year ago. Moody's Investors Service on Thursday lowered its gross domestic product (GDP) growth forecast for India to 8.8 per cent for calendar year 2022 (CY22) from its March estimate of 9.1 per cent, holding that rising inflation and interest rates will temper the economic growth momentum. Q4 GDP likely to fall below 3% when it will be released on May 31, 2022.

## Bond Strategy:

- Buy 6.54% GOI 2032 around 7.37/7.38 with a target of 7.30 and a stop loss of 7.42 percent.
- Buy 6.67% GOI 2035 around 7.54/55 with a target of 7.48 and a stop loss of 7.59 percent.
- Buy 10 year SDL in auction. The cut off will be in the range of 7.68/72 percent.

(Source: Bloomberg, GEPL Capital Research)

## Economic Calendar

DATA	DATE
Thailand IIP Data	30-May-2022
Sweden GDP Data	30-May-2022
Spanish CPI Data	30-May-2022
Belgium CPI Data	30-May-2022
German CPI Data	30-May-2022
South Korean IIP Data	31-May-2022
Japan IIP Data	31-May-2022
French GDP & CPI Data	31-May-2022
Italian GDP Data	31-May-2022
Portuguese CPI & GDP Data	31-May-2022
RBI Monetary & Credit Info Review	31-May-2022
India's GDP Data ( Quarterly)	31-May-2022
Australian GDP Data	01-June-2022
Swiss CPI Data	01-June-2022
US OPEC Meeting	01-June-2022
Brazil GDP Data	01-June-2022
US Jobless Claims	01-June-2022

(Source: Bloomberg)

## Economic Indicator

Particulars	27-May-22	20-May-22	Change
5 Year Indian Govt. Bond(%)	7.01	7.08	-0.07
10 Year Indian Govt. Bond(%) ( 6.54% GS 2032)	7.35	7.36	-0.01
15 Year Indian Govt. Bond(%)	7.52	7.53	-0.01
Call Money Market (%)	3.5	3.30	0.2
Brent Crude Oil (in Dollar/barrel )	116.42	112.04	4.38
US 10 Year Treasury (%)	2.74	2.79	-0.05
UK 10 Year Treasury (%)	1.92	1.89	0.03
Rs. vs Dollar	77.56	77.82	-0.26
FOREX Reserves with RBI (in Dollar/bn)	597.51	593.28	4.23

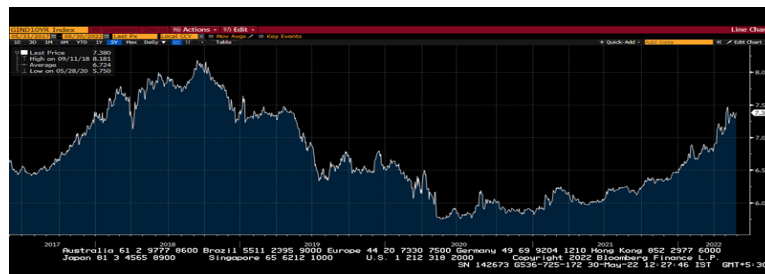
## Policy Rates

Repo Rate	4.40%
Reverse Repo Rate	3.35%
CRR	4.50%
Standing Deposit Facility Rate	4.15%

— 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 7.30% to 7.38% (GEPL Capital Research)

## Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	27-May-22	20-May-22	Change
6.10% GOI 2031	30-June-2022	9378	33048	23670
IRF PRICE (w.o.w)				
Security	Contract	27-May-22	20-May-22	Change
6.10% GOI 2031	30-June-2022	91.62	91.54	0.08

(GEPL Capital Research)

## Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
31-May-22	SDL	11 States	Auction	21,450
01-June-22	T-Bills	91 DTB	Auction	13,000
01-June-22	T-Bills	182 DTB	Auction	12,000
01-June-22	T-Bills	364 DTB	Auction	8,000
03-June-22	G-Sec	5.74% GOI 2026	Auction	9,000
03-June-22	G-Sec	GOI FRB 2034	Auction	4,000
03-June-22	G-Sec	7.54% GOI 2036	Auction	10,000
03-June-22	G-Sec	6.99% GS 2051	Auction	9,000

(Source: www.rbi.org.in)

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## Invest now

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