

# Debt Market Watch

6 June, 2022



## Government Security Market Update:

The 10-year benchmark moved towards the previous high of 7.47% on Friday, the level we saw after a surprise 40 bps hike in the repo rate on May 4, 2022 as the market started factoring in the another hike of 35-50 bps in the repo rate by the RBI MPC on June 8, 2022 as the inflation numbers are on the higher side and the Brent crude is still trading in the range of \$115 to 122 per barrel. NSDL data showed that so far in the current calendar year, foreign portfolio investors have net sold Rs 13,177 crore worth of Indian debt. This outstrips the Rs 10,359 crore worth of net sales in the whole of 2021. So far in the current calendar year, FPIs' net investment in government securities has reduced by Rs 9,323.85 crore. For comparison, FPIs had net sold Rs 13,448.48 crore worth of Indian sovereign bonds in the previous calendar year as a whole. During the week eleven states sold 6 to 20 years loan in the range of 7.63 to 7.90 percent and in the Treasury bill auction the cut off for 91; 182 & 364 DTB came at 4.9538; 5.5227 & 6.0801 percent respectively. In a weekly auction the Reserve Bank of India sold 5.74% GS 2026; GOI FRB 2028; 7.54% GOI 2036 & 6.99% GS 2051 at a yield of 7.2242; 6.4520; 7.6834 & 7.7780 percent respectively

The yield on the 6.54% government bond due January 2032 rose to 7.4570 from last week level of 7.35%

## Global Debt Market Update:

The yield on the benchmark 10-year Treasury note moved higher to 2.98% and the yield on the 30-year benchmark moved 2bps higher to 3.095% after a better than expected U.S. job report. The U.S. economy added 3, 90,000 jobs in May, higher than a Dow Jones expectation of 328,000. At the same time, the unemployment rate held at 3.6%, just above the lowest level since December 1969. Earlier, in the week the U.S. Treasury yields were mixed on Thursday in a data-heavy session a day before a U.S. non-farm payrolls report for May that is likely to keep the Federal Reserve on track to raise interest rates by half a percentage point a few more times this year. U.S. 20- and 30-year bond yields were modestly higher, while yields for the rest of the maturities fell. The rate futures market has pencilled in about 197 basis points of cumulative tightening in 2022 and a Fed funds rate of 2.8% after the December Fed meeting. Fed Vice Chair Lael Brainard and Cleveland Fed President Loretta Mester on Thursday further added to the view that rates will continue to rise at a fast pace.

## Bond Market Ahead:

The rising inflation has poised the risk of higher interest rates and the Central Bank's across the globe has reversed the interest rate cycle and India too has joined on May 4, 2022, when they have raised the repo rate and CRR by 40 & 50 bps respectively to rein in the higher inflation numbers. The current geo-political tension between the Russia & Ukraine had poised threat to the economic growth as the oil prices are on the higher side and countries importing majorly facing the worst hit in terms of the import bill and rising prices of the other commodities. The RBI MPC to present the outcome on June 8, 2022 and we are expecting the upward changes in the repo rate and Cash Reserve Ration (CRR) by 35 & 25 bps and another 40 bps in the next policy review. While inflation is expected to remain high due to high global energy and food costs, economic growth prospects have begun to dim. Last quarter, GDP growth dropped to its slowest in a year, the third consecutive downturn. This could cause the RBI to contemplate stopping the tightening cycle less than a year after it began, despite the fact that it had previously prioritised growth over inflation, maintaining rates constant until unexpectedly boosting them at an unannounced meeting.

## Bond Strategy:

- Sell 6.54% GOI 2032 around 7.42/7.43 with a target of 7.54 and a stop loss of 7.38 percent.
- Sell 6.67% GOI 2035 around 7.58/59 with a target of 7.64 and a stop loss of 7.55 percent (Source: Bloomberg, GEPL Capital Research)

## Economic Calendar

DATA	DATE
Thailand CPI Data	06-June-2022
Philippines CPI Data	07-June-2022
RBA Interest Rate Decision	07-June-2022
Spanish IIP Data	07-June-2022
Greek GDP Data	07-June-2022
South African GDP Data	07-June-2022
South Korean GDP Data	08-June-2022
Japan GDP Data	08-June-2022
RBI Monetary Policy	06 to 08-June-2022
Euro GDP Data	08-June-2022
Russia CPI Data	08-June-2022
Philippines IIP Data	09-June-2022
ECB Interest Rate Decision	09-June-2022
US Jobless Claims	09-June-2022
Brazil CPI Data	09-June-2022

(Source: Bloomberg)

## Economic Indicator

Particulars	3-June-22	27-May-22	Change
5 Year Indian Govt. Bond(%)	7.17	7.01	0.16
10 Year Indian Govt. Bond(%) ( 6.54% GS 2032)	7.46	7.35	0.11
15 Year Indian Govt. Bond(%)	7.63	7.52	0.11
Call Money Market (%)	3.70	3.5	0.20
Brent Crude Oil (in Dollar/barrel )	116.87	116.42	0.45
US 10 Year Treasury (%)	2.96	2.74	0.22
UK 10 Year Treasury (%)	2.15	1.92	0.23
Rs. vs Dollar	77.38	77.56	-0.18
FOREX Reserves with RBI (in Dollar/bn)	601.36	597.51	3.85

## Policy Rates

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

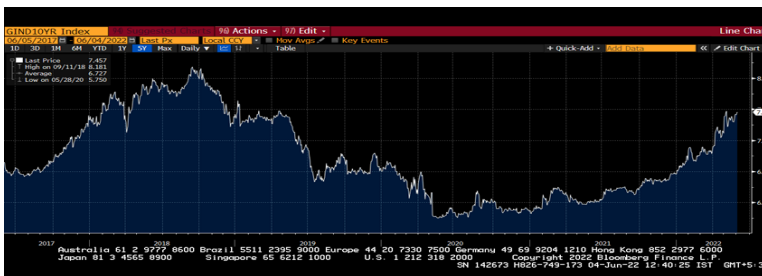
— Adverse + Favour

(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 7.42% to 7.54% (GEPL Capital Research)

## Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	03-June-22	27-May-22	Change
6.10% GOI 2031	30-June-2022	13490	9378	4112

IRF PRICE (w.o.w)				
Security	Contract	03-June-22	27-May-22	Change
6.10% GOI 2031	30-June-2022	91.04	91.54	-0.50

(GEPL Capital Research)

## Auction Scheduled For The Week

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

(Source: www.rbi.org.in)



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One Stop Investment Avenue



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