



# Debt Market Watch

13 June, 2022



## Government Security Market Update :

The bond market rallied after the 50 basis points hike in the repo rate on Wednesday as the RBI assured of support to the government's hefty borrowing plan and kept the CRR unchanged. Yield on the 10-year benchmark 6.54 % GS 2032 paper fell to a low of 7.43 per cent, nine basis points lower than Tuesday's close of 7.52 per cent. Citing the impact of surging crude oil prices amid the Ukraine war, RBI Governor Shaktikanta Das said on Wednesday, that CPI inflation is seen at 6.7 per cent in the current financial year, with the price gauge not seen falling below the 6 per cent mark till Jan-March. During the week the five states sold 8 to 20 years loan in the range of 7.86 to 8.07 percent. In a Treasury bill auction the Reserve Bank of India sold 91; 182 & 364 DTB at a yield of 4.9991; 5.6278 & 6.12 percent respectively. In a weekly G-sec auction the RBI sold 4.56% GS 2023; 7.10% GS 2029; 6.54% GS 2032 & 6.95% GS 2061 at a yield of 6.4143; 7.4033; 7.5195 & 7.8237 percent respectively.

The yield on the 6.54% government bond due January 2032 rose to 7.5191 from last week level of 7.4570%

## Global Debt Market Update:

The U.S. consumer price index, a closely watched inflation gauge, rose by 8.6% in May on a year-over-year basis, its fastest increase since 1981. The 2-year rate jumped more than 24 basis points to 3.065%, reaching its highest level since 2008. The benchmark 10-year Treasury yield also rose sharply, last trading at about 3.157%. Inflation has been surging all year, leading the Fed to raise rates in order to mitigate those pricing pressures. The Fed started raising rates in March and implemented a 50-basis-point hike in May, it's largest in 22 years, with the Federal Open Market Committee meeting minutes pointing to further aggressive increase ahead. With the wide expectation of a 50-basis points rate hike by the Fed this week, any softening tone from the Chairman, Jerome Powell, could be seen as a positive sign in the extreme fear sentiment, though the bond markets are now pricing in a supersized rate hike of 75 basis points. The US short-dated bond yields surged above those in the long-dated bonds, with the US 5-year and 30-year bond yields back to inversion, again flagging an economic recession alert. But it is worth noting that historically, a recession usually happens 18- 24 months after the inversion occurs and is followed by negative GDP growth and falls in inflation.

## Bond Market Ahead:

The Indian bond market in this week will be mainly dictated by two key factors such as macroeconomic numbers, retail inflation data (CPI) for May and the U.S. Fed interest rate decision on Thursday. US inflation numbers hit 40-year high of 8.6 percent and the analyst expecting the US Fed to hike their key rates by 50-75 bps and India's CPI expected around 7.10 percent versus 7.79 percent. Furthermore, statistics on India's trade balance will be closely monitored as this statistics clocked a record high in May. Besides this the market is getting positive assurance from the RBI to support the huge borrowing plan of the government. The RBI may conduct Operational Twist (OT) for managing yields as the central bank has reportedly expanded the universe of securities for such an operation. In 2021, the RBI bought long-term government securities and sold similar quantities of shorter duration sovereign papers through OT. At the same time, the retention of growth projection at 7.2 per cent for the whole FY23 lifted the bond market, pointing to the likelihood of easing inflationary pressures toward the second half of the year.

## Bond Strategy:

- Buy 6.54% GOI 2032 around 7.56/57 with a target of 7.50 and a stop loss of 7.62%.
- Buy 7.54% GOI 2036 around 7.72/73 with a target of 7.67 and a stop loss of 7.76%
- Buy 8.03% AP SDL 2035 around 7.99/8.00 with a target of 7.95 and a stop loss of 8.04%
- Buy 8.07% AP SDL 2036 around 8.00/8.02 with a target of 7.96 and a stop loss of 8.07%

(Source: Bloomberg, GEPL Capital Research)

## Economic Calendar

DATA	DATE
GBP IIP & GDP Data	13-June-2022
India's IIP& CPI Data	13-June-2022
Japan IIP Data	14-June-2022
Swedish CPI Data	14-June-2022
German CPI & WPI Data	14-June-2022
India's WPI Data	14-June-2022
Euro IIP Data	14-June-2022
Portuguese CPI Data	14-June-2022
OPEC Monthly Report	14-June-2022
German WPI Data	15-June-2022
French CPI Data	15-June-2022
FED Interest Decision	15-June-2022
Brazil Interest Rate Decision	15-June-2022
Newzealand GDP Data	15-June-2022
US Jobless Claims	16-June-2022

(Source: Bloomberg)

## Economic Indicator

Particulars	10-Jun-22	3-June-22	Change
5 Year Indian Govt. Bond(%)	7.18	7.17	0.01
10 Year Indian Govt. Bond(%) ( 6.54% GS 2032)	7.52	7.46	0.06
15 Year Indian Govt. Bond(%)	7.66	7.63	0.03
Call Money Market (%)	3.35	3.70	-0.35
Brent Crude Oil (in Dollar/barrel )	122.01	116.87	5.14
US 10 Year Treasury (%)	3.16	2.96	0.2
UK 10 Year Treasury (%)	2.44	2.15	0.29
Rs. vs Dollar	78.14	77.38	0.76
FOREX Reserves with RBI (in Dollar/bn)	601.01	601.36	-0.35

## Policy Rates

Repo Rate	4.90%
Standing Deposit Facility Rate	4.65%
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 7.50% to 7.57% (GEPL Capital Research)

## Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	10-June-22	03-June-22	Change
6.10% GOI 2031	30-June-2022	25763	13490	12273

  

IRF PRICE (w.o.w)				
Security	Contract	10-June-22	03-June-22	Change
6.10% GOI 2031	30-June-2022	90.00	91.04	-1.04

(GEPL Capital Research)

## Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
14-June-22	SDL	3 States	Auction	5,000
15-June-22	T-Bills	91 DTB	Auction	13,000
15-June-22	T-Bills	182 DTB	Auction	12,000
15-June-22	T-Bills	364 DTB	Auction	8,000
17-June-22	G-Sec	5.74% GOI 2026	Auction	9,000
17-June-22	G-Sec	GOI FRB 2028	Auction	4,000
17-June-22	G-Sec	7.54% GOI 2036	Auction	10,000
17-June-22	G-Sec	6.99% GOI 2051	Auction	9,000

(Source: www.rbi.org.in)



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One Stop Investment Avenue



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