

Debt Market Watch

20 June, 2022



Government Security Market Update :

India's headline Consumer Price Index (CPI) rate eased to 7.04% in May from eight years high of 7.79% on favourable base effect as per the data released on June 13. CPI inflation has now been above the RBI's medium-term target of 4 percent for 32 consecutive months. 10-year benchmark moved in the range of 7.54/7.62 percent and after 75 bps hike by the U.S. Fed the nervousness in the market has increased as the Indian Central Bank can also take steep steps to rein in the high inflation numbers. The 10-year benchmark top out at 7.62 percent for the moment and after the auction result the yield moved down by 8 bps on Friday and 10 year benchmark closed at 7.545 percent. In a weekly auction the Reserve Bank of India sold new 2027 Government Bond at a yield of 7.38% and also sold GOI FRB 2034; 7.54% GOI 2036 & 6.99% GOI 2051 at a yield of 7.0816; 7.7826 & 7.8954 percent respectively. During the week the three states sold 5 to 20 years loan in the range of 7.69 to 8.04% and in the Treasury bill auction the 91; 182 & 364 DTB cut-off came at 5.0566; 5.7347 & 6.28 percent respectively.

The yield on the 6.54% government bond due January 2032 fell to 7.5191 from last week level of 7.6191%

Global Debt Market Update:

US Federal Reserve hiked its policy rates by 75 basis points, fuelling fears of the US heading into recession followed by many other countries. The major reason behind the steep hike is the war in Ukraine and its geopolitical consequences along with rising inflation. Russia's invasion has already exacerbated food and energy prices globally. Along with this, China is still grappling with the Covid pandemic and the global supply chains remain disrupted. Treasuries resumed losses on Thursday with 30-year yields climbing to the highest in nearly eight years to 3.48 percent. Most Treasury yields continued to drop on Friday as investors flocked to the safety of government debt, with the greatest demand seen in 10-, 20- and 30-year bonds. Long-term bonds are generally regarded as being better protected from inflation than government debt in the shorter and intermediate parts of the Treasury curve. The 10-year Treasury yield declined to 3.21% from 3.48% on Friday. The 30-year Treasury yield dropped 6.6 basis points to 3.293% from 3.359% on Thursday and the 2-year Treasury yield rose less than 1 basis point to 3.164% from 3.158% late Thursday. For the week, the yield was up 11.7 basis points.

Bond Market Ahead:

The US Federal Reserve's increase in the policy rate was the single sharpest hike in 28 years, taking the Fed rate to 1.75% and more importantly, it has guided for at least another 50 basis points hike at its next meeting on July 27. By the time RBI MPC will be meeting on August 4, the Fed benchmark rate will move towards 2.25%, means another 50 bps hike in July and RBI MPC can take a move of at least 60 bps in August, though there is no direct correlation between the US and Indian rates. Currently, the 10-year benchmark yield differential between the US and India is more that 4% (4.32) and going forward it should be maintained at 400 bps and for that either US yield to move higher or Indian yield to fall and that depends lot upon the energy price and other commodities price movement. If Russia – Ukraine tension takes some positive move by ending the war the entire scenario will change and we can see good buying in the bonds across the globe. The government's borrowing plan and their spending is seen as one of the key drivers of the Indian economy's revival. The RBI will step in from time to time either through Primary Market or Secondary Market to control the yield as they are regularly watching the movement in the Debt Market.

Bond Strategy:

- Buy 6.54% GOI 2032 around 7.56/7.57 with a target of 7.47 and a stop loss of 7.62%
- Buy 7.54% GOI 2036 around 7.73/74 with a target of 7.67 and a stop loss of 7.76%.

(Source: Bloomberg, GEPL Capital Research)

Economic Calendar

DATA	DATE
Australian Monetary Policy Meeting Minutes	21-June-2022
Hong Kong CPI Data	21-June-2022
Japan Monetary Policy Minutes	22-June-2022
GBP CPI Data	22-June-2022
German CPI & WPI Data	22-June-2022
South African CPI Data	22-June-2022
Canada CPI Data	22-June-2022
Singapore CPI Data	23-June-2022
Japan CPI Data	23-June-2022
Philippines Interest Rate Decision	23-June-2022
U.S. Jobless claims	23-June-2022
Singapore IIP Data	24-June-2022
Spanish GDP Data	24-June-2022
Brazil CPI Data	24-June-2022

(Source: Bloomberg)

Economic Indicator

Particulars	17-Jun-22	10-Jun-22	Change
5 Year Indian Govt. Bond(%)	7.21	7.18	0.03
10 Year Indian Govt. Bond(%) (6.54% GS 2032)	7.55	7.52	0.03
15 Year Indian Govt. Bond(%)	7.66	7.66	-
Call Money Market (%)	3.85	3.35	0.50
Brent Crude Oil (in Dollar/barrel)	113.61	122.01	-8.4
US 10 Year Treasury (%)	3.23	3.16	0.7
UK 10 Year Treasury (%)	2.51	2.44	0.07
Rs. vs Dollar	77.96	78.14	0.18
FOREX Reserves with RBI (in Dollar/bn)	596.46	601.01	4.55

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)	7.04	7.79	-0.75
DATA	March-2022 (released on 12-May-2022)	Feb-2022 (released on 12-April-2022)	Change
IIP DATA (Monthly)	7.1	1.9	5.2



Yield Outlook for the week

The 10 year Benchmark 6.54% GS 2032 likely to move in the range of 7.47% to 7.57% (GEPL Capital Research)

Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	17-June-22	10-June-22	Change
6.10% GOI 2031	30-June-2022	21185	25763	-4578
IRF PRICE (w.o.w)				
Security	Contract	17-June-22	10-June-22	Change
6.10% GOI 2031	30-June-2022	90.45	90.00	0.45

(GEPL Capital Research)

Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
20-June-22	GS	7.37% GS 2023 to 7.88% GS 2030; 7.16% GSD 223 to 7.95% GS 2032; 7.16% GS 2023 to 6.68% GS 2031; 8.83% GS 2023 to 6.68% GS 2031; 7.68% GS 2023 to 6.95% GS 2061; 7.32% GS 2024 to 7.95% GS 2032; FRB 2024 to 7.10% GS 2029;	Conversion	12000
21-June-22	SDL	6 States	Auction	6,000
22-June-22	T-Bills	91 DTB	Auction	13,000
22-June-22	T-Bills	182 DTB	Auction	12,000
22-June-22	T-Bills	364 DTB	Auction	8,000
24-June-22	G-Sec	4.56% GOI 2023	Auction	4,000
24-June-22	G-Sec	7.10% GS 2029	Auction	7,000
24-June-22	G-Sec	NEW 10 YEAR GS	Auction	13,000
24-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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