

Debt Market Watch

25 July, 2022

One Stop Investment Avenue



Government Security Market Update:

Indian bond yields edged lower to 7.41 percent as tracking their U.S. Treasuries sliding after a bigger than expected hike by the European Central Bank and weak economic data in U.S. The movement was not in parallel to the movement in the U.S Treasuries and the spread between the Indian and U.S. 10-year benchmark widened to 460 bps as the FOMC meet is scheduled in the week followed by the RBI MPC on August 5. During the week the nine states sold 10-20 years loan in the range of 7.80 to 8.1009 percent. In the Treasury bill auction the Reserve Bank of India sold 91; 182 & 364 DTB at a yield of 5.3987; 5.8515 & 6.2441 percent respectively. In a weekly auction the RBI sold 6.69% GS 2024; 7.10% GS 2029; 6.54% GS 2032 & 6.99% GS 2061 at a yield of 6.6747; 7.3452; 7.4406 & 7.7673 percent respectively.

The yield on the 6.54% government bond due January 2032 fell to 7.4147% from last week level of 7.4381% .

Global Debt Market Update:

Germany's 10-year government bond yield plummeted 0.19 percentage points, to around 1.02 percent, its biggest one-day decline in a month. In the United States, the 10-year Treasury yield, which underpins borrowing costs across the globe, sank 0.12 percentage points, to around 2.75 percent, extending a fall of 0.15 percentage points on Thursday after the weak economic data out of the United States and Europe stoked concerns over slowing global growth. Data out on Friday signaled slowing business activity in the United States and Europe, adding to fears of a recession and prompting a sharp pullback in expectations for further interest rate increases by the Federal Reserve. The U.S. PMI Composite output index which tracks activity across the services and manufacturing sectors fell to 47.5, indicating contracting economic output. It's the index's lowest level in more than two years. Central banks around the world have been raising interest rates to slow demand and reduce stubbornly high inflation. But concerns have been mounting that tighter policies could go too far, pushing central banks to end their pursuit of higher interest rates and instead pivot to easing financial conditions.

Bond Market Ahead:

The market will get into the week where the Fed to announce another round of rate hike to combat rising inflation which recorded at all time high of 9.1 percent. The market is pricing in 75 bps hike from the Fed but the U.S. Treasury yields are sliding to the lowest on fear of rising probability of the recession and weaker economic data. Possibly, the Fed will be less hawkish in this policy as the rising rates will hit the growth on the larger scale and inflation will peak from here. Falling U.S. Treasury yield will make the Indian bond attractive as the spread has widened and the RBI MPC will also balance the focus between the growth dynamics and inflation as the CPI is peaking from the high of 7.79 to 7.01 percent in June and falling crude oil and commodities will benefit the India in terms of lower inflation. The MPC is scheduled to meet during August 3-5 and repo rate will be revised upward but they won't be aggressive and we expect a revision of 25-50 bps from a current rate of 4.90%. The MPC raised the repo rate by 50 bps in the last policy review and prior to that by 40 bps in an off-cycle monetary policy review in May.

Bond Strategy:

- Buy 8.04% PNSDL 2042 around 8.04/05 with a target of 7.95 percent and a stop loss of 8.10 percent. (Time Frame 2 Weeks)
- Buy 8.03% APSDL 2036 around 8.00/7.99 with a target of 7.93 percent and a stop loss of 8.05 percent. (Time Frame 2 Weeks)

(Source: Bloomberg, GEPL Capital Research)

Economic Calendar

DATA	DATE
Singapore CPI Data	25-July-2022
South Korean GDP Data	26-July-2022
Japan Monetary Policy Meeting Minutes	26-July-2022
Singapore IIP Data	26-July-2022
Australian CPI Data	27-July-2022
Thailand IIP Data	27-July-2022
U.S Fed Interest Rate Decision	27-July-2022
Swedish GDP Data	27-July-2022
Belgian GDP& CPI Data	27-July-2022
German CPI Data	27-July-2022
U.S GDP Data	27-July-2022
U.S Jobless claims	27-July-2022

(Source: Bloomberg)

Economic Indicator

Particulars	22-Jul-22	15-Jul-22	Change
5 Year Indian Govt. Bond(%)	6.95	7.02	-0.07
10 Year Indian Govt. Bond(%) (6.54% GS 2032)	7.41	7.44	-0.03
15 Year Indian Govt. Bond(%)	7.56	7.58	-0.02
Call Money Market (%)	5.2	5.05	0.15
Brent Crude Oil (in Dollar/barrel)	98.38	101.13	-2.75
US 10 Year Treasury (%)	2.78	2.93	-0.15
UK 10 Year Treasury (%)	1.94	2.1	-0.16
Rs. vs Dollar	79.85	79.72	0.13
FOREX Reserves with RBI (in Dollar/bn)	572.71	580.25	-7.54

Policy Rates

Repo Rate	4.90%
Standing Deposit Facility Rate	4.15%
CRR	4.50%
Reverse Repo Rate	3.35%

— Adverse + Favour

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

DATA	June 2022 (released on 12-July-2022)	May 2022 (released on 13-June-2022)	Change
CPI DATA (%) (Monthly)	7.01	7.04	-0.03

DATA	May -2022 (released on 12-July-2022)	April-2022 (released on 13-June-2022)	Change
IIP DATA (Monthly)	19.6	7.1	12.5



Yield Outlook for the week

The 10 year Benchmark 6.54% GS 2032 likely to move in the range of 7.35% to 7.47% (GEPL Capital Research)

Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	22-July-22	15-July-22	Change
6.10% GOI 2031	28-July-2022	8683	9196	-513

IRF PRICE (w.o.w)				
Security	Contract	22-July-22	15-July-22	Change
6.10% GOI 2031	28-July-2022	91.51	91.07	0.44

(GEPL Capital Research)

Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
26-July-22	SDL	9 States	Auction	18,150
27-July-22	T-Bills	91 DTB	Auction	9,000
27-July-22	T-Bills	182 DTB	Auction	7,000
27-July-22	T-Bills	364 DTB	Auction	5,000
29-July-22	G-Sec	7.38% GS 2027	Auction	9,000
29-July-22	G-Sec	GOI FRB 2028	Auction	4,000
29-July-22	G-Sec	7.54% GS 2032	Auction	11,000
29-July-22	G-Sec	6.99% GOI 2051	Auction	8,000

(Source: www.rbi.org.in)



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