

Debt Market Watch

01 August, 2022



Government Security Market Update :

India's 10-year benchmark dropped to 7.25% on Friday it's lowest in over two months after the U.S. Treasuries dropped to the lower of 2.65% after contraction in the GDP data and 75 bps hike from the Fed. Call money, or the rate at which banks lend to one other, Tuesday rose to 5.50%, data from the Clearing Corporation of India showed. The weighted average rate was 5.32%, compared with the policy repo rate of 4.90%, the rate at which banks borrow short-term money from the Reserve Bank of India (RBI). The RBI Tuesday conducted a three-day variable rate repo auction for Rs 50,000 crore, a move which infused short-term liquidity into the banking system for which banks are charged a rate of 5.14 percent. During the week the nine states sold 7-20 years loans in the range of 7.64 to 8.07%. In a Treasury bill auction the Reserve Bank of India sold 91; 182 & 364 DTB at a yield of 5.6229; 5.9788 & 6.33 percent respectively. Once again the RBI devolved partially the FRB 2028 to the tune of Rs.1,739,547 on the Primary Dealers at a yield of 7.0198 percent and sold 7.38% GS 2027; 7.54% GS 2036 and 6.99% GS 2051 at a yield of 6.9948; 7.5146 & 7.6796 percent respectively.

The yield on the 6.54% government bond due January 2032 fell to 7.3196% from last week level of 7.4147%.

Global Debt Market Update:

The yield on the U.S. 2-year Treasury note fell 9.4 basis points to 2.874%, it's lowest since July 5. The 10-year Treasury note yield fell to 8.1 basis points to 2.65%, its lowest level since April 7. The yield on the 30-year Treasury bond rose 3.8 basis points to 3.038%. Treasury yields fell sharply after data showing the U.S. economy contracted in the second quarter heightened recession fears and reinforced ideas the Federal Reserve may slow the pace of rate increases a day after the central bank delivered another outside hike of 75 basis points. The U.S. economy shrank at an annual 0.9% rate in the second quarter, marking the second such decline for gross domestic product in a row. The yield curve, as measured by the spread between 10- and 2-year yields, remains inverted, with the 2-year rate above the 10-year — a phenomenon that has been a reliable recession warning flag. The inversion, however, was partially unwound after the data as the 2-year yield fell more sharply than longer-dated rates. Initial jobless claims fell by 5,000 to 2,56,000 in the week ended July 23, the Labour Department said Thursday. Economists polled by The Wall Street Journal had estimated new claims would inch down to 249,000 from last week's initial estimate of 251,000. The department revised last week's level to 261,000. That was the highest level since mid-November.

Bond Market Ahead:

With the US GDP contracted for the second consecutive months amid slowing growth in consumer spending and declining business spending will moderate the pace of the Fed on the hiking the interest rate to combat the rising price in the forthcoming policies. Sliding US Treasury yield on fear on recession will spark the rally in the Indian Bond Market as the spread between the U.S. 10-Year Treasury and Indian 10-year benchmark has widened to 467 bps which is above the ongoing spread of 450 bps. The spread need to shrink either U.S. 10 year will be moving up from the current rate or Indian 10-year benchmark yield to fall. For, India, inflation continues to behave though it still remains well above RBI's comfort range of 6 percent. A crucial monetary policy committee (MPC) meeting from August 3-5, will offer clues about where the rate trajectory is headed. According to Morgan Stanley Research, India's inflation has likely peaked and domestic demand remain more resilient. The RBI MPC likely to go for another rate hike in the range of 25-50 bps when they will deliver on August 5. Surplus liquidity in the banking system dropped to the level last seen before the pandemic. The gauge was at Rs 73,741 crore, showed the latest RBI data dated July 25. Liquidity in the system was high as Rs 8.12 lakh crore at the beginning of the financial year on April 4. Between May and June, the Reserve Bank of India raised the benchmark repo rate by 90 basis points in two monetary policy meetings. Since the end of April, the benchmark bond rose by 25 basis points. During this period, Treasury Bills, or shorter duration sovereign securities, yielded 142 -145 basis points higher in primary auctions. RBI need to ensure the surplus liquidity into the system and they may infuse through repo auctions from time to time.

Bond Strategy:

- Buy 8.04% PNSDL 2042 around 7.95/96 with a target of 7.90% and a stop loss of 8.00%.
- Buy 7.54% GS 2036 around 7.52/53 with a target of 7.45% and a stop loss of 7.57%.

(Bloomberg, GEPL Capital Research)

Economic Calendar

DATA	DATE
Hong Kong GDP Data	01-Aug-2022
India's Manufacturing PMI Data	01-Aug-2022
India's Balance of Trade	02-Aug-2022
South Korean CPI Data	02-Aug-2022
Australian Interest Rate Decision	02-Aug-2022
Brazil IIP Data	02-Aug-2022
India's Nikkei Services PMI	03-Aug-2022
Swiss CPI Data	03-Aug-2022
U.S OPEC Meeting	03-Aug-2022
India's Monetary Policy	03 to 05-Aug-2022
Brazil Interest Rate Decision	04-Aug-2022
Bank of England Interest Rate Decision	04-Aug-2022
U.S Jobless claims	04-Aug-2022
Philippines CPI Data	05-Aug-2022
Thailand CPI Data	05-Aug-2022
Italian IIP Data	05-Aug-2022

(Source: Bloomberg)

Economic Indicator

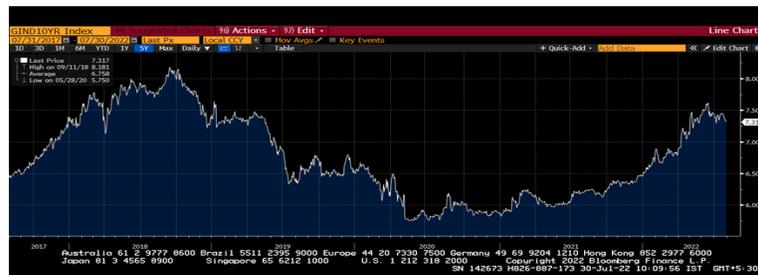
Particulars	29-Jul-22	22-Jul-22	Change
5 Year Indian Govt. Bond(%)	6.89	6.95	-0.06
10 Year Indian Govt. Bond(%) (6.54% GS 2032)	7.32	7.41	-0.09
15 Year Indian Govt. Bond(%)	7.48	7.56	-0.08
Call Money Market (%)	4.25	5.2	-0.95
Brent Crude Oil (in Dollar/barrel)	104	98.38	5.62
US 10 Year Treasury (%)	2.66	2.78	-0.12
UK 10 Year Treasury (%)	1.87	1.94	-0.07
Rs. vs Dollar	79.2	79.85	-0.65
FOREX Reserves with RBI (in Dollar/bn)	571.56	572.71	-1.15

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 7.25% to 7.34% (GEPL Capital Research)

Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	29-July-22	22-July-22	Change
6.10% GOI 2031	25-Aug-2022	10393	8683	1710
IRF PRICE (w.o.w)				
Security	Contract	29-July-22	22-July-22	Change
6.10% GOI 2031	25-Aug-2022	91.96	91.51	0.45

(GEPL Capital Research)

Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
02-July-22	SDL	15 States	Auction	20,426
03-July-22	T-Bills	91 DTB	Auction	9,000
03-July-22	T-Bills	182 DTB	Auction	7,000
03-July-22	T-Bills	364 DTB	Auction	5,000
05-July-22	G-Sec	6.69% GS 2024	Auction	4,000
05-July-22	G-Sec	7.10% GS 2029	Auction	7,000
05-July-22	G-Sec	New 10 Year GS	Auction	13,000
05-July-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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