

# Debt Market Watch

14 November, 2022



## Government Security Market Update :

Indian government bond yields fell on Friday to 7.23%, rounding off a week in which the benchmark yield posted its biggest drop in nine months, as U.S. yields plunged on rising bets the Federal Reserve may slow its pace of rate hikes due to easing inflation, which eased to 7.7%. The benchmark 10-year bond yield ended at 7.3069%, it's lowest since Sept. 27, after ending at 7.3462% on Thursday. The yield has tumbled 16 basis points (bps) this week, its biggest such move since the week ended Feb. 11. A less aggressive policy stance by the Fed could also ease the pressure on the Reserve Bank of India, which has raised the repo rate by 190 bps since May, to 5.90%. During the week the ten states sold 4-20 years loan in the range of 7.57 to 7.87 percent. In a Treasury bill auction the Reserve Bank of India sold 91; 182 & 364 DTB at a yield of 6.4764; 6.8195 & 6.98 percent respectively. The weekly auction the RBI sold 7.38% GS 2027; 7.26% GS 2032 & 7.36% GS 2052 at a yield of 7.1546; 7.2548 & 7.4503 percent respectively.

## Global Debt Market Update:

The U.S. 10-year yield dropped to a five-week low of 3.824%. It was last down 28.7 basis points (bps) at 3.855%, on pace for the largest daily fall since March 2009. The U.S two-year yield, which reflects rate move expectations, slid to a more than one-week low of 4.29% and was last down 29 bps at 4.334% after data showed inflation in the United States cooled in October to 7.7 percent, supporting expectations the Federal Reserve could slow its tightening pace. The market is looking for signs that inflation is coming down. And the data may be the first indication that that is starting to happen. So that supports expectations that the Fed can start to slow rate hikes to 50 basis points next month and maybe the Fed will not have to go as high as the market projected after (Fed Chair Jerome) Powell's hawkish press conference. The rates futures markets have priced in a 73.5% chance of a 50-basis-point hike in December, and a 63.5% probability of an increase of the same magnitude in the February meeting. The yield on the 30-year Treasury fell 23.7 basis points to 4.080% from 4.317% Wednesday afternoon. It was the yield's largest one-day decline since March 9, 2020.

## Bond Market Ahead:

The easing US Treasuries yield after lower than expected inflation has given the confidence that the action taken by the US Fed on controlling inflation is finally working. Fiscal risk remain contained, domestic inflation is likely to moderate going forward and RBI's terminal rate is close to 6.50 percent is already been priced in by the market. Indian consumer price inflation likely slowed in October to 6.73% but remained stubbornly well above the 6% upper limit of the RBI's tolerance band, a separate Reuters poll predicted. The spread between the US & Indian 10-year benchmark is narrowed to around 350 basis points from long 10-years average of 450 basis points, which is less attractive for the Foreign Investors. Shorter-term Treasury yields have skyrocketed more rapidly than longer-dated yields as the Federal Reserve has hiked rates at the most aggressive pace in decades in its push against soaring inflation. That has caused key portions of the yield curve to invert to levels not seen since the early 1980s, while the market's top recession indicator has fallen to depths not seen since the early days of the pandemic. On Nov. 3, the 2-year Treasury yield was 57 bps higher than the 10-year, the most inverted that portion of the curve has been since 1982. On Nov. 1, the 1-year yield was 68 bps higher than the 10-year, also the largest inversion in about 40 years. Inversion between yields on those two bonds is viewed by many economists as the most accurate indicator of a coming recession. The demand for the bonds to increased going forward as the rates are very near to peaking and inflation to fall, which will ease the yield across the curve.

## Bond Strategy:

- Buy 7.26% GOI 2032 around 7.32/33 with a target of 7.27 and a stop loss of 7.37%
- Buy 7.36% GOI 2052 around 7.47/48 with a target of 7.40 and a stop loss of 7.50%.
- Buy 6.99% GOI 2051 around 7.45/46 with a target of 7.39 and a stop loss of 7.50%. (Bloomberg, GEPL Capital Research)

## Economic Calendar

DATA	DATE
India's WPI , CPI Data	14-Nov-2022
Japan GDP & IIP Data	15-Nov-2022
RBA Meeting Minutes	15-Nov-2022
China IIP Data	15-Nov-2022
German WPI Data	15-Nov-2022
Swedish CPI Data	15-Nov-2022
French CPI Data	15-Nov-2022
Spanish CPI Data	15-Nov-2022
Euro GDP Data	15-Nov-2022
GBP CPI Data	16-Nov-2022
Italian CPI Data	16-Nov-2022
Canada CPI Data	16-Nov-2022
U.S Jobless Claims	17-Nov-2022
Japan CPI Data	18-Nov-2022
Swedish IIP Data	18-Nov-2022

(Source: Bloomberg)

## Economic Indicator

Particulars	11-Nov-22	04-Nov-22	Change
5 Year Indian Govt. Bond(%)	7.2	7.42	-0.22
10 Year Indian Govt. Bond(%) (7.26% GS 2032)	7.31	7.47	-0.16
15 Year Indian Govt. Bond(%)	7.44	7.58	-0.14
Call Money Market (%)	5.66	5.35	0.31
Brent Crude Oil (in Dollar/barrel )	96.48	98.75	-2.27
US 10 Year Treasury (%)	3.89	4.16	-0.27
UK 10 Year Treasury (%)	3.35	3.57	-0.22
Rs. vs Dollar	80.57	81.98	-1.41
FOREX Reserves with RBI (in Dollar/bn)	529.99	531.08	-1.09

## Policy Rates

Repo Rate	5.90%
Standing Deposit Facility Rate	5.65%
CRR	4.50%
Reverse Repo Rate	3.35%

— Adverse + Favour

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

DATA	Sept. 2022 (released on 12-Oct-2022)	August 2022 (released on 12-Sept-2022)	Change
CPI DATA (%) ( Monthly)	7.41%	7.00%	0.41

  

DATA	Sept -2022 (released on 11-Nov-2022)	Aug-2022 (released on 12-Oct-2022)	Change
IIP DATA (Monthly)	3.1%	2.40%	0.7



## Yield Outlook for the week

The Indian 10 year Benchmark likely to move in the range of 7.27% to 7.33% (GEPL Capital Research)

## Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	11-Nov-22	04-Nov-22	Change
6.54% GOI 2032	24-Nov-2022	11303	12265	962

  

IRF PRICE (w.o.w)				
Security	Contract	11-Nov-22	04-Nov-22	Change
6.54% GOI 2032	24-Nov-2022	94.64	93.57	1.07

(GEPL Capital Research)

## Auction Scheduled For The Week

Date	Instrument	Expected Surety	Nature of Flow	Amount (Cr)
15-Nov-22	SDL	4 States	Auction	8,800
16-Nov-22	T-Bills	91 DTB	Auction	10,000
16-Nov-22	T-Bills	182 DTB	Auction	6,000
16-Nov-22	T-Bills	364 DTB	Auction	6,000
18-Nov-22	G-sec	6.69% GS 2024	Auction	4,000
18-Nov-22	G-sec	7.10% GS 2029	Auction	6,000
18-Nov-22	G-sec	7.54% GS 2036	Auction	11,000
18-Nov-22	G-sec	7.40% GS 2062	Auction	9,000

(Source: www.rbi.org.in)



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One Stop Investment Avenue



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