

# Debt Market Watch

21, November, 2022



## Government Security Market Update :

Indian government bond yields have been easing in the last few sessions as cooling inflation has raised bets that the central bank may go slow for future rate hikes. Buying was further aided by Indian mutual funds flocking back to government bonds as inflation is expected to have peaked, leaving limited room for further rate hikes that, in turn, is leading to a sharp decline in yields. Meanwhile, crude oil prices inched higher after declining for the last two sessions, and were also headed for weekly losses, as concerns over demand rose amid mounting COVID-19 cases in China. The benchmark Brent crude contract slipped below \$90 per barrel on Thursday for the first time in a month. The movement in oil prices has a direct impact on local inflation as India is one of the largest importers of the commodity. During the week the four states sold 9-20 years loan in the range of 7.65 to 7.68 percent. In a Treasury bill auction the cut-off for 91; 182 & 364 DTB came at a yield of 6.4374; 6.7398 & 6.8827 percent respectively. In a weekly auction the Reserve Bank of India sold 6.69% GS 2024; 7.10% GS 2029; 7.54% GS 2036 & 7.40% GS 2062 at a yield of 6.8986; 7.3022; 7.4332& 7.4342 per cent respectively.

The yield on the 7.26% Government bond due August 2032 rose to 7.3077% from last week level of 7.3069% .

## Global Debt Market Update:

U.S. retail sales increased more than expected in October, boosted by purchases of motor vehicles and a range of other goods, suggesting that consumer spending could help to underpin the economy in the fourth quarter. Two-year Treasury yields, which are the most sensitive to Fed rate policy, rose as high as 4.401% after the retail sales release, before falling back to 4.363%, little changed on the day. Benchmark 10-year yields dipped 10 basis points to 3.694%, the lowest since Oct. 5, after a brief initial pop after the data. Expectations that the Fed will keep hiking rates, and possibly hold rates higher for longer, have increased concerns about the economic outlook. The Treasury Department sold \$15 billion in 20-year bonds on Wednesday to strong demand. The debt sold at a high yield of 4.072%, around three basis points below where it had traded before the auction. The bid-to-cover ratio was above average at 2.64 times. The Treasury will also sell \$15 billion in 10-year Treasury Inflation-Protected Securities (TIPS) on Thursday. The Government bond prices fell on Thursday after British Finance Minister Jeremy Hunt announced a string of tax increases and tighter public spending in a tough budget plan. Losses in the bond market were modest and overall, UK markets appeared relatively calm in comparison to the sharp selloff triggered by a short-lived "mini-budget" on Sept. 23.

## Bond Market Ahead:

The production at U.S. factories barely rose in October and output in the prior two months was not as strong as initially thought, suggesting that manufacturing was rapidly losing momentum amid higher interest rates. Yields had dipped earlier on Wednesday after Kansas City Fed President Esther George said that inflation is at risk of becoming entrenched in the economy from an overheated job market, making it difficult for the U.S. central bank to bring down inflation without a recession. The U.S. central bank is expected to slow the pace of its rate hikes and make a 50 basis points increase at its December 13-14 meeting. The fed funds rate is expected to peak at 4.92% in May. This will trigger buying in the Indian bonds as the rupee will get stabilize against the U.S. dollar and inflation in India seems to be peaking and likely to fall going forward from October's reading of 6.77 percent as the Brent is below \$90/barrel and food inflation to ease as new crop is arriving to the market. The RBI MPC likely to hike another 60 bps in the next two to three MPC meet and possibly 35 bps in December.

## Bond Strategy:

- Buy 7.26% GOI 2032 around 7.32/33 with a target of 7.25 and a stop loss of 7.35 percent.
- Buy 7.10% GOI 2029 around 7.30/31 with a target of 7.26 and a stop loss of 7.34 percent.
- (Bloomberg, GEPL Capital Research)

## Economic Calendar

DATA	DATE
Thailand GDP Data	21-Nov-2022
Germany PPI Data	21-Nov-2022
Hong kong CPI Data	21-Nov-2022
New Zealand Trade balance Data	22-Nov-2022
Japan Core CPI Data	22-Nov-2022
New Zealand Interest rate Decision	23-Nov-2022
Singapore GDP & CPI Data	23-Nov-2022
South Africa CPI Data	23-Nov-2022
US Jobless claims	23-Nov-2022
Russian IIP Data	23-Nov-2022
UK PMI Data	23-Nov-2022
South Korean Interest rate Decision & PPI Data	24-Nov-2022
Japan CPI Data	25-Nov-2022
Singapore GDP Data	25-Nov-2022
Malaysian CPI Data	25-Nov-2022

(Source: Bloomberg)

## Economic Indicator

Particulars	18-Nov-22	11-Nov-22	Change
5 Year Indian Govt. Bond(%)	7.17	7.2	-0.03
10 Year Indian Govt. Bond(%) (7.26% GS 2032)	7.31	7.31	0.00
15 Year Indian Govt. Bond(%)	7.43	7.44	-0.01
Call Money Market (%)	5.65	5.66	-0.01
Brent Crude Oil (in Dollar/barrel )	89.78	96.48	-6.7
US 10 Year Treasury (%)	3.82	3.89	-0.07
UK 10 Year Treasury (%)	3.24	3.35	-0.11
Rs. vs Dollar	81.62	80.57	1.05
FOREX Reserves with RBI (in Dollar/bn)	544.72	529.99	14.73

## 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	Oct 2022 (released on 11-Oct-2022)	Sept. 2022 (released on 12-Oct-2022)	Change
CPI DATA (%) ( Monthly)	6.77%	7.41%	-0.64%

  

DATA	Sept 2022 (released on 11-Oct-2022)	Aug-2022 (released on 12-Oct-2022)	Change
IIP DATA (Monthly)	3.1%	0.8%	2.30%



## Yield Outlook for the week

The Indian 10 year Benchmark likely to move in the range of 7.25% to 7.32% (GEPL Capital Research)

## Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	19-Nov-22	11-Nov-22	Change
6.54% GOI 2032	24-Nov-2022	9550	11303	-1753

  

IRF PRICE (w.o.w)				
Security	Contract	19-Nov-22	11-Nov-22	Change
6.54% GOI 2032	24-Nov-2022	94.60	94.64	-0.04

(GEPL Capital Research)

## Auction Scheduled For The Week

Date	Instrument	Expected Surity	Nature of Flow	Amount (Cr)
22-Nov-22	SDL	7 States	Auction	14,963
23-Nov-22	T-Bills	91 DTB	Auction	10,000
23-Nov-22	T-Bills	182 DTB	Auction	6,000
23-Nov-22	T-Bills	364 DTB	Auction	6,000
24-Nov-22	G-sec	7.38% GS 2027	Auction	7,000
24-Nov-22	G-sec	7.26% GS 2032	Auction	12,000
24-Nov-22	G-sec	7.36% GS 2052	Auction	9,000

(Source: www.rbi.org.in)



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Name	Designation	Certification	Email	Contact
Deepak Panjwani	Head – Debt Market	MBA - Finance & Marketing	deepak@geplcapital.com	91 (22) 6618 2352

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**Reg./Corp. Office : D-21 Dhanraj Mahal, CSM Marg, Colaba, Mumbai 400 001 Contact No +91 22 66182400**

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