

Debt Market Watch

09 January, 2023

One Stop Investment Avenue



Government Security Market Update :

Indian government bond yield slide to 7.3050% in the week before it climbed to 7.37% after the auction result on Friday as the government declared auction for the Sovereign Green bonds worth Rs.16, 000 crore to be issued in the two tranches, one on January 25 & February 9, 2023 for Rs.8, 000 crore each in two denomination of 5 & 10 years. The securities will be eligible for the SLR and the auction method will be the Uniform Price. Most of the traders press the sell button as the 10-year breached 7.35% and intense sell off pushed the 10-year above 7.37% on Friday. During the week the seven states sold 2-30 years loan in the range of 7.26 to 7.67 percent and in the treasury bill auction the Reserve Bank of India sold 91; 182 & 364 DTB at a yield of 6.3571; 6.7801 & 6.9249 percent respectively. In a weekly auction the RBI sold 7.26% GS 2032 at a yield of 7.3390% and 7.38% GS 2027 & 7.36% GS 2052 at a yield of 7.2502 & 7.4572 percent respectively.

The yield on the 7.26% Government bond due August 2032 rose to 7.3736% from last week level of 7.3277% .

Global Debt Market Update:

The yield on the benchmark U.S. 10-year Treasury was down by about 16 basis points at 3.56%. The 2-year Treasury yield fell around 19 basis points to 4.264%. The yield on the 30-year Treasury was down nearly 11 basis points at 3.68% as the economic data suggested lower inflation going forward. Nonfarm payrolls increased by 2,23,000 for the month of December, above the Dow Jones estimate for 200,000, while the unemployment rate fell to 3.5%, 0.2 percentage point below the expectation. Wage growth was less than expected in an indication that inflation pressures could be weakening. Average hourly earnings rose 0.3% for the month and increased 4.6% from a year ago. The respective estimates were for growth of 0.4% and 5%. Tightness in the labour market is often closely associated with high inflation, which the Fed has been trying to cool. Many look to Fed speaker comments and new economic pieces data for signals that the Fed can slow or pause rate increases in 2023. Bond yields fell further when Friday's ISM's non-manufacturing Purchasing Managers' Index showed that production numbers fell, a sign that the Fed's rate hikes may be working to slow the economy.

Bond Market Ahead:

Aggressive movement in the U.S Treasury market after data showed wages rose less than expected in December even though the economy created more jobs than anticipated, affirming the belief that the Federal Reserve could be nearing a pause in its rate-hiking cycle will support the Indian bond market and the 10-year benchmark can make a move towards 7.30 percent. A widely-tracked part of the U.S. yield curve, measuring the gap between yields on two- and 10-year Treasury notes, ultimately lessened its inversion to -69.4 basis points (bps). The inversion went as deep as -79.20 bps right after the jobs report, the most inverted in three weeks. An inverted curve typically foreshadows recession. The rate futures market has priced in a 67% chance of a 25-bps hike next month, and another hike of the same magnitude at the March meeting. The peak fed funds rates is seen at 5%, expected to be reached at the June policy gathering. The market will also keenly watch the December retail inflation numbers which is to be released on January 12. The retail inflation likely to be in the range of 5.75 to 5.90 against the 5.88 recorded in the month of November. The borrowing numbers for the FY 2023-24 likely to be around 11 trillion rupees and the higher supply will keep the pressure on the market. If RBI supports the market with easy liquidity and some OMOs and Operation Twists the yields will ease in the first half of the FY 24.

Bond Strategy:

- Buy 7.26% GOI 2032 around 7.36/37 with a target of 7.30 and a stop loss of 7.42%
- Buy 7.10% GOI 2029 around 7.34/35 with a target of 7.29 and a stop loss of 7.40%
- Buy 7.38% GOI 2027 around 7.27/28 with a target of 7.21 and a stop loss of 7.32% (Bloomberg, GEPL Capital Research)

Economic Calendar

DATA	DATE
Japan CPI Data	10-Jan-23
Swedish IIP Data	10-Jan-23
French IIP Data	10-Jan-23
Spanish IIP Data	10-Jan-23
Brazil CPI Data	10-Jan-23
Australian CPI Data	11-Jan-23
Malaysian IIP Data	11-Jan-23
Portuguese CPI Data	11-Jan-23
Russian CPI Data	11-Jan-23
China CPI Data	12-Jan-23
India's IIP & CPI Data	12-Jan-23
U.S CPI Data & Jobless claims	12-Jan-23
Singapore GDP Data	12-Jan-23
South Korean Interest Rate Decision	12-Jan-23
GBP IIP & GDP Data	12-Jan-23

(Source: Bloomberg)

Economic Indicator

Particulars	06-Jan-23	30-Dec-22	Change
5 Year Indian Govt. Bond(%)	7.28	7.23	0.05
10 Year Indian Govt. Bond(%) (7.26% GS 2032)	7.37	7.33	0.04
15 Year Indian Govt. Bond(%)	7.45	7.43	0.02
Call Money Market (%)	5.4	5.4	-
Brent Crude Oil (in Dollar/barrel)	78.6	83.46	-4.86
US 10 Year Treasury (%)	3.56	3.83	-0.27
UK 10 Year Treasury (%)	3.5	3.7	-0.2
Rupee. Vs Dollar	82.73	82.74	-0.01
FOREX Reserves with RBI (in Dollar/bn)	562.90	562.81	0.09

Policy Rates

Repo Rate	6.25%
Standing Deposit Facility Rate	6.00%
CRR	4.50%
Reverse Repo Rate	3.35%

— Adverse + Favour

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

DATA	Nov 2022 (released on 12-Dec-2022)	Oct. 2022 (released on 11-Nov-2022)	Change
CPI DATA (%) (Monthly)	5.88%	6.77%	-0.64%

DATA	Oct 2022 (released on 12-Dec-2022)	Sept 2022 (released on 13-Nov-2022)	Change
IIP DATA (Monthly)	4.2	3.1%	1.1



Yield Outlook for the week

The Indian 10 year Benchmark likely to move in the range of 7.30% to 7.37% (GEPL Capital Research)

Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	06-Jan-23	30-Dec-22	Change
7.26% GOI 2032	25-Jan-2023	18136	7146	10990

IRF PRICE (w.o.w)				
Security	Contract	06-Jan-23	30-Dec-22	Change
7.26% GOI 2032	25-Jan-2023	99.20	99.45	-0.25

(GEPL Capital Research)

Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
10-Jan-23	SDL	7 States	Auction	6,000
11-Jan-23	T-Bills	91 DTB	Auction	7,000
11-Jan-23	T-Bills	182 DTB	Auction	13,000
11-Jan-23	T-Bills	364 DTB	Auction	10,000
13-Jan-23	G-sec	6.69% GS 2024	Auction	4,000
13-Jan-23	G-sec	7.10% GS 2029	Auction	6,000
13-Jan-23	G-sec	7.41% GS 2036	Auction	11,000
13-Jan-23	G-sec	7.40% GS 2062	Auction	9,000

(Source: www.rbi.org.in)



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