

# Debt Market Watch

16 January, 2023

One Stop Investment Avenue



## Government Security Market Update :

10-year benchmark bond yields were lower in the early session on Friday after data showed U.S. inflation eased last month to 6.50%, calming fears over aggressive rate hikes. The fall in yields was capped, as some traders booked profit ahead of debt supply through the weekly auction. The benchmark 10-year yield was at 7.2761% on Friday morning, after closing lower at 7.2859% on Thursday. India's annual retail inflation rose 5.72% in December from 5.88% in the prior month. The reading remained within the central bank's tolerance level of 2%-6% for the second consecutive month amid cooling food prices. During the week four states sold 6-17 years loan in the range of 7.54 to 7.63 percent and in the Treasury bill auction the Reserve Bank of India sold 91; 182 & 364 DTB at a yield of 6.3890; 6.7784 & 6.8950 percent respectively. In a weekly auction of the government securities the RBI sold new 2025 securities at a yield of 6.89 percent & sold 7.10% GS 2029; 7.41% GS 2036 & 7.40% GS 2062 at a yield of 7.2582; 7.3568 & 7.3683 percent respectively.

The yield on the 7.26% Government bond due August 2032 fell to 7.3003% from last week level of 7.3736% .

## Global Debt Market Update:

The yield on the US 10-year Treasury rose more than 5 basis points to 3.504%. The 30-year rate slipped by 5 basis points to 3.624%. The 2-year rate, meanwhile, added 8 basis point to trade at 4.224% as investors digested the latest inflation report and considered the outlook for Federal Reserve interest rate hikes. Thursday's data showed the consumer price index dipped 0.1% last month after gaining 0.1% in November. That was the first fall in the CPI since May 2020, when the economy was reeling from the first wave of COVID-19 infections. In the 12 months through December, the CPI increased 6.5%, the smallest rise since October 2021, and followed a 7.1% advance in November. The U.S. Treasury's sale of 30-year bonds was well-received, with the auction stopping at 3.585%, below the expected yield at the bid deadline, suggesting that investors were willing to settle for a lower rate for the bond. Fed policymakers on Thursday expressed relief that price pressures were easing, but they signaled the U.S. central bank's target rate was still likely to rise above 5% and stay there for some time despite market bets to the contrary.

## Bond Market Ahead:

After softer inflation data the focus will turn towards the Union Budget and the government's borrowing plan for FY 2023-24. With the heavy borrowing numbers for the last two financial years the market will be bracing for some relief in the borrowing plan as the huge supply will distort the yield curve. The market will also see the Fed's move on January 31 as anticipation is growing for the slower pace of rate hike or pause. Traders have warned that bond and currency markets face a week of turmoil as the Bank of Japan meets for the final time before a new governor is named and confronts intensifying pressure to abandon its yield curve control policy. The two-day monetary policy meeting will take place on Tuesday and Wednesday. In the run up markets are considering the ramifications of Japan finally moving away from the ultra-loose policies that have defined its 20-year battle with deflation and made it a global source of cheap funding. The market may focus on the move in oil prices, Oil prices rose, with the benchmark Brent crude moving higher in all five trading sessions of last week, on optimism that China's reopening will lift fuel demand from the world's top crude importer, and also as the U.S. dollar dropped to a seven-month low. India's current account deficit for the July – September quarter skyrocketed to a terrible 4.4% of GDP, up from 1.3% in the corresponding quarter a year earlier. The RBI should let the rupee weaken. India needs a competitive currency not a strong one. The sharp worsening of the current account deficit is a warning that must not be ignored.

## Bond Strategy:

- Buy 7.26% GOI 2032 around 7.31/32 with a target of 7.27 and a stop loss of 7.37%
- Buy 7.41% GOI 2036 around 7.36/37 with a target of 7.32 and a stop loss of 7.40% (Bloomberg, GEPL Capital Research)

## Economic Calendar

DATA	DATE
India's WPI Data	16-Jan-23
German WPI Data	16-Jan-23
China GDP & IIP Data	17-Jan-23
German CPI Data	17-Jan-23
Italian CPI Data	17-Jan-23
Irish CPI Data	17-Jan-23
OPEC Monthly Report	17-Jan-23
Canada CPI Data	17-Jan-23
BoJ Interest Rate Decision	18-Jan-23
Japan IIP Data	18-Jan-23
GBP CPI Data	18-Jan-23
South African CPI Data	18-Jan-23
U.S IIP Data	18-Jan-23
Malaysian interest Rate Decision	19-Jan-23
U.S Jobless claims	19-Jan-23

(Source: Bloomberg)

## Economic Indicator

Particulars	13-Jan-23	06-Jan-23	Change
5 Year Indian Govt. Bond(%)	7.13	7.28	-0.15
10 Year Indian Govt. Bond(%) (7.26% GS 2032)	7.3	7.37	-0.07
15 Year Indian Govt. Bond(%)	7.37	7.45	-0.08
Call Money Market (%)	5.6	5.4	0.2
Brent Crude Oil (in Dollar/barrel )	85.28	78.6	6.68
US 10 Year Treasury (%)	3.51	3.56	-0.05
UK 10 Year Treasury (%)	3.37	3.5	-0.13
Rupee. Vs Dollar	81.28	82.73	-1.45
FOREX Reserves with RBI (in Dollar/bn)	561.58	562.90	-1.32

## 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	Dec 2022 (released on 12-Jan-2023)	Nov 2022 (released on 12-Dec-2022)	Change
CPI DATA (%) ( Monthly)	5.72%	5.88	-0.16%
DATA	Nov 2022 (released on 12-Jan-2023)	Oct 2022 (released on 12-Dec-2022)	Change
IIP DATA (Monthly)	7.10	4.2	2.10



## Yield Outlook for the week

The Indian 10 year Benchmark likely to move in the range of 7.27% to 7.32% (GEPL Capital Research)

## Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	13-Jan-23	06-Jan-23	Change
7.26% GOI 2032	25-Jan-2023	20938	18136	2802
IRF PRICE (w.o.w)				
Security	Contract	13-Jan-23	06-Jan-23	Change
7.26% GOI 2032	25-Jan-2023	99.60	99.20	0.40

(GEPL Capital Research)

## Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
16-Jan-23	G-Sec	7.37% GS 2023 to 6.79% GS 2029; 7.68% GS 2023 to 7.72% GS 2055; 7.68% GS 2023 to 7.40% GS 2062; 7.68% GS 2023 to 6.80% GS 2060; 7.32% GS 2024 to 6.10% GS 2031; FRB 2024 to 7.59% GS 2029; 9.15% GS 2024 to 7.10% GS 2029	Conversion	11,000
17-Jan-23	SDL	4 States	Auction	6,700
18-Jan-23	T-Bills	91 DTB	Auction	7,000
18-Jan-23	T-Bills	182 DTB	Auction	13,000
18-Jan-23	T-Bills	364 DTB	Auction	10,000
20-Jan-23	G-sec	7.38% GS 2027	Auction	7,000
20-Jan-23	G-sec	7.26% GS 2032	Auction	12,000
20-Jan-23	G-sec	7.36% GS 2052	Auction	9,000

(Source: www.rbi.org.in)



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