



# Debt Market Watch

27th February, 2023

One Stop Investment Avenue



## Government Security Market Update :

The 10-year benchmark 7.26% 2032 & 2033 bond yield ended at 7.4181% & 7.39 respectively on Friday after the last scheduled auction of the FY 2023. The sentiments across the globe has weakened for the bond market as inflation is stubborn in U.S & India which may not keep the Central Bank's governor away from the higher interest rates. The minutes of the RBI's latest monetary policy meeting reiterated the hawkish stance, while a majority of market participants now expect the central bank to hike one more time in April. In the last scheduled auction the Reserve Bank of India sold 7.10% GS 2029; 7.41% GS 2036 & 7.40% GS 2062 at a yield of 7.4015; 7.4527 & 7.3822 percent respectively. Earlier in the week the eleven states sold 7-30 years loan in the range of 7.5281 to 7.71 percent and in the Treasury bill auction the RBI sold 91; 182 & 364 DTB at a yield of 6.8154; 7.18 & 7.2563 percent respectively

The yield on the 7.26% Government bond due August 2033 rose to 7.3913% from last week level of 7.3712% .

## Global Debt Market Update:

Short-term Treasury yields, which closely track investors interest-rate expectations, shot up Friday to levels not seen in more than a decade after the release of the strong inflation data. The yield on the two-year Treasury note rose to 4.803% on Friday, the highest since 2007. Meanwhile, the benchmark 10-year Treasury yield advanced to 3.948% on Friday from 3.879% on Thursday. The core reading excluding food and energy, considered the Fed's preferred gauge of inflation, rose 4.7% year on year. That was ahead of consensus forecasts for a 4.4% increase. Federal-funds futures, used by traders to wager on the course of interest rates, on Friday reflected bets that the central bank will bring interest rates significantly higher than most investors expected a month ago. Germany's 2-year bond yield, which is highly sensitive to policy rate expectations, was last up 12 basis points (bps) to 3.021%, its highest level since October 2008. The 2-year Italian yield rose 15 bps to 3.658%, its highest level in more than 10 years. In Europe, traders have been steadily revising up their forecasts for the peak in European interest rates. It rose again to around 3.8% on Friday after the U.S. data.

## Bond Market Ahead:

The market will be getting into the week where the government has revised the borrowing through the Treasury bill auction in March by Rs.50,000 crore; U.S 10-year Treasury yield is near to the make or break levels as consensus is getting louder on another rate hike from the Fed to tame hotter inflation. Currently, we are seeing inverted yield curve in the India government bonds as the cut-off for the 2062 paper came at 7.3822 and the 2036 & 2033 securities closed at 7.46 & 7.39 respectively. A yield inversion takes place when bond traders and investors expect uncertainty in the short to medium term and hence, prefer to park their money in long dated securities. Since they prefer to sell short and medium tenure bonds, the prices of these securities fall and yields rise. On the other hand, the buying of long maturity securities leads to rise in bond prices, which result in fall in yields. With the strong inflation data coming in January at 6.52% the RBI MPC may hike repo rate by another 25bps.

## Bond Strategy:

- Buy 7.26% GOI 2033 around 7.41/42 with a target of 7.36 and a stop loss of 7.45 percent.
- Buy 7.41% GOI 2036 around 7.47/48 with a target of 7.43 and a stop loss of 7.52 percent.

(Bloomberg, GEPL Capital Research)

## Economic Calendar

DATA	DATE
Belgium CPI Data	27-Feb-23
Japan IIP Data	28-Feb-23
Vietnamese IIP & CPI Data	28-Feb-23
Thailand IIP Data	28-Feb-23
Bank of Japan CPI Data	28-Feb-23
Swedish GDP Data	28-Feb-23
French GDP Data	28-Feb-23
Spanish CPI Data	28-Feb-23
Portuguese GDP & CPI Data	28-Feb-23
India's Monetary & Credit information Review	28-Feb-23
India's GDP Data ( Quarterly) & Infrastructure Output	28-Feb-23
Canada GDP Data	28-Feb-23
Australian CPI & GDP Data	01-Mar-23
German CPI Data	01-Mar-23
Italian CPI Data	02-Mar-23
Brazil GDP Data	02-Mar-23
U.S Jobless Claims	02-Mar-23

(Source: Bloomberg)

## Economic Indicator

Particulars	24-Feb-23	17-Feb-23	Change
5 Year Indian Govt. Bond(%)	7.39	7.34	0.05
10 Year Indian Govt. Bond(%) (7.26% GS 2033)	7.39	7.37	0.02
15 Year Indian Govt. Bond(%)	7.47	7.45	0.02
Call Money Market (%)	5.5	6.15	-0.65
Brent Crude Oil (in Dollar/barrel )	82.82	83	-0.18
US 10 Year Treasury (%)	3.95	3.83	0.12
UK 10 Year Treasury (%)	3.75	3.52	0.23
Rupee. Vs Dollar	82.9	2.08	80.82
FOREX Reserves with RBI (in Dollar/bn)	561.27	566.95	-5.68

## Policy Rates

Repo Rate	6.50%
Standing Deposit Facility Rate	6.25%
CRR	4.50%
Reverse Repo Rate	3.35%

— Adverse + Favour

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

DATA	Jan 2022 (released on 13-Feb-2023)	Dec 2022 (released on 12-Jan-2023)	Change
CPI DATA (%) ( Monthly)	6.52%	5.72%	-0.8
DATA	Dec 2022 (released on 10-Feb-2023)	Nov 2022 (released on 12-Jan-2023)	Change
IIP DATA (Monthly)	4.30	7.30	3.00



## Yield Outlook for the week

The Indian 10 year Benchmark (7.26% GS 2033) likely to move in the range of 7.36% to 7.42%

(GEPL Capital Research)

## Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	24-Feb -23	17-Feb -23	Change
7.26% GOI 2032	30-Mar-2023	34538	41324	-6786
IRF PRICE (w.o.w)				
Security	Contract	24-Feb -23	17-Feb -23	Change
7.26% GOI 2032	30-Mar-2023	98.75	99.25	-0.50

(GEPL Capital Research)

## Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
28-Feb-23	SDL	14 States	Auction	30,833
01-Mar-23	T-Bills	91 DTB	Auction	9,000
01-Mar-23	T-Bills	182 DTB	Auction	16,000
01-Mar-23	T-Bills	364 DTB	Auction	14,000

(Source: www.rbi.org.in)

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