

Debt Market Watch

06th March, 2023

One Stop Investment Avenue



Government Security Market Update :

Benchmark bond yields in India climbed to their highest since the first week of November as tightening liquidity, hardening US Treasury yield and concerns over higher government borrowing in FY24 dented demand for sovereign debt. Yields on the 10-year bond 7.26% GS 2032 rose to 7.48%, this is the highest since November 7, 2022. Cut-off yield on the treasury bills continued to rise at auction, with this week's sale of Rs.39,000 crore, the cut-off yield set at the 91-day and 182-day T-bills were each 12 basis points higher than those set at the previous week's sale. The cut-off yield for the 364-day T-bill was set 13 basis points higher at 7.39%. In a state government bond auction the fourteen states sold 5-30 years loan in the range of 7.69 to 7.77 percent. India's Q4 2022 GDP growth was disappointed, moderating to 4.4 percent on year from 6.30 percent in Q3. This is partly due to base effects and past revisions. The yield on the 7.26% Government bond due August 2033 rose to 7.3970% from last week level of 7.3913% .

Global Debt Market Update:

The US 30-year Treasury yield rose to the highest level since November, joining the rest of the Treasury market in offering investors a return of at least 4% after another batch of strong labor-market data. Yield across the Treasury market climbed Thursday following an upward revision to the fourth-quarter unit-labor-costs growth rate. 10-year Treasury yields rose on Thursday on higher interest rate fears, with benchmark 10-year government bond yields hitting 4.08% and manage to close on Friday below 4% to 3.958% and two-year Treasury yield went as high as 4.9% - their highest since 2007. Data on Wednesday showed German inflation accelerated in February, pushing Germany's two-year government bond yields DE2YT=RR to their highest since October 2008. That followed February numbers this week showing price pressures surged more than expected across France and Spain too. In the U.S., manufacturing contracted for a fourth straight month in February, but there were signs that factory activity was starting to stabilize. Meanwhile China's manufacturing activity expanded at the fastest pace in more than a decade last month, the data showing the impact of China's post-COVID economic reopening could stoke global inflationary concerns.

Bond Market Ahead:

The investors will continue to hunt for the value buying opportunities in the Indian bond market as the yields are attractive and the market is pricing in 25 basis points hike in the interest rates from the Fed in March and RBI MPC in April. The lower growth and seasonal fall in the prices of the food will drift down the CPI numbers below 6% mark in the next two months reading and lower crude oil will be an added advantage. The yield curve has recently undergone a significant flattening as yields on shorter maturity bonds have climbed at a faster pace than long term ones. The yield curve, which could possibly invert over the near term indicates concern over slowing economic growth and consequently a shift to easier monetary policy later in 2023. Expectations that inflation would ease and central banks could pause aggressive tightening soon had already turned around in February on resilient data. But rate-rise expectations have taken another leg higher this week, led by Europe. Data on Wednesday showed no let-up in stubborn price pressures in Germany. Spain and France posted unexpected inflation rises on Tuesday. A key gauge of the market's long-term euro zone inflation expectations has risen to 2.51%, its highest level in over a decade, pushing above U.S. peers in a rare occurrence. The market will be closely monitoring the Fed move in March and ahead as the direction on the interest rates will pave the path for the yield curve alignment.

Bond Strategy:

- Buy 7.26% GOI 2033 around 7.41/40 with a target of 7.34 and a stop loss of 7.45%
- Buy 7.26% GOI 2032 around 7.43/44 with a target of 7.37 and a stop loss of 7.48% (Bloomberg, GEPL Capital Research)

Economic Calendar

DATA	DATE
Philippines CPI Data	07-Mar-23
Thailand CPI Data	07-Mar-23
Spanish IIP Data	07-Mar-23
South African GDP Data	07-Mar-23
Fed's Biannual Monetary Policy Report	07 & 8-Mar-23
Bank of Canada Interest Rate Decision	08-Mar-23
German IIP Data	08-Mar-23
Japan GDP Data	09-Mar-23
China CPI Data	09-Mar-23
Malaysian Interest Rate Decision	09-Mar-23
Swedish IIP Data	09-Mar-23
Philippines IIP Data	09-Mar-23
Bank of Japan Interest Rate Decision	09-Mar-23
U.S Jobless claims	10-Mar-23
India's IIP Data	10-Mar-23
German CPI Data	10-Mar-23
India's IIP Data	10-Mar-23
GBP CPI & IIP Data	10-Mar-23

(Source: Bloomberg)

Economic Indicator

Particulars	03-Feb-23	24-Feb-23	Change
5 Year Indian Govt. Bond(%)	7.39	7.39	-
10 Year Indian Govt. Bond(%) (7.26% GS 2033)	7.4	7.39	0.01
15 Year Indian Govt. Bond(%)	7.46	7.47	-0.01
Call Money Market (%)	5.8	5.5	0.3
Brent Crude Oil (in Dollar/barrel)	85.83	82.82	3.01
US 10 Year Treasury (%)	3.96	3.95	0.01
UK 10 Year Treasury (%)	3.9	3.75	0.15
Rupee. Vs Dollar	81.68	82.9	-1.22
FOREX Reserves with RBI (in Dollar/bn)	560.94	561.27	-0.33

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 2023 (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 7.34% to 7.41% (GEPL Capital Research)

Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	03-Mar -23	24-Feb -23	Change
7.26% GOI 2032	30-Mar-2023	41892	34538	7354
IRF PRICE (w.o.w)				
Security	Contract	03-Mar -23	24-Feb -23	Change
7.26% GOI 2032	30-Mar-2023	98.96	98.75	0.21

(GEPL Capital Research)

Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
06-Mar-23	SDL	10 States	Auction	28,958
08-Mar-23	T-Bills	91 DTB	Auction	9,000
08-Mar-23	T-Bills	182 DTB	Auction	16,000
08-Mar-23	T-Bills	364 DTB	Auction	14,000

(Source: www.rbi.org.in)

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