

Debt Market Watch

13th Mar, 2023

One Stop Investment Avenue



Government Security Market Update :

The yield curve slightly got inverted after the RBI set cut off of 364 DTB at a yield of 7.48% which is higher than the 10-year benchmark yield of 7.45%. The market demanded higher yield on the Treasury bill auction as the government has increased the issuance size of the Treasury bill by Rs.50,000 crore in the March 2023 and secondly the market is anticipating another 25bps hike in the repo rate by the RBI MPC in April. Government bond yields ended lower on Friday, mirroring the drop in U.S. yields. U.S. yields fell on Thursday and Friday as risk appetite weakened after an equities selloff and as data showed U.S. initial jobless claims rose more than expected last week. During the week ten states sold 2-30 years loans in the range of 7.52 to 7.79 percent and in the Treasury bill auction the RBI set cut-off of 91;182 & 364 DTB at a yield of 6.9677; 7.3787 & 7.48 percent respectively. The yield on the 7.26% Government bond due August 2033 rose to 7.3970% from last week level of 7.3970%.

Global Debt Market Update:

U.S. Treasury yields dropped for a second straight day on Friday, after economic data showed the labour market added more jobs than expected in February. Nonfarm payrolls increased by 311,000 last month above the 205,000 estimate of economists polled by Reuters, while average hourly earnings rose by 0.2% in February, slightly below the expected 0.3%, giving hope that the Fed can be less aggressive in its path of interest rate hikes. January's report was revised only slightly lower to 504,000 jobs from the previously announced 517,000. The yield on the 2-year Treasury note fell sharply on Friday as the shutdown of Silicon Valley Bank sparked a flight to safer assets such as government bonds. The yield shed at least 46 basis points over a two-day period, a sudden decline not seen since September 2008, when the markets were in the throes of the global financial crisis. The yield on 10-year Treasury notes was down 23 basis points at 3.69%. Regulators shuttered Silicon Valley Bank on Friday. Shares had tumbled more than 60% on Thursday as the bank sought to raise more than \$2 billion in capital to offset losses from bond sales. The yield on the 30-year Treasury bond was down 15.7 basis points at 3.713%. A closely watched part of the U.S. Treasury yield curve measuring the gap between yields on two- and 10-year Treasury notes, seen as an indicator of economic expectations, was at -97.3 basis points.

Bond Market Ahead:

The biggest bank in Silicon Valley, SVB was hit by high deposit outflows due to a broader-downturn in the tech start-up industry. After liquidating \$21 billion securities portfolio, SVB announced a hasty \$2.25 billion fundraising to shore up its finances in the wake of a \$1.8 billion loss on the bonds as the Fed increasing rates aggressively since March 2022 to fight inflation. The Fed increased rates by 450 bps and the yield moved up and price of the bonds squeezed drastically. A critical inflation report in the week and potential fallout from the largest bank failure since the financial crisis will likely keep the Fed away from hiking the rates. Investors are growing nervous that the Fed's campaign to fight inflation by ending the era of cheap money has exposed cracks in the economy that could widen if it ratchets up its rate hike. The Indian bond market will also look for the development happening in the U.S after the SVB collapse and the changes in the Treasury yield. The U.S. 10-year Treasury yield likely to fall further below 3.50% from a current rate of 3.70% as on Friday which will bring some relief rally in the Indian bond market and we can see the 10-year benchmark yield will be moving below 7.30% in the near term. India's CPI is due on Monday and the expectation is at 6.34% from 6.52% and any fall below 6% or around 6% will trigger the rally further in the bond market.

Bond Strategy:

- Buy 7.26% GOI 2033 around 7.39/40 with a target of 7.32 and a stop loss of 7.44%
- Buy 7.41% GOI 2036 around 7.45/46 with a target of 7.38 and a stop loss of 7.51% (Bloomberg, GEPL Capital Research)

Economic Calendar

DATA	DATE
India's CPI Data	13-Mar-23
India's WPI Data	14-Mar-23
Spanish CPI Data	14-Mar-23
Italian IIP Data	14-Mar-23
OPEC Monthly Report	14-Mar-23
U.S CPI Data	14-Mar-23
India's Import & Export Data	14-Mar-23
New Zealand GDP Data	15-Mar-23
Japan Monetary Policy Minutes	15-Mar-23
China IIP Data	15-Mar-23
German WPI Data	15-Mar-23
French CPI Data	15-Mar-23
New Zealand GDP Data	16-Mar-23
Japan IIP Data	16-Mar-23
Italian CPI Data	16-Mar-23
U.S Jobless claims	16-Mar-23
ECB Interest Rate Decision	16-Mar-23
Russia's Interest Rate Decision	16-Mar-23

(Source: Bloomberg)

Economic Indicator

Particulars	10-Mar-23	03-Mar-23	Change
5 Year Indian Govt. Bond(%)	7.4	7.39	0.01
10 Year Indian Govt. Bond(%) (7.26% GS 2033)	7.42	7.4	0.02
15 Year Indian Govt. Bond(%)	7.49	7.46	0.03
Call Money Market (%)	6.31	5.8	0.51
Brent Crude Oil (in Dollar/barrel)	82.78	85.83	-3.05
US 10 Year Treasury (%)	3.7	3.96	-0.26
UK 10 Year Treasury (%)	3.64	3.9	-0.26
Rupee. Vs Dollar	81.96	81.68	0.28
FOREX Reserves with RBI (in Dollar/bn)	562.4	560.94	1.46

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	Jan 2023 (released on 12-Mar-2023)	Dec 2022 (released on 10-Feb-2023)	Change
IIP DATA (Monthly)	5.2	4.30	0.9



Yield Outlook for the week

The Indian 10 year Benchmark (7.26% GS 2033) likely to move in the range of 7.32% to 7.40% (GEPL Capital Research)

Interest Rate Futures

IRF OPEN INTEREST (w.o.w)					
Security	Contract	10-Mar -23	03-Mar -23	Change	
7.26% GOI 2032	30-Mar-2023	41938	41892	46	

IRF PRICE (w.o.w)					
Security	Contract	10-Mar -23	03-Mar -23	Change	
7.26% GOI 2032	30-Mar-2023	99.20	98.96	0.24	

(GEPL Capital Research)

Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
14-Mar-23	SDL	12 States	Auction	32,233
14-Mar-23	T-Bills	91 DTB	Auction	9,000
14-Mar-23	T-Bills	182 DTB	Auction	16,000
14-Mar-23	T-Bills	364 DTB	Auction	14,000

(Source: www.rbi.org.in)



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