

Debt Market Watch

15th May, 2023

One Stop Investment Avenue



Government Security Market Update :

Indian 10-year bond yield closed at 6.99% on Friday, five basis points lower than the previous close. This is the lowest closing level for a 10-year bond since April 7, 2022. Bloomberg data showed an unexpectedly firm demand at a primary sale and anticipation of softer inflation spurred appetite for government bonds. Data released after trading hours on Friday showed that India's CPI inflation was at 4.70% in April as against 5.66% in March. The sharp decline in the price gauge makes a strong case for the RBI to maintain an extended pause on rate hikes and the inflation data in the US has also led to hopes of a pause in rate hikes. At a scheduled auction conducted by the Reserve Bank of India (RBI) on Friday, the government raised ₹39,000 crore worth of funds through the sale of four bonds. The cut-off prices set at the auction were around 10 -15 paise higher than market expectations and sold 6.99% GS 2026; 7.17% GS 2030; 7.41% GS 2036 & 7.40% GS 2062 at a yield of 6.9486; 7.0482; 7.1188 & 7.1784 percent respectively. Earlier in a week the five states sold 6-20 years loan in the range of 7.34 to 7.40 percent and in the Treasury bill auction the RBI sold 91; 182 & 364 DTB at a yield of 6.9482; 7.0292 & 7.0182 percent respectively.

The yield on the 7.26% Government bond due August 2033 fell to 6.9474% from last week level of 7.0140%

Global Debt Market Update:

The yield on the US 10-year Treasury was added 6.4 basis points to 3.459%. The yield on the 2-year Treasury climbed 9 basis points to trade at 3.994% as investors digested this week's inflation data and assessed what it could mean for the future of the economy and Federal Reserve monetary policy. On Thursday, April's producer price index reflected a 0.2% increase of wholesale prices on a monthly basis, lower than the 0.3% rise economists surveyed by Dow Jones had previously expected. Earlier in the week, the consumer price index print for April had come in 0.1% less than anticipated at 4.9% on a year-over-year basis. The latest inflation figures are likely to inform upcoming monetary policy decisions from the Federal Reserve, which has been hiking rates in an effort to cool the economy since March 2022. Concerns about that leading the economy into a recession have grown louder in recent weeks. The Fed hinted that its rate hiking campaign may be paused soon, but Chairman Jerome Powell noted that battle against inflation was not over and policy decisions remained data-dependent.

Bond Market Ahead:

Indian 10-year benchmark closed below 7% for a first time in years' time and likely to extend rally as the CPI falls below projection of 4.80% to 4.70% and the authorities confirmed the data very encouraging and assessing that the policy actions taken so far are in the right direction. The Consumer Price Index (CPI) moderated to almost 18-month low of 4.70% in April, due to a sharp deceleration in energy prices. Core CPI plunged to almost 3-year low to 5.06% in April as against 5.74% in March. We expect the RBI MPC to continue with the pause in June policy and may soften the rates in the third quarter of the FY 2024 as the focus will shift to the growth acceleration. Index of Industrial Production (IIP) marked a five month low – output inched up 1.1% in March from a year earlier. The market will closely monitor the development happening at US with respect to the Debt ceiling. Yields on short-dated Treasury bills, the most sensitive to debt ceiling jitters, and the cost of insuring against a U.S. sovereign default have both surged in recent weeks. The most widely-followed indicator of bond market volatility, the MOVE index (MOVE), is currently roughly 45% higher than its long-term average. Looking further ahead, the U.S. 2-year note yield was expected to fall sharply to 3.30% from the current 3.86% by April 2024, still just slightly higher than the 10-year note yield. Financial markets are pricing in at least 50 basis points of interest rate cuts from the U.S. Federal Reserve by the end of 2023, suggesting a resilient economy and a strong labour market will give in to recession this year.

Bond Strategy:

- Sell 7.26% GS 2033 around 6.94 to 6.95% with a target of 7.03% and a stop loss of 6.90%.
- Sell 7.26% GS 2032 around 6.98 to 6.99% with a target of 7.07% and a stop loss of 6.94%. (Bloomberg, GEPL Capital Research)

Economic Calendar

DATA	DATE
Thailand GDP Data	15-May-23
Sweden CPI Data	15-May-23
German WPI Data	15-May-23
India's WPI Data	15-May-23
Euro IIP Data	15-May-23
RBA Meeting Minutes	16-May-23
China IIP Data	16-May-23
Italian CPI Data	16-May-23
Canada CPI Data	16-May-23
U.S IIP Data	16-May-23
Japan GDP & IIP Data	17-May-23
Philippines Interest Rate Decision	18-May-23
U.S Jobless claims	18-May-23
Japan CPI Data	19-May-23

(Source: Bloomberg)

Economic Indicator

Particulars	12-May-23	05-May-23	Change
5 Year Indian Govt. Bond (%)	6.95	6.95	-
10 Year Indian Govt. Bond(%) (7.26% GS 2033)	6.99	7.01	-0.02
15 Year Indian Govt. Bond(%)	7.09	7.12	-0.03
Call Money Market (%)	6.65	6.95	-0.3
Brent Crude Oil (in Dollar/barrel)	74.17	75.37	-1.2
US 10 Year Treasury (%)	3.46	3.44	0.02
UK 10 Year Treasury (%)	3.78	3.8	-0.02
Rupee Vs Dollar	82.2	81.73	0.47
FOREX Reserves with RBI (in Dollar/bn)	595.98	588.78	7.20

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	Apr 2023 (released on 12-May-2023)	Mar 2023 (released on 12-Apr-2023)	Change
CPI DATA (%) (Monthly)	4.70%	5.66%	-0.96
DATA	Mar 2023 (released on 12-May-2023)	Feb 2023 (released on 12-Apr-2023)	Change
IIP DATA (Monthly)	1.1	5.8	4.70



Yield Outlook for the week

The Indian 10 year Benchmark (7.26% GS 2033) likely to move in the range of 6.95% to 7.03% (GEPL Capital Research)

Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	12-May-23	05-May-23	Change
7.26% GOI 2032	25-May-2023	5986	9446	-3460
IRF PRICE (w.o.w)				
Security	Contract	12-May-23	05-May-23	Change
7.26% GOI 2032	25-May-2023	101.32	101.30	0.02

(GEPL Capital Research)

Auction Scheduled For The Week

Date	Instru-ment	Expected Security	Nature of Flow	Amount (Cr)
15-May-23	G-Sec	7.35% GS 2024 to 6.95% GS 2061; 8.40% GS 2024 to 8.97% GS 2030; FRB 2024 to 8.28% GS 2032; 7.72% GS 2025 to 8.32% GS 2032; 8.20% GS 2025 to 6.22% GS 2035; 7.59% GS 2026 to 6.76% GS 2061; 5.74% GS 2026 to 7.40% GS 2035; 5.74% GS 2026 to 7.69% GS 2043; 8.15% GS 2026 to 6.64% GS 2035;	Conversion	20000
16-May-23	SDL	5 States	Auction	8500
17-May-23	T-Bills	91 DTB	Auction	12000
17-May-23	T-Bills	182 DTB	Auction	12000
17-May-23	T-Bills	364 DTB	Auction	8000
12-May-23	G-Sec	6.89% GS 2025	Auction	8000
12-May-23	G-Sec	7.17% GS 2030	Auction	14000
12-May-23	G-Sec	7.40% GS 2062	Auction	11000

(Source: www.rbi.org.in)



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