



Government Security Market Update :

Indian government bonds continued the rally in this week too after the report showed that retail inflation is slowing to an 18-month low of 4.7% in April, staying below the central bank's upper tolerance limit of 6% for the second consecutive month. Some economists expect inflation in May to fall further towards 4%, a level last seen in January 2021. The benchmark bond yield has eased by around 15 basis points so far in May, as traders anticipate the Federal Reserve may cut rates next quarter, which may force the RBI to follow suit. The RBI's next policy decision is due on June 8, with the Fed's decision following on June 14. Once again a strong demand is seen in the weekly auction and cut-off was higher than the expectations. The government sold 7.06% GS 2028; 7.26% GS 2033 & 7.36% GS 2052 at a yield of 6.9154; 6.9807 & 7.1377 percent respectively. Earlier, in the week the five states sold 8-25 years loan in the range of 7.27 to 7.37% and the Reserve Bank of India sold 91; 182 & 364 DTB at a yield of 6.8391; 6.9685 & 6.9554 percent respectively.

The yield on the 7.26% Government bond due August 2033 rose to 7.0106% from last week level of 6.9474%

Global Debt Market Update:

Euro zone government bond yields were set on Friday for their biggest weekly jump since mid-April, with German 10-year yields rising to their highest in over three weeks on optimism about the U.S. debt ceiling and strong economic data. Germany's 10-year bond yield, the benchmark for the euro zone, rose as high as 2.499%. It has risen around 21 basis points (bps) this week -- the biggest weekly increase since the week ending April 14. Italy's 10-year yield was a touch higher at 4.318%, putting it on track for a weekly increase of 13 bps. Germany's 2-year yield, which is sensitive to interest rate expectations, was up 5 bps at 2.84%, having touched its highest since late April. It has risen 16 bps this week. Strong economic data has helped to push up bond yields, and has caused some central bankers to publicly make the case for more rate hikes. U.S. jobless claims fell more than expected last week and the Philadelphia Fed's manufacturing business survey for May also beat expectations, data showed on Thursday. On Friday, data showed that German producer prices rose in April, defying expectations of a fall. Dallas Federal Reserve Bank President Lorie Logan on Thursday said she was concerned inflation was not cooling fast enough to allow the Fed to pause rate hikes in June.

Bond Market Ahead:

The Reserve Bank of India is concerned with the higher overnight rates despite surplus liquidity in the banking system and they addressed the issue by conducting Variable Repo auction for 14 days for INR 50,000 Crore on Friday and the market reacted positively. We expect same measures in the coming time and in the monetary policy meet on June 8, 2023. The RBI MPC expected to keep the rates unchanged as the retail and wholesale inflation numbers are easing near to the upper band of the Reserve Bank of India. On global front, Federal Reserve Chair Jerome Powell signalled that he's leaning towards pausing interest-rates increases next month on June 14, 2023 to assess the past year plus of hikes amid stress in the banking system. The U.S. government's cash balance fell to \$57.3 billion on Thursday from about \$68.3 billion the day before. That underscores how quickly the window for resolving the standoff is narrowing, with the Treasury saying on Friday that it had run through all but about \$92 billion of its authorized extraordinary measures as of May 17. Fed funds futures traders were pricing for a 60% probability that the Fed will maintain rates steady in the 5%-5.25% range next month, and a 40% chance of an additional hike. On Friday, the Reserve Bank of India took decision to withdraw Rs.2,000 note from the banking system by September 2023, this move definitely have a positive impact on the cash flow into the banking system and will release pressure on the overnight rates and on the shorter end of the yield curve.

Bond Strategy:

- Buy 7.26% GS 2033 around 7.02 to 7.03% with a target of 6.97% and a stop loss of 7.07%.
- Buy 7.26% GS 2032 around 7.07 to 7.08% with a target of 7.01% and a stop loss of 7.12%.
- Buy 7.36% GS 2052 around 7.14 to 7.15% with a target of 7.11% and a stop loss of 7.18%. (Bloomberg, GEPL Capital Research)

Economic Calendar

DATA	DATE
Switzerland IIP Data	22-May-23
Hong Kong CPI Data	22-May-23
Singapore CPI Data	23-May-23
New Zealand Interest Rate Decision	24-May-23
GBP CPI Data	24-May-23
European Central Bank Non Monetary Policy Meet	24-May-23
South African CPI Data	24-May-23
FOMC Meeting Minutes	24-May-23
Singapore GDP Data	25-May-23
South Korean Interest Rate Decision	25-May-23
German GDP Data	25-May-23
Brazil CPI Data	26-May-23
U.S GDP & Jobless Claims Data	26-May-23
Japan CPI Data	27-May-23
Singapore GDP & IIP Data	27-May-23
Malaysian CPI Data	27-May-23

(Source: Bloomberg)

Economic Indicator

Particulars	19-May-23	12-May-23	Change
5 Year Indian Govt. Bond (%)	6.95	6.95	-
10 Year Indian Govt. Bond(%) (7.26% GS 2033)	7.01	6.99	0.02
15 Year Indian Govt. Bond(%)	7.1	7.09	0.01
Call Money Market (%)	6.4	6.65	-0.25
Brent Crude Oil (in Dollar/barrel)	75.59	74.17	1.42
US 10 Year Treasury (%)	3.69	3.46	0.23
UK 10 Year Treasury (%)	4.05	3.78	0.27
Rupee Vs Dollar	82.839	82.2	0.639
FOREX Reserves with RBI (in Dollar/bn)	599.53	595.98	3.55

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 6.97% to 7.03% (GEPL Capital Research)

Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	19-May -23	12-May -23	Change
7.26% GOI 2032	25-May-2023	5722	5986	-264
IRF PRICE (w.o.w)				
Security	Contract	19-May -23	12-May -23	Change
7.26% GOI 2032	25-May-2023	101.45	101.32	0.13

(GEPL Capital Research)

Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
23-May -23	SDL	10 States	Auction	18050
24-May -23	T-Bills	91 DTB	Auction	12000
24-May -23	T-Bills	182 DTB	Auction	12000
24-May -23	T-Bills	364 DTB	Auction	8000
26-May -23	G-Sec	6.99% GS 2026	Auction	11000
26-May -23	G-Sec	7.17% GS 2030	Auction	7000
26-May -23	G-Sec	7.41% GS 2036	Auction	12000
26-May -23	G-Sec	7.40% GS 2062	Auction	12000

(Source: www.rbi.org.in)



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