

Debt Market Review



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Market Review

- Month started on positive note taking cues from robust GST collection, GDP print weaker than market expectations, dovish comments in Jackson Hole meeting. Also, expectation of reduced second half Government's borrowing calendar aided the sentiment. However, towards the end market disrupted looking at increased quantum of VRR and its higher cutoff, Operation twist replacing OMO, FED fast tapering stance and rising crude oil prices. 10-year Gsec benchmark traded in a broad range of 6.12%-6.23% throughout the month with volume dominated in 5-year, 10 year and 14-year paper.
- Surge in daily system liquidity seen with average surplus liquidity in September increased to Rs. 7.87 lakh crores vs Rs. 7.43 lakh crores in the month of August. Currency in Circulation (CIC) marginally reduced to Rs. 29.25 lakh crore (end September) vs Rs. 29.43 lakh crore (end August)
- For consecutive months CPI inflation moderated below RBI's upper tolerance band after remaining above 6% for two months. Headline inflation came at 5.30% in August as against 5.59% in July and much below market expectation of around 5.60% majorly on back of favourable base effect and lower food and beverages prices. Core inflation remained sticky at 5.90%.

Market Indicators

	30-Sept 21	01-Sept 21	Change
USD/INR	74.24	73.09	1.58%
Brent Crude Oil (\$/bbl)	78.52	71.59	9.68%
Gold (\$/oz)	1,756.95	1,813.90	-3.14%
T-Repo	3.31%	3.07%	0.24%
10-year G-Sec	6.22%	6.20%	0.02%
10-year AAA PSU	6.71%	6.93%	-0.22%
US 10-year Gilt	1.49%	1.29%	0.19%

Source: Bloomberg

- Foreign portfolio investors invested Rs. 13,363 crore (Net) in debt market in September viz a viz Rs. 14,376 crore (Net) inflow in August 2021.
- Central Govt. has also kept its borrowing program unchanged at Rs. 5.03 lakh crore vs 7.02 lakh crore in first half which also include balance GST compensation for states. Meanwhile 3rd quarter Treasury bill borrowing is pegged at Rs. 2.60 lakh crore and Rs. 2.02 lakh crore for states for same period. Robust GST collection is also providing comfort to government, average monthly gross GST collection for the second quarter of the current fiscal year is Rs 1.15 lakh crore vs Rs 1.10 lakh crore in previous quarter.
- The FED kept the policy rate unchanged, also signalled tapering of bond coming soon and expected it to end by mid of 2022. ECB also left policy rate unchanged and decided to slow its bond purchase as inflation surges. Bank of England kept its policy rate unchanged while voted 7-2 to maintain the quantitative easing programme at GBP 895 bn against a vote of 7-1 in august policy.

Outlook

- RBI has started with Normalization of liquidity with increased quantum of VRR, OMO Sale, however they have also emphasized that ample liquidity will be maintained in the system. Inflation has dipped from the peak, robust GST collection, lower Government borrowing is providing comfort to the market on rates. In October policy, we believe RBI will lower its inflation forecast while maintaining status quo on policy rate and stance, although split in voting pattern can increase further. Longer term bonds will take cues from RBI's stance on OMO/Operation twist; however, RBI's liquidity operations will determine short term rates.

Statutory Details Sponsor: Life Insurance Corporation of India.

Investment manager: LIC Mutual Fund Asset Management Ltd. CIN: U67190MH1994PLC077858

For further details, please refer to the Scheme Information Document, Statement of Additional Information & Key Information Memorandum cum Application forms, available on our website www.licmf.com and at the official points of acceptance of LIC Mutual Fund Asset Management Ltd.

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