

Debt Market Review



Mr. Marzban Irani, CIO - Fixed Income

Market Review

- The International Monetary Fund in its World Economic Outlook forecasts has indicated that global growth will contract by 4.9 percent due to the coronavirus disruption in CY20 but will rise by 5.4 percent in Cy21.
- The COVID-19 pandemic had a higher negative impact on economic activity in the H1CY20 than anticipated and the recovery is projected to be more gradual than previously forecasted. Due to COVID and resultant lock-down, India's economy got hit meaningfully. Notably, India's economy is projected to contract by 4.5 percent following a longer period of lockdown and slower recovery than anticipated in Apr'20.
- The revenue outlook remains to be weak with the Goods and Services Tax (GST) collection continuing its downtrend. The GST collection during the period April 1-June 25 stood as low as ₹ 1,56,846 crore. On a more comparable basis GST collections in 1QFY21 contracted 41%.
- Economic indicators such as electricity consumption, UPI payments, railway freight are either close to pre-Covid levels or improving at a fair pace, however, other indicators like road traffic congestion, people mobility, import duty collection are stuck at lower levels and are not improving at the same speed. Daily average of freight loaded in June 2020 was close to 90% of FY2019 average and 92% of June 2019 level.
- FY2020 BOP came in at a huge surplus due to a lower CAD and higher capital account balance. Current account moved into surplus in 4QFY20 and the trend is likely to persist through most of FY2021 due to a sharp moderation in trade balance. This was due to a lower trade deficit of US\$35 bn (US\$36 bn in 3QFY20) on the back of lower import bill of US\$112 bn, even though exports moderated to US\$77 bn.
- The government announced the Q2FY21 T-bill borrowing calendar. It plans to borrow a gross total of ₹ 4.55 tn in H2FY21; This amounts to a net borrowing of ₹ 1.4 tn in Q2FY21 after ₹ 2.57 tn in Q1FY21. System liquidity remains adequately in surplus at over ₹ 3trn.
- In major development across the globe, US job data and retail sales data has surprised on the positive side and gives early indication that bottom has reached in May'20. However, employment and economic activity remain far below pre-pandemic levels and significant uncertainty looms over US trajectory. Federal Reserve Chairman Jerome Powell has indicated that the US is nearing the end of its shutdown phase and beginning to bounce back.

Outlook

- We expect some meaningful measures in the upcoming RBI Monetary Policy. There could be further cuts in Reverse Repo to channelize excess liquidity towards lending to SME, MSME and corporates.
- We also expect FII flows to continue at least in Debt markets as the spread still remains attractive. Though worry remains on the INDO-CHINA skirmishes, we feel both countries would stand to lose if there is a war, hence will look to solve the border issues amicably.

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.

Disclaimer: The views expressed herein are based on internal data, publicly available information and other sources believed to be reliable. Any calculations made are approximations, meant as guidelines only, which you must confirm before relying on them. The information contained in this document is for general purposes only. The document is given in summary form and does not purport to be complete. The document does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. The information / data herein alone are not sufficient and should not be used for the development or implementation of an investment strategy. The statements contained herein are based on our current views and involve known and unknown risk and uncertainties that could cause actual results, performance or event to differ materially from those expressed or implied in such statements. Past performance may or may not be sustained in the future. LIC Mutual Fund Asset Management Ltd. / LIC Mutual Fund is not guaranteeing / offering / communicating any indicative yield on investment made in the scheme(s). Neither LIC Mutual Fund Asset Management Ltd. and LIC Mutual Fund (the Fund) nor any person connected with them, accepts any liability arising from the use of this document. The recipients(s) before acting on any information herein should make his/her/their own investigation and seek appropriate professional advice and shall alone be fully responsible / liable for any decision taken on the basis of information contained herein.