

Debt Market Review



Mr. Marzban Irani, CIO - Fixed Income

Market Review

- Government is continuing with its supply side support with announcement of another round of package to key sectors namely micro-finance institutions, health infrastructure and tourism. Also extending fertilizer subsidy and distribution of food grains. All this will have impact on fiscal sooner or later. Additional government borrowing is also announced to the tune of ₹ 1.58 lakh crore to compensate the shortfall in GST collection to states. 10-year Gsec benchmark traded in a narrow range of 6%-6.07% throughout the month with volume shifting to 5- and 14-year paper due to lack of its outstanding in market.
- In June Monetary policy, on expected lines MPC members kept rates unchanged and maintain accommodative stance in order to provide support to growth. It also announced GSAP 2.0 for ₹ 1.2 Lakh crore vs ₹ 1 Lakh crore announced in GSAP 1.0 in order to manage yields. However, it damper the sentiment as the amount was slightly lower than market expectation and due to inclusion of SDL bonds in upcoming GSAP auctions. As an impact of second wave, RBI lowered GDP forecast for FY 2021-22 to 9.5%, also forecast for inflation (CPI) revised up to 5.1% for the year. WSS data also showed RBI's support in secondary market several times.
- Liquidity continued to be in comfortable zone, average surplus liquidity in Jun was ₹ 4.78 lakh crores vs ₹ 4.65 lakh crores in the month of May. RBI is also continuing to absorb ₹ 2 lakh crore worth of liquidity from the system via the 14-day variable reverse repo auction, the average cut-off for the auction was around 3.48%, 13bps higher than RBI's reverse repo rate of 3.35%. Currency in Circulation (CIC) increased to ₹ 29.53 lakh crore (end Jun) vs ₹ 29.36 lakh crore (end May)
- CPI inflation rose sharply to six month high of 6.3% in May as against 4.23% in April and much higher than market expectation of around 5.40%-5.50% band. Core inflation rose to 6.6% (5.4% in April), along with higher Food and Fuel inflation causing to headline moving upwards. Food inflation rose to 5.24% (2.6% in April) and Fuel inflation rose to 11.6% (8% in April) reflecting higher crude oil prices. Rural Inflation surpasses urban inflation at 6.5% (3.8% in April) and 6% (4.7% in April) respectively. WPI also rose to 12.94% in May as against 10.49% in April primarily because of rise in fuel, food and manufactured inflation.
- Foreign portfolio investors pulled out ₹ 3,946 crore (Net) from debt market in June viz a viz ₹ 288 crore (Net) inflow in May 2021.
- Treasury bill Auction calendar for Jul- Sep quarter was announced for an amount of ₹ 2.21 lakh crores with weekly supply reduced to 17,000 crore from 36,000 crore during current quarter.
- The FED kept the policy rate unchanged and continued its monthly asset purchase program. However, officials pointed out that interest rates could be hiked twice by the end of 2023. Bank of England kept also its policy rate and monetary policy stance unchanged in its latest policy meeting.

	30-Jun-21	01-Jun-21	Change
USD/INR	74.33	72.9	1.96%
Brent Crude Oil (\$/bbl)	75.13	70.25	6.95%
Gold (\$/oz)	1,770.11	1,900.44	-6.86%
T-Repo	3.22%	3.23%	-0.01%
10-year G-Sec	6.05%	6.02%	0.03%
10-year AAA PSU	6.89%	7.01%	-0.12%
US 10-year Gilt	1.47%	1.61%	-0.14%

Source: Blumberg

Outlook

- Post second wave now its Delta variant, nevertheless, rate of daily new cases and active cases started coming down. Hence normalization of liquidity and monetary support will also start. Looking at the vast borrowing program and market appetite, RBI will have to continue with its support in the form of GSAP. OMO, secondary market purchase but all this will add to already flushed liquidity. Hence, expectation of RBI increasing the tenor or amount of VRR rises, which will also normalize short term yields curve.
- CPI for June will be crucial to watch, whether it again crosses RBI's threshold band of 6%. If so, it will be a selling bias in the market as central banks first quarter projection of 5.2% will be missed by more than 30 bps and it would be difficult for RBI to ignore Inflationary risk while focusing on growth. In Corporate bonds fresh issuance remains low, however as economy open up credit growth and corporate bond issuance will also increase. Hence, we expect corporate bonds spread viz a viz Gsec to rise from current level.

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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