

Debt Market Review



Mr. Marzban Irani, CIO - Fixed Income

Market Review

- The month of March marks a historic yet exceptional month where the virus outbreak literally brought entire world to standstill. With Deaths peaking in China followed by Italy and Iran, it gave us a clear picture of the wrath that the virus could create. Economies had to take bold steps to arrest the spread by shutting its borders and declaring lockdowns. Needless to say, that the resultant economic fallout of this would be unprecedented. However, India has been lucky with this coronavirus as we are yet to enter the most crucial 3rd & 4th phase. Nevertheless, Indian governments, both central and state, have been proactive in addressing the crisis by declaring 21-day lockdown till April 14th, 2020.
- In March, World Health Organization (WHO) declared the outbreak 'Pandemic' and a global health emergency. The virus has now in over 203 countries/territories/areas and spread across all the continents. As per WHO website, 7,50,890 cases were confirmed globally as on March 31, including 101739 cases in Italy alone. Death toll as on date stands at 36405 globally including 11591 in Italy alone.
- Economic impact in China has been huge on China as its factory output plunged all-time low. The economic impact of the pandemic is believed to be similar globally as well with GDP of US and EU expected to touch negative growths. On 3rd March, US Fed cut interest rates abruptly by 50bps and by 17th march it reduced its Fed rate to the range of 0-0.25%. The rate cut was followed by subsequent rate cut by Australia, Canada & China.
- The complete 21-day COVID-19 shutdown of most economic activity in India has created new roadblocks, causing severe disruptive impact on both demand and supply side elements across sectors. A study by Hindu Business Line report suggest the cost of the lockdown is pegged at around \$120 billion (approximately Rs. 9 lakh crore) or 4% of the GDP.
- In order to address Covid – 19 crises, Finance Ministry and RBI also undertook following steps. Finance Ministry rolled out a ₹1.7 trillion relief package, marking an aggressive attempt to limit the economic damage caused by the Covid-19. The relief package, under the newly framed Prime Minister Garib Kalyan Yojana, aims to alleviate the financial pain faced by migrant workers, farmers, urban and rural poor, and women. RBI preponed its MPC in March to take necessary action towards the crises. Repo rate was cut by 75 bps to 4.40%. All six members voted for retaining stance at “accommodative”. On liquidity front, LTRO announced for 1,00,000 crores for CDs and corporate bonds. CRR was cut by 100 bps to 3% for a year. Total liquidity infused 3,74,000 crores and Reverse repo rate cut by 90 bps to 4% and MSF rate at 4.65%, thus widening the policy rate corridor to 65 bps from 50 bps. It also allowed a moratorium of three months on payment of instalments for term loans outstanding as on March 1, 2020 without asset classification downgrade.
- In other major events OPEC conducted a meeting where Saudi Arabia insisted the member of the cartel including Russia to cut production in order to hold the falling oil prices. Russia failed to agree with the production cut which initiated price war. In response to Russia's rejection to cut production, Saudi retaliated by offering discounts to customers and announcing an increase in output from next month. In March, Oil prices (Brent) saw worst ever single day fall of 27% at 33\$.
- The combined impact of falling trade due to Covid-19 and oil price shock led to US yield falling beyond 1% to its all-time low of 0.3%. The collapse in the oil price spooks investors already nervous about covid-19 with equity markets falling drastically. Oil prices and US 10-year yield ended the month at \$25 and 0.60% respectively. February WPI inflation moderated to 2.26% as against 3.1% in January owing to fading momentum and favourable base effects.
- The moderation was led by lower food inflation of 7.8% (11.5% in January) led by softening across vegetables, food grains, and fruits. Recent moderation in WPI and CPI inflation came on the back of lower food inflation. After the sharp correction in oil prices, CPI inflation should begin to move closer to the RBI's comfort zone of 4%.

Outlook

- The liquidity measures are positive for the bond markets as corporate bond yields have already declined by 250-300 bps at short end and 50-100 bps in long end. The measures also ease the financial burdens of the sector under stress due to Covid-19. Introduction of LTRO, HTM classification and exemption for large exposure framework will likely incentivize banks to invest in up to 3-year non-government securities. Such a security bought can be categorized as HTM and will be over and above the existing limit for HTM securities. The CRR cut will encourage banks to lend when required the most. Overall sentiment should improve with a caution towards Covid-19.
- With respect to the lockdown, we hope that the curve flattens out as far as number of Covid-19 positive cases are concerned by April 14th. However, if the number keeps increasing then we might see an extension of the lockdown. Further even if things are under control, there could be staggered relaxation of rules.

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.