

## Debt Market Review



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The month of May was marked by extension of policy reforms both on economy as well as fiscal front, as the country continues its fight against Covid-19. The pandemic continued to extend its dark shadow on the economy with number of cases touching new highs every day. Economy and Industry continue to suffer from lockdown and restricted consumption. The month, however ended on a promising note of probable loosening up of the lockdown, opening up of the economy in a phased manner and probable peaking of cases in India.

The most important event for the debt market in the month of May was the announcement of early monetary policy where the reserve Bank of India cut the repo rate by 40 basis points to 4%. On 22nd May 2020, RBI made an early announcement of Monetary Policy before the scheduled one on June 5th 2020 which indicated the requirement of RBI intervention to deteriorating growth outlook. Repo rate reduced by 40 bps to 4 percent along with Reverse repo reduction at 3.35 percent. On the inflation front, there is uncertainty in immediate period due to lack of data and supply chain issues. But this is expected to get even by second half and inflation is expected to decline towards RBI comfort level, however, the growth remains a concern. Electricity and fuel consumption showing huge decline which led to the decision of rate cut. In view of all this, RBI decided to maintain its stance as accommodative, as long as needed to revive growth and mitigate the impact of COVID 19. Repo rate cut is a feel good factor and yields declined by 10-15 bps. The MPC retained its accommodative stance and in order to mitigate the impact of Covid-19, would continue till growth revives, while ensuring that inflation remains within the target. The RBI also extended the moratorium on term loans and interest on working capital loans by three months, improving the cash flow of companies. The RBI has also allowed state governments to meet a larger proportion of redemptions (to around 45% of total redemptions) this year from the Consolidated Sinking Fund (CSF), easing some supply concerns. The MPC in its statement pointed out that the “macroeconomic impact of the pandemic is turning out to be more severe than initially anticipated”, accentuated by weakness in demand and supply-side disruptions. MPC acknowledged that FY2021 GDP growth is likely to be negative, with some improvement in growth impulses likely in 2HFY21. On the macro front, India’s Real GDP growth, expectedly, moderated to 3.1% in 4QFY20 Nominal GDP growth improved marginally to 7.5%. FY2020 GDP growth slowed to 4.2% against 6.1% in FY2019 with a steady decline over the quarters.

India’s fiscal deficit widened to 4.59% of gross domestic product (GDP) for the previous fiscal, overshooting the government’s revised target of 3.8%. The fiscal deficit for April reached 35.1% of the FY21 target of Rs 7.96 lakh crore due to lower revenue, which was hit hard as economic activity stalled after the lockdown was imposed to contain the spread of Covid-19. With the start of the lockdown, Mar’20 IIP registered a record contraction and is likely to worsen for Apr’20. Most components of IIP – manufacturing, capital goods, infra, durables and staples – recorded the worst performances under the new series. With the start of the lockdown, Mar’20 IIP registered a record contraction and is likely to worsen for Apr’20. Without adequate, timely and well-structured stimulus, multi-year industrial recession looks likely.

### Outlook

With a huge weekly supply, ideally the yields should inch upwards but with the regular intervention from the Reserve Bank of India, the yields are expected to remain supportive. With reverse repo rate reduction, the excess liquidity is expected to come to the market and the tenure between 1-3 years looks attractive.

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](http://www.licmf.com) and at the official points of acceptance of LIC Mutual Fund Asset Management Ltd.

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