

Debt Market Review



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Market Review

- Market started on a positive note in light of abundant liquidity in the system and expectations of continuous OMO by RBI as stated in its October policy for both GSEC and SDL. However, market got disappointed with RBI resorting to weekly operational twist of INR 100 Bn against INR 200 Bn OMO announced in policy due to ample liquidity in the system, also there was only one SDL OMO of INR 100 bn. New 10 year gsec benchmark also got subscribed at a coupon of 5.85%.
- In last few MPC meetings, RBI was of the firm view that rising CPI numbers were fallout of supply constraints due to covid related lockdown and post October CPI numbers would see a decline. However upward momentum continued with CPI rose to 7.61% in October vs 7.27% in September which was way above market estimates. Not only food, but even core CPI showed an uptick at 5.77%. GDP Growth also contracted for second consecutive quarter, however it was better than market expectation at -7.5% Year on year Vs -23.9% for previous quarter.
- Government's GST collections crossed INR 1 Tn mark for second consecutive month, which stood at INR 1,050 Bn for November vs INR 1,052 in October. It indicates some normalization in activity (including festive demand) and impact of unlocking. Government also announced measures under Atmanirbhar 3.0 package (including new PLI schemes).
- The measures amount to around ₹ 2.65 Tn (including the earlier announced PLI schemes of ₹ 1.5 Tn) with the fiscal cost (assuming its spent in FY2021E) being around ₹ 1.26 Tn (0.7% of GDP). 7MFY21 fiscal deficit was at 119.7% of FY2021BE (65% of FY2021E). Gross tax collections for 7MFY21 fell 17% with direct taxes and indirect taxes contracting 27% and 15%, respectively.
- FED kept its rate unchanged at 0-0.25% during its November policy. U.S elections result was also widely trended and tracked during the month, though there was lot of drama involved in the way Trump reacted to the election results, Biden's convincing win gave positive signals to the market. Reducing uncertainty around U.S elections has improved capital flows in emerging markets including India. In November alone there has been FPI inflows to the tune of approximately INR 630 Bn with net positive in both Equity and Debt.

Outlook

- On the policy front, elevated inflation will make it challenging for the MPC members to continue to treat the recent high inflation readings as transient, given that recovery is also gathering pace. However, we expect December policy to be a non-event keeping rate unchanged, but MPC will continue to be dovish as it was in October policy.

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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