

## Debt Market Review



**Mr. Marzban Irani, CIO - Fixed Income**

### Market Review

- Yields continued its upward trend in first half of the month due to hawkish RBI policy, March CPI print way above market expectation and also due to hardening in global yields however it recovered later during the month due to short covering in G-Sec, lower SDL and corporate bonds supply and softness in crude prices. RBI has kept policy rates unchanged in its April policy however introduced Standing Facility Deposit (SFD) as new floor of the LAF corridor at 3.75%, replacing the fixed rate reverse repo as the floor of the LAF corridor. MPC members also retained its accommodative while focusing on withdrawal of accommodation to ensure inflation remains within the target going forward, while supporting growth. It has revised CPI projection upward for FY2023 to 5.70% from its earlier projection of 4.50%, also revised GDP projection downward to 7.20% for FY2023 vs earlier projection of 7.80%. 10-year G-Sec benchmark traded in a wide range of 6.90%-7.25%. OIS has seen much hardening during the month, with 5-year OIS hardened by 60 bps to 6.62% level and 1-year OIS also hardened by 55 bps to 5.05%.
- System liquidity remained in surplus range with average surplus liquidity in April increased to Rs. 6.56 lakh crores vs Rs. 6.42 lakh crores in the month of March. Currency in Circulation (CIC) rose to Rs. 32.09 lakh crore in April vs Rs. 31.35 lakh crore in March end.
- CPI inflation accelerated way above market expectation and continued remaining above RBI threshold band of 2%-6% to 6.95% in March as against 6.07% in February. Core inflation rose to 6.59% in March vs 6.05% in February, food inflation also surged to 7.68% in March vs 5.90% in February indicating price pressure across segments. Average monthly CPI for FY2022 stands at 5.5%.
- Gross GST collection for April seen at Rs. 1.68 lakh crore vs Rs. 1.42 lakh crore collected in March, it's at all time high indicating better tax compliance and strong economic activity. Its first time GST collection has crossed Rs. 1.50 lakh crore mark and consequently 10th time Rs. 1 lakh crore mark.

### Market Indicators

	29-Apr-22	01-Apr-22	Change
USD/INR	76.43	75.55	1.17%
Brent Crude Oil (\$/bbl)	109.34	104.39	4.74%
Gold (\$/oz)	1,896.93	1,932.73	-1.85%
T-Repo	3.46%	3.13%	0.33%
10-year G-Sec	7.14%	6.90%	0.24%
10-year AAA PSU	7.38%	7.12%	0.26%
US 10-year Gilt	2.93%	2.40%	0.54%

Source: Bloomberg

- Foreign portfolio investors sold Rs. 5,614 crores (Net) in debt market in April 2022 as against an outflow of Rs. 8,876 crores (Net) in March 2022. For FY2022 we have registered an inflow of Rs. 14,270 crores (Net) in Debt segment as against an outflow of Rs. 17,178 crores (Net) in FY2021.
- Banks current investment to deposit ratio is at 28.41% and Credit to deposit ratio at 71.60% with a year-on-year deposit growth of 10.10% and Credit growth of 11.20% viz a viz 8.8% and 8.5% respectively a month ago.

### Outlook

- With CPI crossing RBI's tolerance band sharply for third consecutive month and the same is expected to remain elevated in upcoming prints also given the hawkish tone by MPC members in last policy thereby increasing the probability of early policy reversal starting June. With lower SDL and corporate bond supply we have seen good investor demand in weekly G-sec auctions. 10-year benchmark G-Sec yield is expected to trade in 7-7.30 band in immediate future. However, going ahead yields are expected to inch upwards due to huge weekly supply in first half of financial year and also expectation of aggressive rate hikes from FED in upcoming

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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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