

Debt Market Review



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Market Review

- During the month yields went up majorly on account of RBI preponing short VRR, higher global yields, surge in crude prices and FPI outflow. Also, sentiments remained weak due to absence of announcement of new 10-year benchmark and OT/OMO as against market expectations. RBI in its December monetary policy continued doing fine tuning of liquidity while keeping policy rate and stance unchanged. RBI continued increasing quantum of VRR to ₹ 7.5 lakh crores from ₹ 6 lakh crores earlier. Gross SDL borrowing calendar for Q4 of FY2022 was higher than market expectation at ₹ 3.1 lakh crores, also for same period Gross TBILL borrowing calendar was announced for ₹ 3.3 lakh crores. 10-year Gsec benchmark traded in a range of 6.35%-6.48% with upward bias throughout the month. 5-year OIS has hardened marginally by 3 bps during the month from 5.34% to 5.37% at the end of month, however 1-year OIS hardened 9 bps to 4.34%.
- System liquidity remained in surplus range with average surplus liquidity in December slightly reduced to ₹ 7.39 lakh crores vs ₹ 7.62 lakh crores in the month of November. Currency in Circulation (CIC) marginally rose to ₹ 29.87 lakh crore (end December) vs ₹ 29.83 lakh crore (end November).
- CPI inflation continued its upward movement to 4.91% in November as against 4.48% in October majorly on back of higher food prices mainly vegetables, fruits, and eggs. Core inflation also picked up to 6.30%. as against 6.06% in previous month.
- The gross GST collected in December stood at ₹ 1.29 lakh crore, which was slightly lower than the ₹ 1.31 lakh crore revenue collected in November. Gross average monthly GST collection for Q3 of FY2022 stood at ₹ 1.30 lakh crore as against the average monthly collection of ₹ 1.12 lakh crore and ₹ 1.15 lakh crore in the Q1 and Q2 of FY2022 respectively.

Market Indicators

| | 31-Dec-21 | 01-Dec-21 | Change |
|--------------------------|-----------|-----------|--------|
| USD/INR | 74.34 | 74.91 | -0.76% |
| Brent Crude Oil (\$/bbl) | 77.78 | 68.87 | 12.94% |
| Gold (\$/oz) | 1,829.20 | 1,781.73 | 2.66% |
| T-Repo | 3.37% | 3.28% | 0.09% |
| 10-year G-Sec | 6.45% | 6.35% | 0.10% |
| 10-year AAA PSU | 6.93% | 6.83% | 0.10% |
| US 10-year Gilt | 1.51% | 1.40% | 0.11% |

Source: Bloomberg

- After a positive flow for last 5 months foreign portfolio investors sold Rs. 10,408 crore (Net) from debt market in December viz a viz Rs. 3,449 crore (Net) inflow in November 2021.
- FOMC in its December policy kept policy rate unchanged, but highlighted concern on rising inflation and accelerated the tapering pace to USD 30 billion a month. The European Central Bank (ECB) also kept policy rate unchanged. However, surprisingly Bank of England (BoE) hiked its policy rate by 15 bps.

Outlook

- RBI is continuing with normalization of liquidity with increased quantum and number of auctions of VRR to bring short term rates closer to REPO rate. Globally also central banks are reducing liquidity support and are highlighting concern on rising inflation. RBI is also expected to change stance going ahead and then hike rates in order to control inflation, however with rising cases of COVID-19 both domestically and globally central banks possible divergence in the timing, quantum and the pace of the actions will be the key driver for markets. Steepening in yield curve can be seen as we approach budget if there is major shortfall in disinvestment target as it can result in extra borrowing.

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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