

Debt Market Review



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Market Review

- Market started on a jittery note with yields hardening across the curve post union budget due to higher-than-expected gross market borrowing of Rs. 14.95 lakh crores for FY2023 and absence of any announcement related to index inclusion. However later during the month yields corrected due to dovish RBI policy and reduced market supply due to cancellation of G-Sec auctions and incremental monthly switches. RBI in its monetary policy kept key rates unchanged and maintained accommodative stance, however Prof. Jayant Varma continued voting against retaining accommodative stance. Also, MPC projected CPI inflation for FY2023 at much lower at 4.5%. During end of month RBI announced revised Treasury bill calendar for month of march raising issuance by Rs. 60,000 crores. Higher global bond yields and rising oil prices due to escalating geopolitical tension between Russia and Ukraine added to the negativity. 10-year Gsec benchmark traded in a wide range of 6.65%-6.94%. 5-year OIS has also hardened by 10 bps during the month from 5.78% and then softened to settle at 5.77% at the end of month, however 1-year OIS softened 16 bps to 4.33%.
- System liquidity remained in surplus range with average surplus liquidity in February increased to Rs. 6.88 lakh crores vs Rs. 6.29 lakh crores in the month of January. Currency in Circulation (CIC) marginally rose to Rs. 30.80 lakh crore (end February) vs Rs. 30.32 lakh crore (end January).
- CPI inflation accelerated slightly above RBI threshold band of 2%-6% to 6.01% in December as against 5.66% in December mainly because of unfavourable base effect especially in food and fuel components.
- Slight decline in gross GST collection seen in February at Rs. 1.33 lakh crore vs Rs. 1.38 lakh crore collected in January, however it has crossed Rs. 1.30 lakh crore mark for 5th time this year. Gross average monthly GST collection till date for current FY2022 stands at Rs. 1.22 lakh crore.
- India's GDP grew at 5.4% YOY during third quarter of FY 2021-22 lower than 8.4% YOY registered during Second quarter, yearly GDP growth estimate for FY 2021-22 is revised lower to 8.9% compared to earlier estimate of 9.2%. YOY GVA growth for same quarter came at 4.7%.

Market Indicators

	28-Feb-22	01-Feb-22	Change
USD/INR	75.34	74.80	0.72%
Brent Crude Oil (\$/bbl)	100.99	89.16	13.27%
Gold (\$/oz)	1,908.99	1,801.19	5.98%
T-Repo	3.23%	3.39%	-0.16%
10-year G-Sec	6.77%	6.85%	-0.08%
10-year AAA PSU	7.11%	7.10%	0.01%
US 10-year Gilt	1.83%	1.83%	-0.01%

Source: Bloomberg

- Foreign portfolio investors sold Rs. 2,586 crores (Net) in debt market in February 2022 as against an inflow of Rs. 3,080 crores (Net) in January 2022
- Bank of England's MPC provided a hawkish surprise to market by raising its key policy rates by 25 bps to 0.50% due to persistent higher inflation. ECB kept rates unchanged and maintained accommodative stance.

Outlook

- In mid of ongoing war between Russia and Ukraine commodity prices are rising especially crude, hence it's expected that government will also raise domestic fuel prices which will be inflationary in nature. Market participants will be watchful for inflation print both domestic and in US. Also, whether FED is rising rates by 25 bps or 50 bps in its upcoming monetary policy in mid-march and governments first half borrowing calendar figures. Investors appetite specially insurance companies and pension funds will provide support to yields in secondary market in absence of any G-sec auctions during the month.

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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