

## Debt Market Review



Mr. Marzban Irani, CIO - Fixed Income

### Market Review

- During the month yields went up majorly on account of discontinuation of GSAP (G-Sec Acquisition program) by RBI, higher VRR auction and cutoff, persistence of higher commodity prices, tracking global yield and FPI outflow. RBI in its October monetary policy continued doing fine tuning of liquidity while keeping policy rate and stance unchanged. However, Prof. Jayanth Varma maintained his stance against continuation of accommodative stance. MPC has retained its growth projection for FY2021-22 to 9.5% while revising CPI inflation projection for same period to 5.3% from 5.9% as estimated in August policy. As globally policy normalization started, RBI also suspended GSAP and raised quantum of VRR auction to Rs. 6 lakh crores. 10-year Gsec benchmark traded in a broad range of 6.24%-6.39% throughout the month with volume dominated in 5 year, 10 year and 14-year paper. 5 year OIS has also hardened 31 bps during the month from 5.35% to 5.66% at the end of month, similarly 1 year OIS also hardened 30 bps to 4.31%
- System liquidity remained in surplus range with average surplus liquidity in October slightly reduced to Rs. 7.48 lakh crores vs Rs. 7.87 lakh crores in the month of September. Currency in Circulation (CIC) marginally rose to Rs. 29.44 lakh crore (end October) vs Rs. 29.25 lakh crore (end September)
- CPI inflation moderated to 5 months low at 4.35% in September as against 5.30% in August and slightly below market expectation of around 4.50% majorly on back of favourable base effect and lower food and beverages prices. Core inflation remained sticky at 5.99%.

### Market Indicators

Market Indicators			
	29-Oct-21	01-Oct-21	change
USD/INR	74.88	74.13	1.02%
Brent Crude Oil (\$/bbl)	84.38	79.28	6.43%
Gold (\$/oz)	1,783.38	1,760.98	1.27%
T-Repo	3.28%	3.27%	0.01%
10-year G-Sec	6.39%	6.25%	0.14%
10-year AAA PSU	6.92%	6.80%	0.12%
US 10-year Gilt	1.56%	1.46%	0.10%

Source: Bloomberg

- Foreign portfolio investors pulled out Rs. 1,272 crore (Net) in debt market in October viz a viz Rs. 13,363 crore (Net) inflow in September 2021.

### Outlook

- RBI is continuing with normalization of liquidity with increased quantum of VRR, however also emphasizing that ample liquidity will be maintained in the system. Inflation has dipped from the peak, GST collection improving, favorable borrowing pattern and expectation of operational twist is providing cap to sharp upside to yield. In upcoming policies, RBI can lower the corridor between REPO rate and Reverse repo rate. Longer term bonds will take cues from RBI's stance on Operation twist, global commodities and yield; however, RBI's liquidity operations will determine short term rates. Yield curve is expected to be more flattening and interest rate to inch up, aggressively at shorter end of curve than longer end.

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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