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GILTS MARKET UPDATE

January 16, 2023

(19/12/2022 – 23/12/2022) On Monday govt. securities yields opened a bit subdued with the 10 yr benchmark more towards 7.36% due to the recent hikes in small saving rates and higher than expected state govts borrowing schedule in the January – March 2023 quarter but then the markets recovered to close 2 bps lower at 7.34%. State govts plan to raise 3.41 trillion rupees by selling bonds in 13 weekly auctions between January – March quarter. The supply is sharply higher than the market expectations of 2.70 trillion rupees to 3.00 trillion rupees. State govts had borrowed 4.57 trillion rupees between April and December, lower than the scheduled 6.55 trillion rupees, and a sudden spike in issuance may see crowding out in the last quarter of the financial year. However, yields were lower on Tuesday by 2bps amid value buying from long-term investors like insurance companies and pension funds which have received inflows.

During the week, the govt. securities largely traded in the narrow price range with muted volumes. On the global front, the US FOMC meeting minutes were broadly on expected lines. There are no triggers at all for government bond markets and we may be in a very narrow range for some time now. In addition, bond yields hardened traders as traders trimmed their position ahead of the US non-farm payrolls data.

The benchmark 10-year 7.26% GS 2032 closed at 7.37% as against the previous week (Friday – December 30, 2022) closing of 7.33%.

Government Securities – Secondary Market Yields

	January 6, 2023	January 13, 2023
2 Years	7.05	6.87
5 Years	7.30	7.14
10 Years	7.37	7.30
14 Years	7.45	7.37
29 Years	-	7.37

Government Securities - Primary Market Auction Cut Off (Yields & Price)

January 6, 2023				January 13, 2023			
Nomenclature	Notified Amount	Cut Off (Yield)	Cut Off (Price)	Nomenclature	Notified Amount	Cut Off (Yield)	Cut Off (Price)
7.38% GS 2027	7000	7.2502	100.48	New GS 2025	4000	6.89	100
7.26% GS 2032	12000	7.3390	99.45	7.10% GS 2029	11000	7.2582	99.20
7.36% GS 2052	9000	7.4572	98.83	7.41% GS 2036	6000	7.3568	100.45
				7.40% GS 2062	9000	7.3683	100.39

(26/12/2022 – 30/12/2022): The week started with the G Secs opening on a bullish note due to a sharp overnight decline in US-Treasury yields owing to weak non-farm payroll data. This indicated that the tight labour market conditions were cooling down in USA and the Federal Reserve might now slow down the pace of its interest rate hikes in the coming FOMC meetings. G Sec yields closed ~3-6 bps softer across the curve. On Tuesday the market opened on a bullish note due to the decline in both US-Treasury yields and crude oil price. In addition, a sharp appreciation of the rupee against the dollar supported the yields. Gilts closed ~1-4 bps lower across the curve. The G Sec market opened on a bearish note on Wednesday due to the upsurge in US-Treasury yields but later in the day softened due to some buying interest. In addition, appreciation of the rupee against the USD also supported the yields. On Thursday G Secs yields ended on a steady note tracking the decline in US-Treasury yields and offset by a surge in crude oil prices. G Secs largely traded in a narrow range ahead of domestic and US inflation data to be released after market hours. Thus, gilts closed marginally changed as compared to the previous closing.

Govt. securities yields fell during this week, with the benchmark posting its biggest weekly fall in six weeks after ending marginally higher on Friday. The yields fell in the week as easing inflation in India and the United States raised bets of a pause in rates soon.

The benchmark 10-year GS 7.26% 2032 yield ended at 7.30%, 7 basis lower than the closing on last weekend (January 06, 2023).

State Government Securities

SDL - Primary Market Auction Cut off (Range - Yields)		
	January 3, 2023	**January 10, 2023**
2 Years	**7.26**	--
5 Years	--	--
10 Years	**7.60 – 7.67**	**7.57 - 7.62**
15 Years	**7.64**	--
20 Years	--	--

SDL - Secondary Market (Range Yields)		
	January 6, 2023	**January 13, 2023**
2 Years	--	--
5 Years	**7.47 – 7.49**	**7.45 - 7.46**
10 Years	**7.63 -.7.64**	**7.56 - 7.57**
15 Years	**7.62 – 7.63**	**7.59 - 7.60**
20 Years	--	**7.58 - 7.59**

Tracker

Trackers	January 6, 2023	January 13, 2023
Average Call Rate (%)	**5.67**	**6.21**
Net Banking System liquidity - Deficit (-)/Surplus(+) (Rs Crs)	**67,279**	**76,875**
Bank Deposit Growth (%)	**9.40**	**9.20**
Bank Credit Growth (%)	**17.40**	**14.90**

CPI (%)	5.88	5.72
Core Inflation (%)	6.00	6.10
WPI Inflation (%)	5.85	5.85

Nifty	17,859	17,956
Sensex	59,900	60,261

Re/US$	82.54	81.26
FPI Investments (US$ Bln) (Figures cumulative for Debt & Equity – Current FY)	(-3.444)	(-4.576)

Foreign Exchange Reserves (US$ Bln)	562.85	561.58

Gold/10 gm (Rs)	55,530	56,150
Gold/Oz (US$)	1865.71	1916.48
Crude Oil - Brent (US$/bbl)	78.57	84.81
2 Yr USA - Treasuries	4.28	4.20
10 Yr USA - Treasuries	3.60	3.29

Consumer price inflation cooled down to a one-year low in December below the RBI's upper tolerance range of 6% for the second straight month. This is primarily due to the lower vegetable prices; however, inflation has hardened in the case of other edible items. The core inflation remained sticky over 6% as pressure emanating from pent-up service sector demand continued through December, evident from rising costs of healthcare, education, and personal care. This could continue to pose as a challenge in bringing the headline number to the 4% target The core inflation is still high and retail inflation can rise in January as the favourable base effect wanes.

IIP growth has surprised on the upside accelerating to a 5-months high of 7.1% in November supported by the favourable base and momentum effect. Industrial output registered a broad-based improvement across the sectors. Manufacturing sector registered the largest positive contribution of 4.7 percentage points to the overall industrial activity growth, while mining and electricity made contribution of 1.4 and 1 percentage points respectively. The improved performance in industrial activity is also in line with the healthy rise of core sector output in November.

Capital goods and Infrastructure recorded a healthy double digit growth of 20.7% and 12.8% respectively in November. Growth in consumer non-durables sprung back into the positive zone after witnessing negative growth for four months in a row, consumer durables also moved to the positive zone after three months.

In future, it will be critical for the current growth momentum in the industrial sector to be maintained. In the environment of global growth slowdown, maintaining growth in the industrial output will depend on the resilience and momentum of domestic demand recovery. Healthy credit growth and moderating of inflation in the economy is likely to be supportive of domestic consumption demand in the months to come. Pick up in the investment demand will also be supportive of segments like capital goods and infrastructure. However, industrial sector will definitely feel the pinch of global slowdown as reflected by contraction in the export dependent sectors.

India's merchandise exports face headwinds, given the moderation in global growth. At the same time, given India's relatively better growth prospects, imports are expected to remain buoyant. This means there can be a pressure on goods trade and thus on CAD. Along with this, further correction in international crude oil and raw material prices in view of the softening global demand would also narrow the trade deficit. Services exports and remittances have so far remained resilient and have provided cushion to CAD. These needs to be seen to see how it pans out as the growth slows. CAD can also be under further pressure this fiscal if the FDI flows do not revive and FPI inflows recede again.

However, with the international commodity prices softening, and domestic growth momentum which is expected to moderate in sync with the slower global economic scenario, CAD is likely to moderate in the second half of this fiscal.

The global economy is facing formidable headwinds with recessionary risks looming large. The interplay of multiple shocks has resulted in tightened financial conditions and heightened volatility in the financial markets.

The Indian economy is confronting strong global headwinds. Sound macroeconomic fundamentals, healthy financial and non-financial sector balance sheets are providing strength and resilience and overall stability.

While the overall decline in inflation has raised expectations that the RBI may pause its monetary policy tightening. Monetary Policy Committee wants to bring the inflation below 6% in near term and then push it towards its' target of 4% in medium term. So even after reaching terminal rate, RBI is likely to remain on pause for longer time period, unless sure about durable nature of decline in the inflation and hence the pause period is likely to be for extended time. Further currency, growth dynamics will have their role to play. Thus, in view of the RBI's concerns about inflation, future rate hike cannot be ruled out. Henceforth rate action will be data-dependent and the emerging overall global scenario.

With core inflation remaining high, we do not rule out the possibility RBI hiking the Repo Rate by 25 bps to 6.50% in the February meeting. We expect the 10 year to trade within the range of 7.15-7.40% in the short - term period till March 2023.

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