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GILTS MARKET UPDATE

DECEMBER 5, 2022

21/11/2022 – 25/11/2022) During the week the market having largely factored in the slower pace of rates hikes by the Federal Reserve as indicated in the FOMC minutes and supported by positive factors such as the decline in U.S. Treasury yields and oil prices, the benchmark 10 yr G Sec yield moved in the narrow band of 7.25 to 7.32 touching a low of 7.25 on Thursday.

However, the benchmark 10 yr G Sec yields rose on Friday as a higher-than-expected cut-off at the weekly auction was above the market expectations. Further the 10 yr benchmark G Sec closed at 7.30 due to selling pressure towards the close of the trading session.

The benchmark 10-year yield 7.26% G Sec 2032 ended at 7.30% as against the previous week closing of 7.31%

Government Securities – Secondary Market Yields

	November 25, 2022	*December 2, 2022*
2 Years	6.86	6.80
5 Years	7.17	7.11
10 Years	7.30	7.22
14 Years	7.42	7.34
29 Years	7.42	7.35

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

November 25,2022				December 2, 2022			
Nomenclature	**Notified Amount**	**Cut Off (Yield)**	**Cut Off (Price)**	**Nomenclature**	**Notified Amount**	**Cut Off (Yield)**	**Cut Off (Price)**
7.38% GS 2027	**7000**	**7.1021**	**101.06**	**6.69% GS 2024**	**4000**	**6.8025**	**99.83**
7.26% GS 2032	**12000**	**7.2722**	**99.90**	**7.10% GS 2029**	**6000**	**7.177**	**99.60**
7.36% GS 2052	**9000**	**7.3971**	**99.54**	**7.54% GS 2036**	**11000**	**7.3562**	**101.55**
				7.40% GS 2062	**9000**	**7.3489**	**100.64**

(28/11/2022 – 02/12/2022): Govt Securities yields edged lower on Monday as the sustained fall in global crude oil prices raised expectations of domestic inflation remaining on a downtrend and the RBI slowing its pace of interest rate hikes going ahead. The 10 yr benchmark G Sec yields ended marginally higher on Tuesday as recovery in global crude oil prices weighed on investor sentiment while some traders also trimmed holdings ahead of the GDP data due on Wednesday. Foreign investors turned buyers of G Secs in November, but the bulk of investments were in five liquid Securities - 6.69% GS 2024 followed by 7.38% GS 2027 , benchmark 7.26% GS 2032 ,7.10% GS 2029 and 7.54% GS 2036.

The 10 yr GS 2032 yields declined on Thursday with the benchmark yield ending at its lowest level in eleven weeks after Federal Reserve Chair Jerome Powell struck a more dovish tone than the market expected on interest rates. However, the 10 yr benchmark 7.26% GS 2032 yields closed higher level at 7.22% on Friday as demand at the weekly debt auction fell short of expectations and also due to profit booking by the market participants.

State Government Securities

SDL - Primary Market Auction Cut off (Range - Yields)		
	November 22, 2022	*November 29 2022*
2 Years	-	-
5 Years	-	7.44
10 Years	7.69 – 7.70	7.60 – 7.62
15 Years	7.74	7.63 – 7.68
20 Years	7.66	7.63

SDL - Secondary Market (Range Yields)		
	November 25, 2022	*December 2, 2022*
2 Years	-	-
5 Years	7.40	7.35
10 Years	7.61 – 7.66	7.57
15 Years	7.66 – 7.67	7.56
20 Years	-	7.63

Tracker

Trackers	25-11-2022	02-12-2022
Average Call Rate (%)	6.12	5.49
Net Banking System liquidity - Deficit (-) Surplus(+) (Rs Crs)	19,524	1,72,113
Bank Deposit Growth (%)	8.20	9.60
Bank Credit Growth (%)	17.00	17.20

CPI (%)	6.77	6.77
Core Inflation (%)	6.00	6.00
WPI Inflation (%)	8.39	8.39

Nifty	18,512	18,683
Sensex	62,293	62,857

Re/US$	81.69	81.24
FPI Investments (US$ Bln) (Figures cumulative for Debt & Equity – Current FY)	(-4.130)	(-2.665)

Foreign Exchange Reserves (US$ Bln)	547.25	550.14

Gold/10 gm (Rs)	52,970	53,835
Gold/Oz (US$)	1756.14	1797.82
Crude Oil - Brent (US$/bbl)	83.63	85.57
2 Yr USA - Treasuries	4.47	4.28
10 Yr USA - Treasuries	3.69	3.49

Consumer Price inflation (CPI) eased to the 3-month low of 6.77% (y-o-y) in October supported by the base effect. However, retail prices have gained momentum compared to the last month in the food, housing and fuel and light segments indicating that the moderation in y-o-y number is primarily a statistical phenomenon. Core inflation, which excludes volatile components such as food and fuel, was unchanged at 6.20%. As the core inflation reflects the extent to which the inflation has become broad-based. The core CPI could remain sticky in the near term due to demand-driven pressures. However, with the high base effect kicking in, the inflation numbers are expected to moderate in the coming months. Moderation in global commodity prices and softening of the domestic WPI inflation are also comforting factors.

While the RBI is still sticking with an estimate of 7 per cent GDP growth in the current financial year, challenge facing the Monetary Policy Committee of the RBI is that of Inflation continuing to be high and sticky while growth is still iffy and trending downward. The RBI's main responsibility is to maintain price stability in the economy. Since retail inflation has stayed above the RBI's tolerance limit of 6 per cent since the start of 2022 for the last 10 continuous months, it risks further undermining the growth momentum.

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Global inflation has remained high despite the hawkish policies of the foreign central banks. The global economic landscape is seeing synchronous monetary policy tightening by major central banks. This should result in sluggish demand from the external sector, affecting domestic exports and should adversely affect the current account. This may lead to demand issues globally causing second-order effects in India. The FOMC FED Minutes – reveal an emerging divergence of views among the FED members about the peak rates and the uncertainty about the peak rates. A less aggressive policy stance by the Fed could also ease the pressure on the Reserve Bank of India.

Nonetheless, there is a need to closely monitor the impact of volatility on food inflation and impact of the exchange rate movement on imported inflation. It is too soon for the RBI to take its eye off inflation. Consumer Price inflation for the first time since the adoption of inflation targeting framework in 2016 is above the upper range of 6% for 10 months since January 2022.

Therefore, we can expect RBI to be less hawkish and go for a 35-bps rate hike in the forthcoming December 5 -7, 2022 MPC meeting and expect the MPC members to evaluate the impact of previous rate hikes, improving sowing patterns of wheat and seasonal fall in perishable food items and spillovers from global slowdown on the domestic economy.

Market sentiment is now bullish with the expectations that this rate hike would be the last one and hence there is constant demand for G Secs leading to a fall in yields.

We expect that with the Terminal Rate at 6.50 by February 2023, the benchmark 10 yr G Sec yield is expected to trade in ***the range of 6.95 - 7.40% in the shorter - term period of December 2022 to March 2023.***

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