

# AUM – FORTNIGHTLY GILTS MARKET UPDATE

October 23 2023

Consumer Price inflation dropped to 5.02% in September compared to 6.83% in August, according to data from the ministry of statistics. The food price inflation for September stood at 6.56% compared to 9.94% in August. CPI eased to a three month low in September on account of a sharp decline in select food items, including vegetable prices and edible oils.

Decline in the inflation of fuel was the result of announcement of subsidy for low income households of 300 rupees per cylinder from 200 rupees announced in August, to contain inflation. However, cereals, pulses and spices continued to witness rise in their prices. Overall there is an upside risks of food inflation on account of uneven monsoon and several states reporting a possibility of a sub-par kharif crop.

RBI had anticipated that inflation is likely to soften from September onwards. The RBI's Monetary Policy Committee retained its inflation projections for the fiscal year at 5.4%. Moreover, the inflation came within RBI's upper tolerance band of 2% - 6%. Despite the positive reduction in inflation, CPI continued to remain above 4%, a target that the RBI has stated would be the key before easing rates. While CPI have dropped to 5.02% , the road to 4% may be an arduous journey.

Wholesale Price Index remained in the negative zone for the sixth consecutive month in September, but the deflation came in at the lowest rate. The WPI inflation rate was (-) 0.26% in September compared to (-) 0.52% in August.

Index of Industrial Production grew by 10.3% in August, the highest since June 2022, after growing at 5.7% in July. The rise was broad based across the manufacturing sectors. Resilient domestic demand have been reflected in the rising of IIP due to the growth in the consumer durables and non-durables. Exports demand revived in August and supported IIP growth for petroleum products, machinery and equipment, textiles, and pharmaceuticals. Infrastructure and construction goods continued to record the highest growth, driven by strong capex spending by the government. Industrial activity is expected to remain resilient but is likely to slow down in the coming months.

Our economic activity continues to show healthy growth momentum and expect the growth to be resilient backed by the investment activities, benign commodity prices and supportive fiscal policies along with optimistic outlook on consumption. However, the impact of uneven monsoon on rural demand remains to be seen.

While trade deficit widened month on month, resilient services exports are likely to cushion the impact. Current account is expected to improve in FY24 but rising oil prices and moderating global demand for services are key risks. In the coming months, the external environment can be a drag, due to the slowdown in the major western economies.

In the October meeting, MPC unanimously voted to keep the repo rate unchanged at 6.5% and also retained its policy stance of “withdrawal of accommodation to ensure that inflation progressively aligns with the

target while supporting growth”. While there was no change in policy rates or stance, RBI communication was relatively hawkish. Further, RBI remained hawkish in its communication with the Governor specifically reiterating that the inflation target is 4% and not the range of 2% - 6%.

The RBI Governor in the MPC statement mentioned that RBI may have to consider open market operations for sale of government securities in order to actively manage the liquidity. The timings and the quantum of OMOs remain unknown, this announcement introduced an element of uncertainty for the bond market. Through OMOs Sales RBI would actively manage the liquidity in the system till the time it is confident of achieving its 4% inflation target on a durable basis.

With the policy rate at the peak, liquidity management will continue to remain the active tool for the RBI. RBI intends to use OMO - Open Market Operation Sales to keep the liquidity tight i.e. suck out excess liquidity from the system. This is likely to keep the yield curve elevated in the medium term.

Finally, after a long wait for years, India has been included in JP Morgan Global Bond EM Index with a cumulative weight of 10% starting from June 2024 till March 2025. The estimated inflows on account of this index inclusion alone are USD 25 – 30 bln in FY25. In addition, if India is included in other indices such as Bloomberg and FTSE, then an additional inflows of USD 25 - 30bln are also possible. This is likely to support the bond market and act as a resistance to any untoward spike in the yields.

On an overall basis, in our view, yields are likely to trade in a range with the 10 year benchmark range of 7.20 – 7.40%.

## Tracker

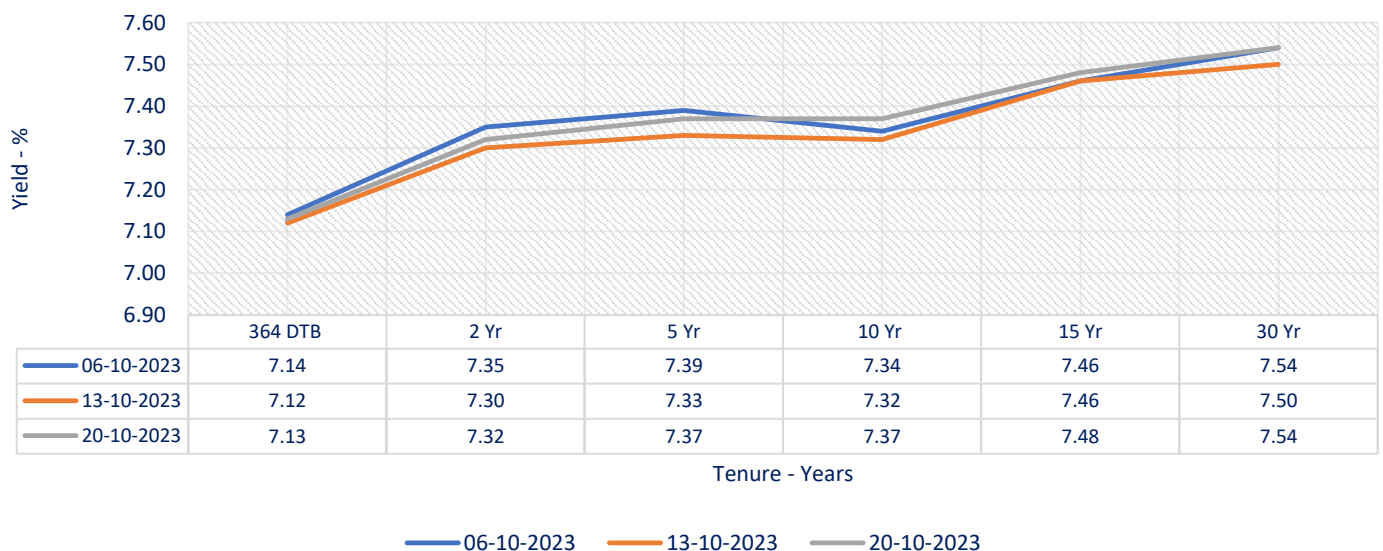
Trackers	October 13, 2023	October 20, 2023
Average Call Money Rate (%)	6.73	6.42
Net Banking System liquidity : Deficit (-) Surplus(+) ( Rs Crs)	20,882.66	- 82,457.23
Bank Deposit Growth (%)	13.20	13.26
Bank Credit Growth (%)	20.00	19.30
CPI (%)	5.02	5.02
Core Inflation (%)	4.90	4.90
WPI Inflation (%)	(-0.26)	(-0.26)
Sensex	66,282.74	65,397.62
Nifty	19,751.05	19,542.65
Re/US\$	83.24	83.14
FPI Investments (US\$ Bln) (Figures cumulative for Debt & Equity – Current FY)	20.072	19.989

Foreign Exchange Reserves (US\$ Bln)	584.74	585.90
Gold/10 gm (Rs)	58,973	60,702
Gold/Oz (US\$)	1931.70	1981.04
Crude Oil - Brent (US\$/bbl)	87.72	92.16
2 Yr USA - Treasuries	5.06	5.07
10 Yr USA - Treasuries	4.62	4.91

### Government Securities – Secondary Market Yields

	October 6, 2023	October 13, 2023	October 20, 2023
<b>364 DTB</b>	7.14	7.12	7.13
<b>2 Years</b>	7.35	7.30	7.32
<b>5 Years</b>	7.39	7.33	7.37
<b>10 Years</b>	7.34	7.32	7.37
<b>15 Years</b>	7.46	7.46	7.48
<b>30 Years</b>	7.54	7.50	7.54

### G Sec - Secondary Market Yield Curve



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