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GILTS MARKET UPDATE

NOVEMBER 21, 2022

7/11/2022 – 11/11/2022) Government bond yields traded lower during this week due to the strengthening of the Rupee and further aided by risk on sentiment with the G Sec yields closing lower as sharp gains in the local currency helped the sentiment in line with the continued drop in oil prices and U.S. yields. The market's mood was also lifted by a report that the government spending could be less than the budgeted spending this year for the first time in three years amid a push to meet the fiscal deficit target of 6.4% of the GDP. Total expenditure for FY 2022 - 23 fiscal year could be lower by Rs 70,000 – 80,000 Crs against the budgeted expenditure of Rs39.45 Trln Crs. On Friday the benchmark 10 yr G Sec intraday touched the low of 7.23% which was last recently seen on September 19, 2022 this year.

However towards the close of the trading session on Friday the 10 yr benchmark 7.26% G Sec 2032 closed at 7.31% as against the yield of 7.47% on last Friday (November 4, 2022).

Government Securities – Secondary Market Yields

	November 11, 2022	*November 18, 2022*
2 Years	6.95	6.89
5 Years	7.20	7.19
10 Years	7.31	7.31
14 Years	7.44	7.43
29 Years	7.48	7.43

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

November 11,2022				November 18, 2022			
Nomenclature	**Notified Amount**	**Cut Off (Yield)**	**Cut Off (Price)**	**Nomenclature**	**Notified Amount**	**Cut Off (Yield)**	**Cut Off (Price)**
7.38% GS 2027	7000	7.1546	100.86	6.69% GS 2024	4000	6.8986	99.68
7.26% GS 2032	12000	7.2548	100.02	7.10% GS 2029	6000	7.3022	98.97
7.36% GS 2052	9000	7.4503	98.91	7.54% GS 2036	11000	7.4332	100.90
				7.40% GS 2062	9000	7.4342	99.95

(14/11/2022 – 18/11/2022): The G Sec yields ended marginally lower on Monday, with the benchmark 10 yr G Sec yield posting its sixth consecutive decline amid anticipation that local retail inflation print may come down in line with the U.S.A. retail inflation. The benchmark 10-year 7.26% G Sec 2032 closed at 7.2866%. The wholesale price-based (WPI) inflation eased to 8.39% on-year on –year basis and was the first print in 19 months that was not in double digits as commodities prices came off the highs. On Tuesday the 10 yr G Sec ended lower at 7.26 as easing retail inflation raised bets that the central bank will slow down its pace of policy tightening. Later during the week there was profit booking and the benchmark 10 yr G Sec closed marginally up at 7.28%. However, on Friday the 10 yr G Sec yields rose for the third consecutive session as debt auction added to the supply concerns and the rising U.S. yields pulled down the sentiment.

Towards the weekend on Friday the 10-year benchmark G Sec 7.26% 2032 closed at 7.31%.

State Government Securities

SDL - Primary Market Auction Cut off (Range - Yields)		
	November 7, 2022	*November 15, 2022*
2 Years	-	-
5 Years	-	-
10 Years	7.82 - 7.83	7.67 – 7.68
15 Years	7.84	-
20 Years	-	7.65

SDL - Secondary Market (Range Yields)		
	November 11, 2022	*November 18, 2022*
2 Years	-	-
5 Years	7.38 - 7.43	7.43
10 Years	7.65 – 7.73	7.67 – 7.70
15 Years	7.72	7.69
20 Years	7.69	-

Tracker

Trackers	11-11-2022	18 -11-2022
Average Call Rate (%)	5.87	5.64
Net Banking System liquidity - Deficit (-) Surplus(+) (Rs Crs)	+66,041	+40,523
Bank Deposit Growth (%)	9.60	8.20
Bank Credit Growth (%)	17.90	17.00

CPI (%)	7.41	6.77
Core Inflation (%)	6.20	6.00
WPI Inflation (%)	10.70	8.39

Nifty	18,349	18,307
Sensex	61,795	61,663

Re/US$	80.48	81.62
FPI Investments (US$ Bln) (Figures cumulative for Debt & Equity – Current FY)	(-5.789)	(-4.086)

Foreign Exchange Reserves (US$ Bln)	529.99	544.72

Gold/10 gm (Rs)	52,150	53,190
Gold/Oz (US$)	1770.90	1749.74
Crude Oil - Brent (US$/bbl)	95.99	87.72
2 Yr USA - Treasuries	4.33	4.53
10 Yr USA - Treasuries	3.81	3.83

Indicators such as GST collections, credit growth, manufacturing and services PMI rose during the month indicating increased economic activity. Both the manufacturing and services PMI rose in October from a month ago level reflecting the optimism surrounding future demand. But a significant fall in exports, lower imports, muted corporate debt issuances and a higher unemployment rate weighed on the overall index. Merchandise exports witnessed the sharpest contraction of 16.70% - yoy in October 2022 due to the lower global demands. Merchandise imports dropped to their lowest level in the last eight months partly due to softening of commodity prices.

Retail consumer inflation eased to a 3-month low of 6.77% - y-o-y in October supported by the base effect. Inflation has fallen below the 7% mark after a gap of two months. 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 due to the base effect. Food inflation, which has been the major driver for the past few months was still elevated due to higher cereals, vegetable and milk prices. Core inflation, which excludes volatile components such as food and fuel, was unchanged at 6%. The core inflation reflects the extent to which the inflation has become broad-based and could remain sticky in the near term due to demand-driven pressures.

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The outlook in the global economy remains clouded with downside risks. Global financial conditions have been tightening and deteriorating market liquidity is causing volatility in the financial assets pricings. Markets are now pricing in moderate increases in policy rates and risk-on appetite has returned. In India, supply responses in the economy are gaining strength. With headline inflation beginning to show signs of easing, the domestic macroeconomic indicators even though resilient are sensitive to formidable global headwinds.

The CPI is outside the RBI range of 2 – 6 % for the consecutive 10 months with October number also higher than upper range, the pressure on the RBI to go for another rate hike in its upcoming December policy meet is very likely. 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 domestic WPI inflation are also likely to calm down the inflationary pressures.

However, the near-term inflation outlook is fraught with few risks like the rise in prices of global commodities, supply disruptions for perishables due to excess rains and a robust demand for services. Nonetheless, there is a need to closely monitor the impact of volatility in food inflation and impact of the exchange rate movement on imported inflation. The external headwinds could impact India's overall economic growth going forward.

A less aggressive policy stance by the Fed could also ease the pressure on the Reserve Bank of India. Monetary Policy Committee in its December 5 – 7, 2022 meeting is expected to continue to hike the Repo Rate and we can expect RBI - MPC to be less hawkish with a 35-bps rate hike. Rate hike cycle now seems to be nearing the last leg of hike with the terminal rate at 6.35 – 6.50%.

The benchmark 10 yr G Sec yield is expected to trend upwards towards the range of 7.40 - 7.65%. in the medium term.

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