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GILTS MARKET UPDATE

AUGUST 26, 2022

The truncated week of August 17 - 19 started with a bearish note tracking the higher US yields and higher crude prices; however G Secs traded on a bullish note on the next day on August 18, 2022 due to a sharp decline in US-Treasury yields amid fears of the global recession and lower crude prices. The week ended (August 19) with bonds closing at 7.26 on a bearish note due to profit booking in the market.

Government Securities – Secondary Market Yields

	August 19, 2022	*August 26, 2022*
2 Years	6.57	6.55
5 Years	6.99	6.99
10 Years	7.26	7.22
15 Years	7.45	7.38
20 Years	7.59	7.72

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

August 19, 2022				**August 26, 2022**			
Nomenclature	Notified Amount	Cut Off (Yield)	Cut Off (Price)	Nomenclature	Notified Amount	Cut Off (Yield)	Cut Off (Price)
6.69% GS 2024	**4000**	**6.5782**	**100.18**	**7.38% GS 2027**	**9000**	**6.9912**	**101.55**
7.10% GS 2029	**7000**	**7.1549**	**99.7**	**GOI FRB 2028***	**4000**	**NA**	**NA**
NEW GS 2032	**13000**	**7.26**	**100.00**	**7.54% GS 2036**	**11000**	**7.3846**	**101.31**
6.95% GS 2061	**9000**	**7.5998**	**91.89**	**6.99% GS 2051**	**8000**	**7.5467**	**93.45**

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The week (August 22 – 26) started with G Sec bonds yields trading bearishly on Monday tracking the higher U.S. Treasury yields and increase in crude prices; inflation worries raised by the Reserve Bank of India in the MPC minutes and waiting for the outcome of the U.S. Federal Reserve & annual Jackson Hole conference, where Fed Chair Jerome Powell is scheduled to speak on Friday. However, towards the weekend on Friday, August 26 the 10-year benchmark G Sec rallied on the report of inclusion of the Indian Govt Securities in the Global Bond Index in 2023. The 10-year G Sec benchmark closed at 7.22.

On August 19, 2022 RBI issued a new 10 Year G-Sec Bond with a cut–off in the Primary Auction at 7.26

SDL - Primary Market Auction Cut off (Range - Yields)		
	August 18, 2022	*August 23, 2022*
2 Years	-	-
5 Years	-	-
10 Years	7.60 - 7.65	7.65 - 7.66
15 Years	-	-
20 Years	-	7.75 - 7.76

SDL - Secondary Market (Yields)		
	August 19, 2022	*August 26, 2022*
2 Years	-	6.77
5 Years	-	7.24
10 Years	7.57	7.52
15 Years	7.78	7.68
20 Years	7.78	-

SNAPSHOT		
	August 19, 2022	**August 26, 2022**
Average Call Rate (%)	**4.91**	**5.15**
Net liquidity injected - Surplus (Rs Crs)	**64,102**	**96,970**
Bank Deposit Growth (%)	**9.10**	**8.80**
Bank Credit Growth (%)	**14.50**	**15.30**
CPI (%)	**6.71**	**6.71**
Core Inflation (%)	**5.79**	**5.79**
WPI Inflation (%)	**13.93**	**13.93**
Nifty	**17,758**	**17,558**
Sensex	**59,646**	**58,833**

Re/US$	**79.92**	**79.8290**
FPI Investments (US$ Bln) (Figures cumulative for Debt & Equity - Current FY)	**(-8.079)**	**(-7.122)**
Foreign Exchange Reserves (US$ Bln)	**564.05**	**564.05**
Gold/10 gm (Rs)	**52,081**	**53,155**
Gold/Oz (US$)	**1747.83**	**1747.18**
Crude Oil - Brent (US$/bbl)	**96.72**	**100.96**
2 Yr USA - Treasuries	**3.24**	**3.38**
10 Yr USA - Treasuries	**2.98**	**3.08**

The Consumer Price Index (Combined) inflation for July 2022 was at 6.71%, lower than the previous month's reading of 7.01%. The headline reading breached the RBI's upper tolerance band of 6% for the seventh consecutive month.

Core inflation i.e. (CPI Ex-Food and Ex-Fuel) was at 5.79% in July 2022, as compared to 5.96% in the previous month. Headline WPI inflation for July 2022 was at 13.93%, lower than 15.2% in June 2022. The trend remains softening for now which should augur well for the economy in the coming months. Headline inflation should end the year slightly below the 6% the upper tolerance band in line with RBI estimates.

IIP growth for June 2022 was at 12.30%, lower than the reading of 19.64% in May 2022, on a year-on-year basis.

Growth remains on track and has provided space for monetary policy to respond to large supply and demand shocks as they arise. The RBI-MPC is now fully data dependent and will respond on the basis of evolving macroeconomics dynamics.

In the minutes of MPC the market was expecting a slightly dovish undertone. The RBI remains non-committal in terms of the future quantum of rate hikes; while inflation has softened a tad bit, the RBI continues to focus on containing inflation. The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

We expect the 10-year yields to move within the 7.20 -7.45% band for the near to medium term.

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