GILTS MARKET UPDATE

March 13, 2023

(27/02/2023 – 03/03/2023) On Monday the G Secs yields started trading on a negative note tracking the upsurge in US-Treasury yields. The US-Treasury yields hardened on higher than expected PCE inflation index after the data showed that consumer spending which accounts for more than two-thirds of the economic activity jumped 1.8% last month against the expectations of a 1.3% rise. The Fed is now expected to raise rates by 75 bps till June with expectation of a minimum of 25 basis points at the Federal Open Market Committee meeting scheduled in Mid-March this month. Thereafter during the week G Secs yields were marginally lower with value buying by the investors after yields jumped to a four-month high. The PSU banks may have been buying as these levels were attractive and we do not have any fresh G Secs issuances in March which limited the upward move in the yields. The G Sec borrowing calendar for this FY ended on February 24, 2023. The daily market volumes had also shrunk as yields eased on Friday, led by buying in the longer-duration bond yields, as participants particularly the only long ones nibbled in value-buying after a spike in the previous sessions. Further U.S. yields also had retraced from their highs and the rupee saw very strong appreciation, which lifted the overall sentiment. Longer-duration bond prices rallied with traders not preferring shorter-duration notes amidst bets of tightening liquidity in March.

The benchmark 10 yr 7.26% GS 2032 closed at 7.42 % same as the previous week (Friday – February 24, 2023) closing of 7.42%. The new 10 yr GS – 7.26% GS 2033 closed at 7.40%.

(06/03/2023 – 10/03/2023): On Monday the G Sec yields ended largely steady on Monday as traders awaited fresh triggers while trading volumes were shallow ahead of a Holi festival holiday. Bonds traded in a narrow band amid lack of fresh triggers and as traders were not interested in building heavy positions in the holiday truncated week. On Wednesday the G Sec yields rose after remarks from Federal Reserve Chair Jerome Powell indicated that the U.S. Federal Reserve could become more aggressive in its rate hike path. The sentiment turned bearish after comments by Federal Reserve chair Jeremy Powell sparked a spike in U.S. yields and raised bets of aggressive rate hike later in the month. The commentary has dampened the market sentiment and raised chances of a 50 basis points rate hike in March which led to the sharp upsurge in the U.S. and our G Sec yields. However, G Sec yields ended largely unchanged in a thin volume trading

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session on Thursday as market participants waited for the crucial U.S. data after the recent spike in US Treasury yields. At the current level the market will need a fresh trigger in the form of new data to move on either side. The G Sec yields declined in the early session on Friday, mirroring the drop in U.S. yields, even as markets awaited the key non-farm payrolls data due later in the day.

The 10-year benchmark G Sec - 7.26% GS 2032 ended at 7.41%, 1 basis lower than the closing on last weekend (March 3, 2023). The new 10 yr GS – 7.26% GS 2033 closed at 7.42%.

State Government Securities

SDL - Primary Market Auction Cut off (Range - Yields)

	February 28, 2023	March 6, 2023
2 Years	--	--
5 Years	7.70	--
10 Years	7.71 – 7.74	7.70 – 7.71
15 Years	--	--
20 Years	7.69	7.77

SDL - Secondary Market (Range Yields)

	March 3, 2023	March 10, 2023
2 Years	--	--
5 Years	--	--
10 Years	7.66	7.71
15 Years	7.70	7.76
20 Years	--	7.80

Tracker

Trackers	March 3 2023	March 10, 2022
Average Call Rate (%)	5.91	6.31
Net Banking System liquidity - Deficit (-) Surplus(+) (Rs Crs)	(-61,300.87)	+ 4,519.87
Bank Deposit Growth (%)	10.20	10.10
Bank Credit Growth (%)	16.20	15.50

CPI (%)	6.52	6.52
Core Inflation (%)	6.10	6.10
WPI Inflation (%)	4.73	4.73

Nifty	59,808.97	59,135.13
Sensex	17,594.35	17,412.90

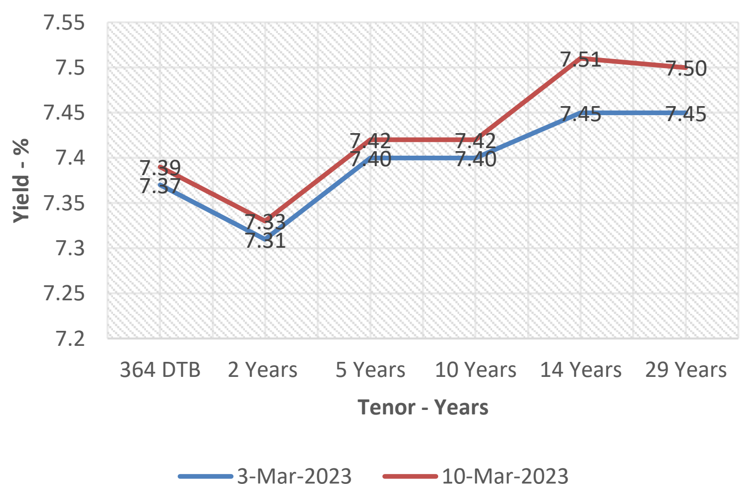
Re/US$	81.68	81.96
FPI Investments (US$ Bln) (Figures cumulative for Debt & Equity – Current FY)	(-5.080)	(-5.456)

Foreign Exchange Reserves (US$ Bln)	560.94	562.40

Gold/10 gm (Rs)	56,450	57,295
Gold/Oz (US$)	1854.97	1868.04
Crude Oil - Brent (US$/bbl)	95.93	82.78
2 Yr USA - Treasuries	4.86	4.59
10 Yr USA - Treasuries	3.96	3.70

Government Securities – Secondary Market Yields

	March 3, 2023	March 10, 2023
364 DTB	7.37	7.39
2 Years	7.31	7.33
5 Years	740	742
10 Years	7.40	7.42
14 Years	7.45	7.51
29 Years	7.45	7.50



Our economy grew at 4.4% in the quarter October December 2022 slower than 6.3% recorded in the previous quarter pointing to the impact of global headwinds and lower consumption. The GDP growth rate fell for the second straight quarter in the October December period. GDP is projected to grow by 7 percent in 2022-23. GDP growth slowed to a three-quarter low of 4.4 per cent in October-December 2022-23 primarily due to a 1.1 per cent contraction in manufacturing along with weaker private consumption demand and government expenditure. According to the Chief Economic Adviser Shri V Anantha Nageswaran - manufacturing, on the face of it, has slowed down but there are enough high frequency indicators showing fairly robust manufacturing activity. "Manufacturing appears to have slowed down on the face of it due to rising input cost, but if you look at Purchasing Managers' Index indicators, the manufacturing sector is in good health and performance of core sector in January tells us we do have a fairly robust manufacturing growth rate in the fourth quarter," he said. The growth momentum carried on in October-December and it was the base effect which resulted in a GDP growth rate of 4.4 percent," the CEA added. The gross value-added growth for the third quarter came in at 4.6 percent as against 5.5 percent in the quarter of July September.

The consumption growth was 2.1% for the quarter October December, which is lower than 8.8 percent in the July September period. The capital formation growth also slipped to 8.3 percent in the third quarter as against 9.7 percent in the second quarter of the current fiscal.

The moderation in the growth momentum is due to the weak demand amid aggressive rate hikes by RBI. Since May 2022, RBI has cumulatively increased the policy rate by 250 basis points in order to fight inflation.

During the Monetary Policy Committee meeting announcements, the Governor said the expected higher rabi output has improved the prospects of agriculture and rural demand. "The sustained rebound in contact-intensive sectors should support urban consumption," he said, adding that broad based credit growth, improving capacity utilisation, government's thrust on capital spending and infrastructure should bolster investment activity. According to RBI surveys, the RBI Governor said, manufacturing, services, and infrastructure sector firms are optimistic about the business outlook. "On the other hand, protracted geopolitical tensions, tightening global financial conditions, and slowing external demand may continue as downside risks to domestic output," he added.

Monthly exports have weakened since October due to global decline in demand as major economies raised their policy rates to address the stubborn inflation. Excluding November, exports have declined three out of the four months since October. In January, merchandise exports dropped for the second consecutive month, declining by approximately by 6% due to weakened demand across major markets such as US and Europe. The slowdown in exports in December was driven by both external and domestic factors.

The merchandise exports fell year on-year for the second consecutive month in January by 6.6% to $32.9 billion despite a favorable base effect. This implies sequential softening in exports during the month. Exports in December 2022 stood at $38.0 billion. Merchandise imports fell year on year in January, but at a slower pace than exports. At $50.7 billion, they reduced 3.7% year on year. A steeper decline in exports than imports led to a marginally wider trade deficit of $17.7 billion in January, compared with $17.3 billion a year ago. Sequentially, however, imports fell more than exports, leading to a lower trade deficit vs $22.1 billion in December.

Year-to-date (April 2022 to January 2023), merchandise exports stood at $369.5 billion up by 8.5% from $340.3 billion in the year ago period. Imports, on the other hand, rose 21.9% to $602.7 billion from $494.1 billion. As a result, the cumulative trade deficit rose to $233.2 billion from $153.8 billion. Exports are expected to face headwinds from the anticipated slowdown in global growth, largely on expected lower growth in advanced economies such as the US and the euro area, both are key export markets for India. Further, deceleration in domestic growth could cause some softening in imports.

Overall, we see the import bill remaining higher than the export bill, leading to a wider CAD this fiscal. However, some support is expected from the healthy services exports. Robust remittances and lower gold imports could also limit the downside to CAD. While trade deficit has come off in past few months, continuation of the trend is important from currency stability perspective. That said, the sequentially declining trade deficit indicates the pressure on Current Account Deficit is easing.

The government's fiscal deficit touched Rs 11.91 trillion, or 67.8% of the full-year target, at the end of January, benefiting from strong revenue receipts that allowed it to expend three-fourths of

its planned spending. While revenue receipts crossed 81% of the targeted ₹23.4 trillion, spending reached more than three-fourths of the nearly ₹42 trillion target by the end of January, as per the data released by Controller General of Accounts. The fiscal deficit in the comparable period of last financial year was much lower at 58.9% of that year's target.

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Gross tax revenue of the central government grew by 13.47% year on year in January 2023 leading to a year to date growth of 12.61%. However, net tax revenue in January 2023 grew 80.66% year-on-year. This happened mainly due to the share of states in central taxes returning to the normal run rate of Rs 58,333 crore a month in January 2023. The central government's total expenditure was ₹31.67 trillion or 75.7% of RE 2022-23. For the full year 2022-23, the government expects the deficit at Rs 17.55 trillion or 6.4% of the gross domestic product.

US Fed has reiterated its stance to quell inflation by hiking rates, suggesting further rate hike and thus driving the bond yields higher. Hawkish RBI & US Fed, Sticky inflation is driving the yields higher.

The consumer price index for January at 6.52% and core inflation sticky seems to be a concern for the RBI then another 25 bps rate hike in the next MPC Meeting in April could be a possibility. While fiscal concerns are limited, the apprehensions around further monetary tightening are likely to keep bond yields elevated in the near term. We expect the 10-year G-sec yield to trade between 7.25-7.50% in the remaining period of this Financial Year.

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