



# Debt Market Watch

1st Nov, 2021

One Stop Investment Avenue



## Government Security Market Update :

Treasury bills yield surged by 14-19 basis points Wednesday in the primary auction since the preceding two such bids were conducted by the Reserve Bank of India. Market speculation that the repo rate, or the rate at which banks borrow short term from the RBI, will soon become the operational rate instead of the reverse repo also caused yields to harden. The 91; 182 & 364 DTB yields have risen in the last three auctions, the cut-off yield for 91; 182 & 364 DTB was at 3.39; 3.64 & 3.90 on October 13, 2021 and on October 27, 2021, the cut-off came at 3.56; 3.83 & 4.04 percent. During the week the thirteen states sold 5 to 20 years loans in the range of 6.09 to 7.08 percent. In a weekly schedule auction, the RBI sold GOI FRB 2028; 6.10% GOI 2031 & 6.76% GOI 2061 at a yield of 4.3776; 6.3866 & 7.0698 percent respectively.

The yield on the 6.10% government bond due December 2031 rose to 6.3880% from last week level of 6.3640%

## Global Debt Market Update:

The yield on the 10-year Treasury note fell 1.3 basis points to 1.555%, compared with 1.568%. The 2-year Treasury note yield fell less than one basis point to 0.491%, compared with 0.499% Thursday afternoon. It has risen 20 basis points in October, its largest monthly rise since April 2018. The 30-year Treasury bond yield was down 2.1 basis points at 1.941% versus 1.962% on Thursday. It has dropped 15 basis points this month, for the largest one-month decline since July. The spread between the 5-year and 30-year Treasury yields narrowed further on Friday, suggesting traders remain concerned about the economic outlook. Yield curves also flattened in the U.K., Germany, Italy, and France, as markets priced in more monetary policy tightening despite an uncertain global economic growth outlook. Meanwhile, rates on overnight-indexed swaps have risen in recent weeks for the U.S., U.K., and Australia, while those of Europe and Japan turned less negative, according to Trade web. OIS rates are another sign of markets pricing in further tightening by central banks. Rising yields at the short end of the curve are tied to expectations that central banks across the world will be more aggressive than previously expected to address inflationary pressures. Meanwhile, yields at the long end of the curve have either fallen or risen at a less aggressive pace than short-end rates have.

## Bond Market Ahead:

The upward movement in the shorter end of the curve; rising crude oil price and squeezing of liquidity in the banking system indicate the rates to move northward. Funding costs have begun to go up with expected near-term liquidity normalization. The banking system has a surplus of nearly Rs 6.94 lakh crore as of October 26, compared with Rs 7.71 lakh crore as of October 12, shows RBI data. Earlier this month, the U.S. bank's index team said that Indian government bonds were on track to be placed on index watch for inclusion. India's inclusion in JPMorgan's global emerging-market bond index could prompt \$25 billion of inflows from foreign investors, the bank said in a research report. A global listing may turn out to be a big positive for the Indian bonds and banking industry as the system will have surplus liquidity and more demand for Government bonds. The market is near to the crucial support of 6.39/41 levels and if the 10-year benchmark yield breach this range we can see hardening by another 8-10 bps. The RBI is closely monitoring the situation and may intervene from time to time to check the distortion in the yield curve by announcing operation twists and OMO purchases. The U.S. 10-year Treasury yield may dip to 1.42/44 ranging from 1.57 percent and the same action we can witness in the Indian market where the 10-year benchmark may fall to 6.28 percent

## Bond Strategy:

- Buy 6.10% GOI 2031 around 6.39/40 with a target of 6.34 and a stop loss of 6.43 percent
- Buy 6.67% GOI 2035 around 6.86/87 with a target of 6.82 and a stop loss of 6.90 percent.
- Buy 6.91% MH 2033 in an auction around 7.02/05 percent.

(Source: Bloomberg, GEPL Capital Research)

## Economic Calendar

DATA	DATE
Hong Kong GDP	1-Nov-2021
India - Markit Manufacturing PMI Oct	1-Nov-2021
Australia Interest rate decision	2-Nov-2021
Japan Monetary policy	2-Nov-2021
Italian GDP	3-Nov-2021
New Zealand Employment data	2-Nov-2021
Malaysia Interest rate	2-Nov-2021
Russia CPI Data	3-Nov-2021
US Fed Interest rate decision	3-Nov-2021
Brazil IIP	4-Nov-2021
Brazil GDP Interest rate decision	4-Nov-2021
UK Interest rate decision	4-Nov-2021
US Jobless claims	4-Nov-2021
Philippines CPI	5-Nov-2021
German IIP	5-Nov-2021
French IIP	5-Nov-2021
India - Markit Composite PMI Oct	5-Nov-2021

(Source: Bloomberg)

## Economic Indicator

Particulars	29-10-2021	22-10-2021	Change
5 Year Indian Govt. Bond(%)	5.76	5.73	0.03
10 Year Indian Govt. Bond(%)	6.39	6.36	0.03
15 Year Indian Govt. Bond(%)	6.86	6.85	0.01
Call Money Market (%)	3.25	3.25	0.00
Crude Oil (in Dollar/barrel )	83.66	84.61	-0.95
US 10 Year Treasury (%)	1.57	1.68	-0.11
UK 10 Year Treasury (%)	1.04	1.20	-0.16
Rs. vs Dollar	74.78	74.87	-0.09
FOREX Reserves with RBI (in Dollar/bn)	640.10	641.00	-0.90

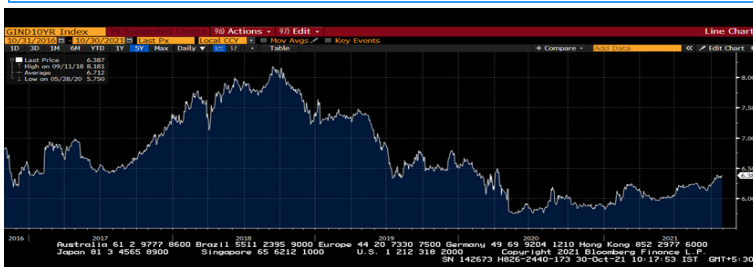
## Policy Rates

Repo Rate	4.00%
Reverse Repo Rate	3.35%
CRR	4.00%

— Adverse + Favour

(Source: Bloomberg/www.rbi.org.in)

DATA	Sept-2021 (released on 12-Oct-2021)	Aug-2021 (released on 12-Sept-2021)	Change
CPI DATA (%) ( Monthly)	4.35	5.3	-0.90
DATA	Aug-2021 (released on 12-Oct-2021)	July-2021 (released on 12-Sept-2021)	Change
IIP DATA (Monthly)	11.9	11.5	0.40



## Yield Outlook for the week

The 10 year Benchmark 6.10% GS 2031 likely to move in the range of 6.34% to 6.40% (GEPL Capital Research)

## Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	29-Oct-21	22-Oct-21	Change
6.10% GOI 2031	25-Nov-2021	28439	36529	8090
IRF PRICE (w.o.w)				
Security	Contract	29-Oct-21	22-Oct-21	Change
6.10% GOI 2031	25-Nov-2021	97.7325	97.93	-0.1975

(GEPL Capital Research)

## Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
1-Nov-21	SDL	11 States	Auction	13,700
2-Nov-21	T-Bills	91 DTB	Auction	10,000
2-Nov-21	T-Bills	182 DTB	Auction	3,000
2-Nov-21	T-Bills	364 DTB	Auction	7,000

(Source: www.rbi.org.in)+



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