

Debt Market Watch 25, Oct, 2021



Government Security Market: Update

The yield on the 10-year benchmark has climbed more than 25 basis points since the RBI's monetary policy statement on October 8, 2021, as the relentless rise in global crude oil prices and worries of higher inflation worldwide led to speculation about the Reserve Bank of India tightening monetary policy sooner than later. Brent crude oil prices, the global benchmark, have skyrocketed around 19 percent since September due to concerns of global demand outstripping supply; a concern that has been amplified by a recent acute shortage of coal and natural gas worldwide. During the week the three states sold 5-13 years loans in the range of 6.04 to 7.08 percent. In a treasury bill auction the Reserve Bank of India sold 91; 182 & 364 DTB at a yield of 3.4496; 3.6996 & 3.9490 percent respectively. The demand at the weekly auction was good and the cut-off was above expectations. The Reserve Bank of India sold 4.26% GOI 2023; 5.63% GOI 2026; 6.67% GOI 2035 & 6.67% GOI 2050 at a yield of 4.4057; 5.7296; 6.8479 & 7.1175 percent respectively.

The yield on the 6.10% government bond due December 2031 rose to 6.3640% from last week level of 6.3280%

Global Debt Market: Update

The 10-year U.S. Treasury yield hit 1.68% early on Friday after the latest weekly jobless claims report came in lower than expected in the previous session. The yield on the benchmark 10-year Treasury note fell 3.9 basis points to 1.636%. The yield on the 30-year Treasury bond fell 5.9 basis points to 2.069%. Employment data is one economic indicator being monitored by the Federal Reserve to help it decide when it should start pulling back emergency stimulus measures. In minutes released last week, Fed officials indicated that the central bank was nearing its economic goals and would soon start to normalize its monetary policy, starting with the winding down of its bond-buying program. Interest-rate swaps referencing the June meeting of the Federal Open Market Committee price in around 12 basis points of an increase. A full hike is fully priced into the September meeting, with a second hike by February 2023. The yield on the two-year Treasury note, mean-while, climbed as much as 4 basis points Friday, topping 0.40% for the first time since March 2020.

Bond Market Ahead:

In a monetary policy review on October 8, 2021, the RBI has already given indications that it is unwilling to add more durable liquidity to the banking system by discontinuing its Government Securities Acquisition Programme and the 10-year benchmark has touched 6.40 percent from 6.12 percent before the monetary policy outcome. The only way to prevent the 10-year from breaching 6.40 percent is by doing OMOs, but doing OMOs right now is tricky given the liquidity situation. It is possible that RBI is letting yields drift higher because market fundamentals warrant it, but if volatility is to be prevented, then RBI will have to step in. The economy has not sufficiently recovered from the scars of the Covid-19 crisis to afford a sharp rise in borrowing costs. Higher interest rates and consequently higher sovereign yields will lead to a rise in funding costs for all sectors of the economy, right from corporate entities to those seeking home loans and the CPI numbers are on an easing trajectory, which can be a possible relief for the RBI MPC to keep the rates unchanged for an extended period. Possibly, the Reserve Bank of India board may consider an additional limit of up to Rs 40,000 crore as the existing limit of Rs 90,630 crore has been exhausted. They may raise the investment limit through the Voluntary Retention Route (VRR), a dedicated window for obtaining long-term overseas debt funds. Under overall limit categories, both general and long-term overseas investors utilized just about 15.52-36.73% of central bank securities, show data from Clearing Corporation of India (CCIL). VRR offers higher operational flexibility against the commitment of a minimum holding period and is seen as mitigating the risk of rupee volatility. This route can be utilized for investment in government securities and corporate bonds with a minimum cap of three years during which overseas investors cannot exit.

Bond Strategy:

- Buy 6.10% GOI 2031 around 6.38 percent with a target of 6.32 percent and a stop loss of 6.42 percent.
- Buy 6..67% GOI 2050 around 7.12/11 percent with a target of 7.07 percent and a stop loss of 7.16 percent.
- Buy 6.67% GOI 2035 around 6.85/86 percent with a target of 6.81 percent and a stop loss of 6.90 percent.

(Source: Bloomberg, GEPL Capital Research)

Economic Calendar

(Source: Bloombera)

Economic Calendar			
DATA	DATE		
Singapore CPI Data	25-Oct-2021		
Russia's IIP Data	25-Oct-2021		
Singapore IIP Data	26-Oct-2021		
Japan CPI Data	26-Oct-2021		
Germany CPI Data	27-Oct-2021		
Bank of Canada— Monetary Policy review	27-Oct-2021		
Japan Interest rate decision	28-Oct-2021		
US employment data	28-Oct-2021		
Germany employment data	28-Oct-2021		
ECB Interest rate decision	28-Oct-2021		

Economic Indicator

Particulars	22-10-2021	14-10-2021	Change
5 Year Indian Govt. Bond(%)	5.73	5.67	0.06
10 Year Indian Govt. Bond(%)	6.36	6.33	0.03
15 Year Indian Govt. Bond(%)	6.85	6.81	0.04
Call Money Market (%)	3.25	3.30	-0.05
Crude Oil (in Dollar/barrel)	84.61	84.84	-0.23
US 10 Year Treasury (%)	1.68	1.57	0.11
UK 10 Year Treasury (%)	1.20	1.10	0.10
Rs. vs Dollar	74.87	75.03	-0.16
FOREX Reserves with RBI (in Dollar/bn)	641.00	639.52	1.48

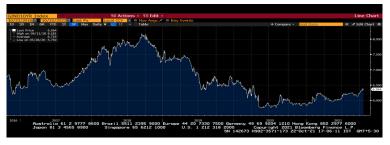
Policy Rates

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 6.25% to 6.34%. (GEPL Capital Research)

Interest Rate Futures

IRF OPEN INTEREST (w.o.w)				
Security	Contract	22-Oct-21	14-Oct-21	Change
6.10% GOI 2031	28-Oct-2021	36529	35691	838
IRF PRICE (w.o.w)				
Security	Contract	22-Oct-21	14-Oct-21	Change
6.10% GOI 2031	28-Oct-2021	97.93	98.20	-0.27

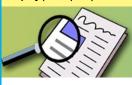
(GEPL Capital Research)

Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
26-Oct-21	SDL	13 States	Auction	20,625
28-Oct-21	T-Bills	91 DTB	Auction	10,000
28-Oct-21	T-Bills	182 DTB	Auction	3,000
28-Oct-21	T-Bills	364 DTB	Auction	7,000
29-Oct-21	GS	6.10% GS 2031	Auction	13,000
29-Oct-21	GS	GS FRB 2034	Auction	4,000
29-Oct-21	GS	6.76% GS 2061%	Auction	7,000

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

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