



Debt Market Watch

October 14th, 2019



Government Security Market: Update

After a corporate tax cut announced by the Finance Minister the borrowing was kept unchanged for the 2nd half of the FY 20 and last week the RBI MPC eased repo rate by 25 bps and indicated further easing of the rates as the growth momentum is not picking up. But the market couldn't hold below 6.60 percent and profit booking came after the policy announcement. The New 10 year benchmark was introduced at a yield of 6.45% in the last week and that couldn't hold the 6.45 level and closed at 6.47 percent. By the end of this week the new 10 year closed at 6.50 percent and 7.26% GOI 2029 closed at 6.7344 percent as the investors are not keen to build long position on ground of lesser clarity on fiscal deficit gap which is being created by the corporate tax cut. During the week the thirteen states sold 5 to 30 years loan in the range of 6.74 to 7.36 percent. In a treasury bill auction the RBI sold 91; 182 & 364 DTB at a yield of 5.2006; 5.3823 & 5.4111 percent respectively. In a weekly auction the Reserve Bank of India sold 7.32% GOI 2024; 7.57% GOI 2033; 7.69% GOI 2043 & 7.72% GOI 2049 at a yield of 6.3206; 7.0535; 7.186 & 7.2503 percent respectively. The yield on the 7.26% government bond due January 2029 rose to 6.7344% from last week level of 6.6865% .

Global Debt Market: Update

The U.S. 10-year Treasury note yield rose 9.9 basis points to a three-week high of 1.748%, contributing to a gain of 23.3 basis points this week. The 2-year note rate picked up 8.9 basis points to 1.609%, its biggest single-day increase in more than a month. The short-dated note rose 20.9 basis points this week. The 30-year bond yield jumped 6.4 basis points to 2.210%, extending a week long climb of 19.3 basis points. Yields for all three maturities marked their biggest weekly increase in a month. The Treasury yields rose on Friday amid signs that the U.S. was nearing a limited trade deal that could prevent a further escalation of the tariff spat between the two world's largest economies. Bloomberg news that both sides had reached a partial trade agreement that could open up the path for a more comprehensive deal. As part of the talks, China would agree to some agricultural concessions and the U.S. would offer some tariff relief. Investors say a suspension of the tariffs set to take effect next week would boost risky assets, at the expense of bonds. The U.S. central bank announced that it would buy \$60 billion of Treasury bills every month at least into the second-quarter, starting from next week. The Federal Reserve also said it would conduct overnight repurchase agreements at least through January of next year in order to reduce pressures in funding markets.

Bond Market Ahead:

A confirm probability of not meeting a fiscal deficit target of 3.3 percent for FY20 is the cause of concern for the market. Yields likely to harden further on account of possible and positive talk between U.S. & China and government's shrinking revenue part on account of slowdown. Weaker Industrial Production numbers for August (-1.1) will shrink the tax collection and on other hand raised the probability of another 25 bps cut in the repo rate in December policy review. Indian bonds are in sweet spot as trading at a spread of 160 bps to the repo rate. It's a matter of time and soon we will see good buying at these levels from the foreign investors and PSU Banks. The sooner the government clarifies the fiscal math for the FY20 the sentiment will get changed & we can see the yield falling towards 6.42 percent. The Finance Ministry must give some clarification on the Sovereign Bond issue plan as it was announced in the Union Budget. Any positive development on this subject will be a positive for the market.

Bond Strategy:

- Buy 7.57 GOI 2033 around 7.05/06 with a target of 6.96 and a stop loss of 7.11 percent
- Buy 7.26 GOI 2029 around 6.75/76 with a target of 6.66 and a stop loss of 6.82 percent
- Buy 6.45 GOI 2029 around 6.50/52 with a target of 6.40 and a stop loss of 6.57 percent

Economic Calendar

DATA	DATE
India's WPI Data	14-Oct-2019
India's CPI Data	14-Oct-2019
India's Import & Export Data	15-Oct-2019
India's Trade Balance Data	15-Oct-2019
China's CPI Data	15-Oct-2019
New Zealand CPI Data	16-Oct-2019
Great Britain CPI Data	16-Oct-2019
U.S IIP Data	17-Oct-2019
US Jobless claim	17-Oct-2019
Fed Balance Sheet	17-Oct-2019
China's GDP Data	18-Oct-2019

(Source: Bloomberg)

Economic Indicator

Particulars	11-Oct-19	04-Oct-19	Change
5 Year Indian Govt. Bond(%)	6.32	6.27	0.05
10 Year Indian Govt. Bond(%)	6.73	6.69	0.04
15 Year Indian Govt. Bond(%)	7.05	6.96	0.09
Call Money Market (%)	4.9	5.1	-0.2
Crude Oil (in Dollar/barrel)	60.51	58.37	2.14
US 10 Year Treasury (%)	1.73	1.52	0.21
UK 10 Year Treasury (%)	0.71	0.44	0.27
Rs. vs Dollar	71.02	70.89	0.13
FOREX Reserves with RBI (in Dollar/bn)	437.83	433.59	4.24
LAF(REPO @ 5.15%) (in Rs. Cr. Weekly)	17275	19550	-2275
LAF(REVERSE REVERSE REPO@ 4.90%) (in Rs. Cr. Weekly)	93059	198886	-105827

— Adverse + Favour

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

DATA	Sept -19 (released on 11-Oct-19)	August -19 (released on 12-Sept-19)	Change
CPI DATA (%) (Monthly)	3.21	3.2	0.01
IIP DATA (Monthly)	-1.1	4.30	3.2



Yield Outlook for the week

10 year Benchmark 7.26% GOI 2029 likely to move in the range of 6.66% to 6.77% percent.

(GEPL Capital Research)

Interest Rate Future

IRF OPEN INTEREST (w.o.w)				
Security	Contract	11-Oct-19	04-Oct-19	Change
7.26% GOI 2029	31-Oct-2019	162208	149152	13056
IRF PRICE (w.o.w)				
Security	Contract	11-Oct-19	04-Oct-19	Change
7.26% GOI 2029	31-Oct-2019	103.84	104.38	0.54

(GEPL Capital Research)

Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
15-Oct-19	SDL	10 States	Auction	15900
16-Oct-19	T-Bills	91 DTB	Auction	9000
16-Oct-19	T-Bills	182 DTB	Auction	4000
16-Oct-19	T-Bills	364 DTB	Auction	3000
18-Oct-19	GS	6.17% GOI 2021	Auction	2000
18-Oct-19	GS	7.27% GOI 2026	Auction	2000
18-Oct-19	GS	6.45% GOI 2029	Auction	7000
18-Oct-19	GS	7.62% GOI 2039	Auction	1000
18-Oct-19	GS	7.63% GOI 2059	Auction	4000

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



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One Stop Investment Avenue



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