

## Debt Market Watch

22nd October, 2019

One Stop Investment Avenue



## Government Security Market: Update

After the release of negative Industrial Production data and retail inflation numbers coming at 3.99% higher than expectation but core numbers were on softer side kept the hope alive for another rate cut of 25 bps in December policy. The 10 year benchmark yield moved from a high of 6.74 to a low of 6.65 percent. During the week the ten states sold 4 to 15 years loan in the range of 6.50 to 7.20 percent. In a treasury bill space the Reserve Bank of India sold 91; 182 & 364 DTB at a yield of 5.1183; 5.2478 & 5.3666 percent respectively. The weekly auction of central government securities saw lower appetite as cut off at higher than the expectations. The Reserve Bank of India sold 6.17% GOI 2021; 7.27% GOI 2026; 6.45% GOI 2029; 7.62% GOI 2039 & 7.63% GOI 2059 at a yield of 5.696; 6.5199; 6.5224; 7.1764 & 7.2202 percent respectively.

The yield on the 7.26% government bond due January 2029 fell to 6.6991% from last week level of 6.7344% .

## Global Debt Market: Update

The 10-year Treasury note yield rose 4.7 basis points to a four-week high of 1.794%, while the 2-year note rate was up 4.1 basis points to 1.615%. The 30-year bond yield picked up 4.3 basis points to 2.286%, its highest since Sept. 16 as U.K. Prime Minister Boris Johnson was prevented from holding a vote on his agreement dictating the country's exit from the European Union, presenting another complication to the deal's passage. Bond markets recently have been moving in step with uncertainty surrounding Britain's plans to exit from the European Union, with Johnson renewing his efforts to get his Brexit deal ratified after a Saturday setback. But House of Commons Speaker John Bercow blocked the prime minister from holding a vote on his proposal on Monday. The 10-year U.K. government bond yield rose 4.4 basis points to 0.753%.

## Bond Market Ahead:

The market will consolidate from here till the outcome of Fed on October 30. The experts still believe a cut of another 25 bps from FOMC as the slowdown is getting deeper and need monetary stimulus to come out of the cloud. India's manufacturing data recorded negative numbers and on the other hand retail inflation numbers spiked to 3.99% on account of higher food and vegetables price. The spread with the repo rate to the new 10 year Benchmark is still higher (135 bps) which will get narrowed shortly. Near to the next RBI MPC meet we will see the new 10 year Benchmark to move around 6.25% and will move gradually towards 5.90% after another repo rate cut of 25 bps when they will meet in December. The RBI MPC minutes was Dovish as all the members have voted for 25 bps except one who voted for 40 bps and all having an objective of reviving the economy back to growth path. The government will clear the road for Sovereign Bonds very shortly which will remove the slippage of fiscal target.

## Bond Strategy:

- Buy 7.26 2029 around 6.70/71 with a target of 6.64 and a stop loss of 6.76 percent.
- Buy 6.45 2029 around 6.50/51 with a target of 6.45 and a stop loss of 6.56 percent.
- Buy 10 year SDL

(Source: Bloomberg, GEPL Capital Research).

## Economic Calendar

DATA	DATE
China's Trade Balance	20-Oct-2019
European Monetary Policy Statement	24-Oct-2019
ECB Press Conference	24-Oct-2019
US Jobless claim	24-Oct-2019
Fed Balance Sheet	24-Oct-2019

(Source: Bloomberg)

## Economic Indicator

Particulars	18-Oct-19	11-Oct-19	Change
5 Year Indian Govt. Bond(%)	6.29	6.32	-0.03
10 Year Indian Govt. Bond(%)	6.7	6.73	-0.03
15 Year Indian Govt. Bond(%)	7.04	7.05	-0.01
Call Money Market (%)	5.15	4.9	0.25
Crude Oil (in Dollar/barrel )	60.08	60.51	-0.43
US 10 Year Treasury (%)	1.76	1.73	0.03
UK 10 Year Treasury (%)	0.73	0.71	0.02
Rs. vs Dollar	71.15	71.02	0.13
FOREX Reserves with RBI (in Dollar/bn )	439.71	437.83	1.88
LAF(REPO @ 5.15%) (in Rs. Cr. Weekly)	19097	17275	1822
LAF(REVERSE REVERSE REPO@ 4.90%) (in Rs. Cr. Weekly)	149343	93059	56284

— 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)	3.99	3.21	0.78
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 6.64% to 6.71% percent .

(GEPL Capital Research)

## Interest Rate Future

IRF OPEN INTEREST (w.o.w)				
Security	Contract	18-Oct-19	11-Oct-19	Change
7.26% GOI 2029	31-Oct-2019	164557	162208	2349
IRF PRICE (w.o.w)				
Security	Contract	18-Oct-19	11-Oct-19	Change
7.26% GOI 2029	31-Oct-2019	103.75	103.84	-0.09

(GEPL Capital Research)

## Auction Scheduled For The Week

Date	Instrument	Expected Security	Nature of Flow	Amount (Cr)
22-Oct-19	SDL	12 States	Auction	14657
23-Oct-19	T-Bills	91 DTB	Auction	9000
23-Oct-19	T-Bills	182 DTB	Auction	4000
23-Oct-19	T-Bills	364 DTB	Auction	3000

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



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