# Monthly Debt Market Insight

**April 2021**

## DEBT UPDATE

### Global Markets

In April, expectations for spectacular economic growth turned from forecast to fact, as the reopening of economies lifted developed market economic data. Covid-19 vaccine rollouts in the US and UK have continued to proceed well, with 44% and 51% of their respective populations now having received at least one dose, allowing for what looks like the start of a sustained reopening of their economies.

US President first 100 days have now passed and the key takeaway for investors is that this president is not afraid to spend big. Following a USD 1.9 trillion stimulus package passed in March – the President has outlined his plans for two more spending packages. The USD 2.3 trillion American Jobs Plan is designed to invest in the country's infrastructure, while the USD 1.8 trillion American Families Plan will aim to ensure a more equitable recovery, with many key tax credits from the Rescue bill being extended or made permanent.

On the economic front, the US economy grew at an annualized pace of 6.4% in the first quarter and the pace of growth is expected to accelerate from here. US retail sales grew 9.8% in March alone, and now sit 17% above the pre-pandemic level. The biggest question for markets in the second half of the year will be to what extent the rise in inflation is "transitory," as the Fed has pre-emptively labelled it. The US Consumer Price Index (CPI) rose more than expected in March, increasing 0.6% MoM, while the core index increased by 0.3% MoM.

The US Fed acknowledged the pick up in economic activity but highlighted that down side risks still persisted and that current elevated inflation was on account of transitory factors and base effects. It unequivocally maintained its ultra-dovish communication.

10-year Treasury yields started month with 1.74%, then during the month fallen back from their March peak of 1.75% to 1.53%. But yield rose again ending the month at 1.63% as bonds started selling off after a spike in U.S. consumer confidence, which hit 14-month highs in April.

In other economies, the eurozone economy contracted by 0.6% in the first quarter, but despite ongoing measures needed to contain the virus, there are signs that the economy has begun to grow again in April. Manufacturing PMI rose from 62.5 to 63.3 in April, Service PMI rose from 49.6 to 50.3. Retail sales has grown from -1.5% to 12.0% YoY. This sign of growth was majorly due to reduced cases and vaccination drive. With a return to normality in sight, consumers are feeling more optimistic and April's measure of confidence rose (-8.1%) more than what market expected. (Prev -10.8%)

The Chinese economy continues to normalize. In the first quarter of the year it grew 0.6% QoQ with a more balanced split across sectors, as activity in services continues to improve. Many researchers expect Chinese economic growth to be strong in 2021, boosted by the recovery in the global economy.

### Indian Recovery in Growth

The Covid-19 health crisis in India tragically worsened in April, underscoring the need for successful vaccination rollouts to be urgently broadened out to the country. Pressure on the health infrastructure has intensified and case fatality ratios have more than doubled since mid-February. Testing positivity ratios remain at an alarmingly high level of around 20%, The recovery rate has fallen to ~82%, however the fatality rate remains at ~1.12% compared to 2.0% previously, leading states to continue imposing restrictions.

The partial lockdowns pose a risk to economic recovery, however looking at the positive, these restrictions aren't expected to stay for long and the current restrictions are quite targeted to keep the growth momentum going. The improvement is expected based on the availability of vaccine and the seriousness of the rollout of the program. The pace of the vaccination has picked up in April with eligible population widened to cover people over the age of 45. On an average daily basis about 3 million doses were administered of the 2 approved vaccines. With the expected pace India would be able to inoculate ~43% of the total population by end-December 2021.

In these challenging circumstances, the Central Bank has maintained its accommodative stance including in the last policy announced, understanding the situation that growth is still at nascent stage. It also accounted for an uptick in inflation (5.2% for next two quarters) arising from higher commodity prices, supply chain disruption and dependence on monsoon. To keep the market supported and in an attempt of yield curve management, it introduced Government security acquisition program (GSAP) promising to buy government securities worth Rs1tn in Q1. This announcement along with a commitment for more in FY22, has eased pressure on the yield curve. However, the supply pressure remains elevated due to the large borrowing program.

While the 10Y G-sec toned down by 14 bps compared to 6 bps last month, mostly on account of RBI GSAP. Rates along the medium end of the curve (3–5Y) have seen fall by (17 – 19 bps) making it more attractive segment. Further, corporate bond yields have also fallen across the tenor, mirroring government bond yields.

In the Money Market, 3 months T-bills started month with 3.25% and ended at 3.33% touching high of 3.38%. 6-months T-bills started at 3.45% and ended at 3.48% touching high of 3.63%. Rise in the money market rates id due to RBI Variable rate reverse repo.

On macro economy front:

| Economic parameters | Comments |
|---|---|
| Inflation | Mar'21 headline CPI inflation expectedly rose ~50bps to 5.52%, led by an unfavorable base effect, even as sequential momentum remained under control. |
| Index of Industrial Production | IIP growth lost further momentum in Feb'21, contracting 3.6%, affected by adverse base effects, and sluggishness in production of capital and intermediate goods. Even as Mar'21 may see some improvement, near-term risks have emerged due to local lockdowns. |
| Trade Deficit | April merchandise trade deficit widened to US$15.2bn, despite localized lockdowns. However, sequentially, both exports and imports contracted. Annualized growth rates of both exports and imports were exceptionally high, benefiting from the low-base effect which will likely continue until June 2021. However, compared with 2019, exports ex-oil and core imports were up 19.4% and 6.5% up, respectively. |
| CAD | The current account finally reverted to a deficit of US$1.7bn (-0.2% of GDP) in Q3FY21 from a surplus of US$15.1bn (2.4% of GDP) in Q2FY21, driven by a widening in trade deficit, while the services surplus saw an improvement. |

Source: Investing.com and Bloomberg, as on 30th April, 2021, For all the above data

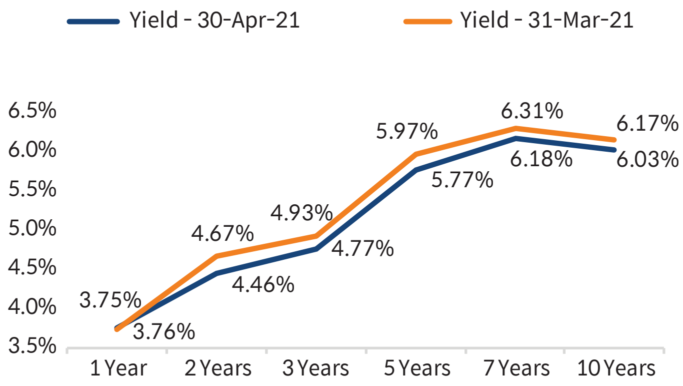
## Market Outlook

On one hand, growth is likely to be hit due to implementation of restrictions, which might lead to supply disruptions thereby keeping inflation marginally higher but on the other hand, the first estimate of IMD shows India is expected to receive normal monsoon in 2021(98% of LTA) and the vaccination drive gives hope there is a possibility of quick rebound in the growth momentum. Until there is no concrete path of growth restoration, Central Bank will likely stay accommodative and continue intervening to the support growth while managing inflation. Given this, the rates are expected to remain rangebound for next 3-6 months, barring any surprises from Central Bank.

### Fixed Income - Yields

| Instrument | 30-Apr-21 | 31-Mar-21 |
|---|---|---|
| Call Money | 3.21% | 3.30% |
| TREPS | 3.25% | 3.38% |
| 3 Months CD | 3.34% | 3.50% |
| 3 Months CP | 3.28% | 3.42% |
| 1 Year CD | 3.68% | 3.82% |
| 1 Year CP | 3.64% | 3.78% |
| 3 Month T-Bills | 3.33% | 3.27% |
| 6 Month T-Bills | 3.48% | 3.47% |

### G-Sec Yield Curve




### Currency market

| Forex | Value | % Change | |
|---|---|---|---|
| | | MTD | YTD |
| $ / Re | 74.09 | 1.33% | 1.40% |
| £ / Re | 103.02 | 2.24% | 3.22% |
| € / Re | 89.60 | 4.45% | -0.18% |
| KRW / Re | 0.07 | 3.11% | -0.97% |

Source: Bloomberg, as on 30th April, 2021, For all the above data