

MARKET OUTLOOK

Debt market

	30-04-21	30-03-21	Change (bps)
10 Year Benchmark Yield (s.a)	6.03	6.16	-13
10 Year AAA (PSU) (ann)	6.85	7.00	-15
5 Year AAA (PSU) (ann)	5.75	5.90	-15
3 Year AAA (PSU) (ann)	5.25	5.45	-20
1 Year AAA (PSU) (ann)	4.00	4.05	-15
3 Month T Bill	3.32	3.32	0
3 Month CD	3.35	3.34	01
6 Month CD	3.70	3.65	05
9 Month CD	3.80	3.80	0
12 Month CD	3.95	4.05	-10
10 Year AAA Spread	0.82	0.84	-02
5 Year AAA Spread	0.25	0.30	-05

RBI in its monetary policy announced GSAP 1 (Government Securities Acquisition Programme) to buy 1 Lakh crores of Government securities in the first quarter of the financial year. This is over and above OMO and Operation Twist which RBI will be conducting to ensure soft yield curve control. RBI re iterated its commitment to maintain accommodative monetary policy stance till growth is firmly entrenched in the economy. RBI also cancelled a 5-year and a 10-year auction in the month of April and conducted GSAP of Rs.25000 crores and OMO of Rs 10000 crores to bring down the yield curve. These announcements had the desired effect and the 10-year and 5-year yields fell by 13 and 10 basis points.

Corporate bond yields were well bid in the short-end due to demand from banks, mutual funds. The long-end was taken by insurance and pension companies. Supply of corporate bonds was lower compared with last year due to which helped the rally to sustain. The money market space saw a 10 basis points rally due to April-end phenomenon, but this segment is facing headwinds due to selling of T-bills by RBI in operation twist.

In the global markets, commodities continued to strengthen with Brent trading in USD 65 to 69 band, per barrel. The Bloomberg commodity index is at a 10-year high. The US 10-year was trading in the band of 1.55 % to 1.70 %, the US economy is recovering with first quarter GDP growth of 6.1 %. The US Fed has stated it will continue to maintain an accommodative monetary stance and continue with its USD 120 billion of Treasury and Mortgage bond purchases (USD 80 billion in treasury bills and USD 40 billion of MBS).

However, the Indian debt markets are not following the global market due to heavy intervention by RBI in the bond and forex markets. Given USD reserves of 584 billion and 75 billion of forward purchase by RBI maturing in the current financial year, RBI is able to pursue an independent monetary and forex policy and USD appreciation against major currencies is not affecting RBI policy of following an accommodative monetary policy and supporting growth.

Due to rising covid cases, RBI is doing its best to reduce the borrowing cost of the government and corporates. RBI has announced Rs 35000 crores of GSAP on 20th May 2021. It has also done operation twist and purchased the 10-year bond at 5.98 % levels. RBI is expected to support the markets with regular OMO and operation twist along with GSAP. This should keep the 10-year yields anchored in the band of 5.90 % – 6.10 % levels in the first quarter of the financial year.

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