



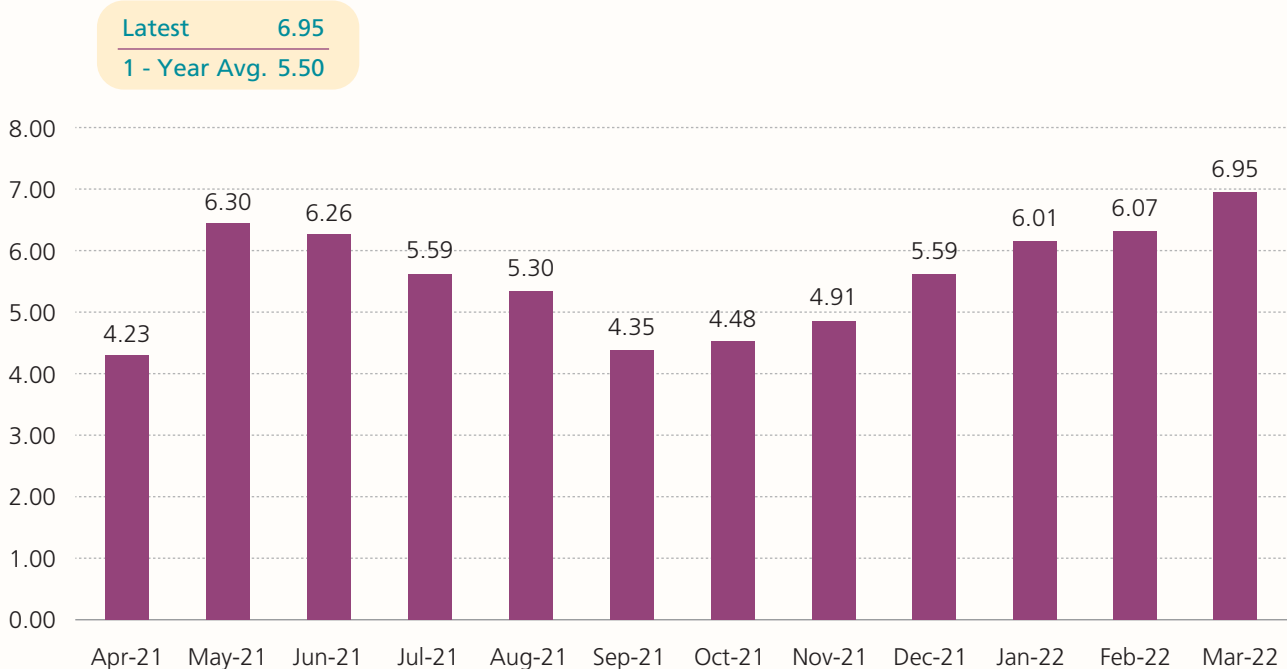
In line with market expectations, the Federal Open Market Committee (FOMC) raised policy rates by 50 bps in its May meeting taking the Fed funds rate from 0.75% to 1.00%. The FOMC also commenced Quantitative Tightening (QT), with the initial run rate of USD 47.5 bn per month from June to August and USD 95 bn per month thereafter. The Fed Chair reiterated that the FOMC will remain focused on managing the inflation trajectory. The Fed Chair also hinted that the FOMC members are not considering a 75 bps rate hike in one shot, however, a 50 bps rate hike each in the next two meetings is a possibility, as is being priced in by markets. The impact of a wage-price spiral on inflation will remain a key monitorable going forward.

The 10-year US Treasury yields continued its sharp move up moving from 2.35% to 2.95% during the month and are trading above 3.0% post the FOMC meeting. 5-year US Treasury yields are also trading above 3.0%. CPI print in the US for March 2022 came in at a multi-decade high of 8.5%, with Core CPI remaining elevated at 6.5%. Among other major economies, BOE also hiked policy rates by 25 bps for the fourth consecutive time amidst concerns that CPI inflation might hit 10.0% in the latter part of the year. Crude prices traded above the psychological USD 100/bbl for most of the month in absence of any resolution pertaining to the war situation.

MACRO-ECONOMIC DEVELOPMENTS

On the domestic front, CPI inflation for March came in much higher than expected at 6.95% (vs 6.07% in February) due to higher food inflation. This was the highest CPI print in 17 months. Meanwhile, Core inflation also edged higher. For FY2022, the average headline inflation was 5.5%. WPI inflation also rose sharply at 14.55% (vs 13.11% in February). Given the uncertainty around the geopolitical situation, higher commodity prices will likely keep WPI inflation elevated.

CPI Combined (YoY)



IIP data for February 2022 remained weak at 1.7% (vs 1.5% in January). Trade deficit for March came in at USD 18.51 bn (vs USD 13.64 bn last year). For FY2022 the Trade deficit was reported at USD 192 bn. GST collections continue to remain robust with revenues for April 2022 at an all-time high of INR 1.67 trillion. PMI numbers were encouraging with Manufacturing PMI at 54.7 and Services PMI at 57.9.

MARKET PERFORMANCE

Yields started rising post the April MPC meeting and subsequently after the higher than expected CPI print, as expectations of policy rate hikes started getting priced in. **On a month-on-month basis** (as of April 30, 2022) the 2-5 year G-Sec segment saw yields rising by 50-60 bps while 10-year yields moved higher by 30 bps. Corporate Bonds also saw a similar move up during the month. OIS levels saw an even higher month-on-month movement with yields rising by 50-80 bps. Markets saw a fair bit of short positions getting built in benchmark securities and covering of positions subsequently, resulting in a fair bit of volatility in yields.

10-Year G-Sec



Past performance may or may not be sustained in the future.

Source: MOSPI, Internal, Bloomberg

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