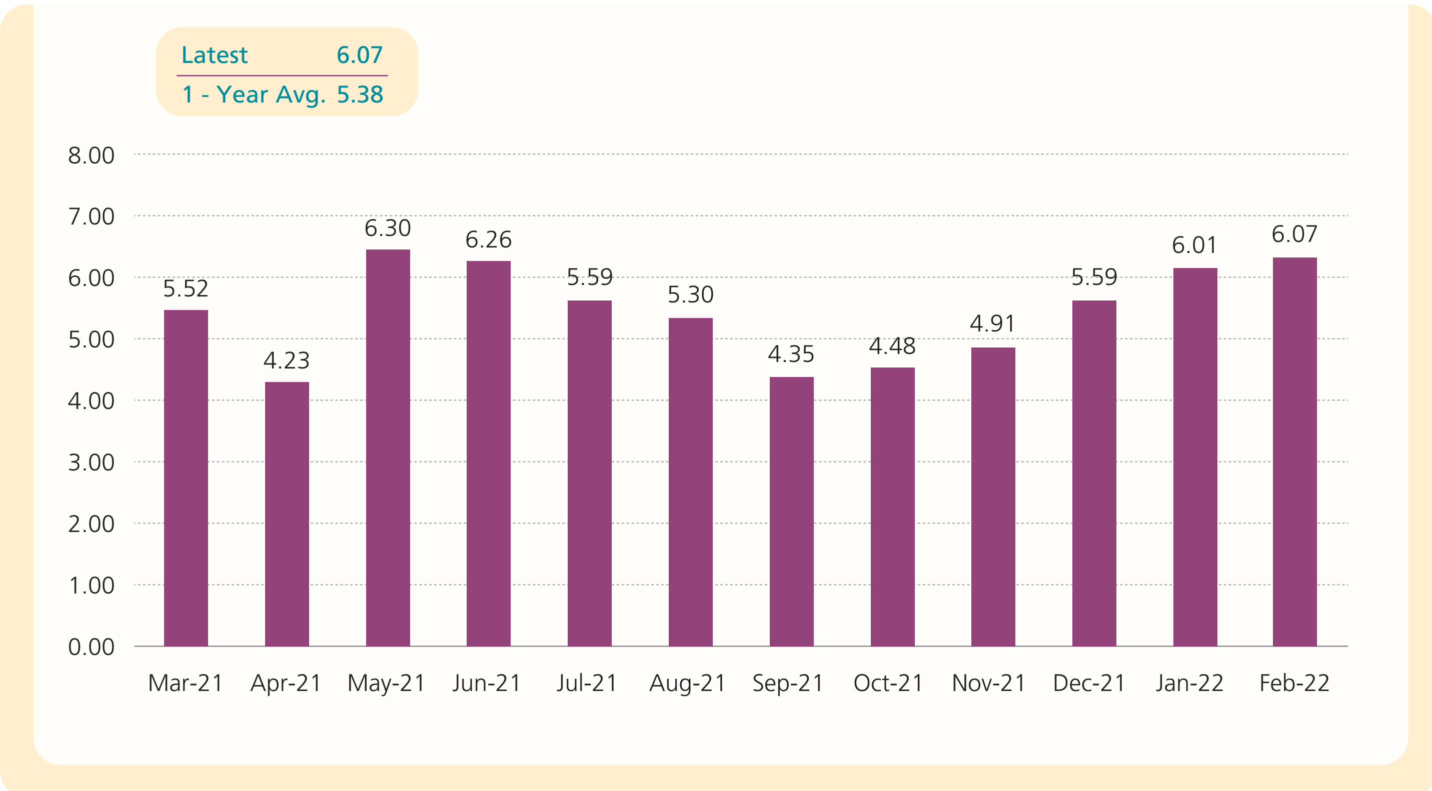
The volatility in asset classes continued as geopolitical tensions between Russia and Ukraine escalated during the month. Commodity prices remained elevated and only softened a bit towards the latter half of the month with updates on Russia pulling back troops from Kyiv. Crude prices traded above the psychological USD 100/bbl mark for most of the month while briefly breaching USD 130/bbl as concerns built around the embargo on Russian crude.

With inflation pressures being seen globally, markets continued to witness various economies exiting from ultra-easy monetary policies, with Central Banks globally hiking interest rates to stem the spiraling inflation. CPI print in the US for February 2022 came in at 7.9% (multi decade high), with Core CPI also edging further higher up to 6.4%. Against this backdrop, the FOMC in its March meeting raised the federal funds rate by 25 bps with the dot plot suggesting additional rate hikes of 150 bps expected in 2022. The FOMC also indicated that necessary steps will be taken to ensure that higher inflation does not become entrenched. The FOMC minutes suggested the possibility of 50 bps hike in the May policy along with a reduction in the Fed Balance Sheet by USD 95 bn per month. The 10-year US Treasury yields rose sharply higher from 1.80%-1.85% levels to almost 2.50% during the month and are currently trading around 2.65%. The 2-year and 5-year US Treasury yields have seen an even sharper move up with the 5-year/10-year curve now inverted.

On the domestic front, CPI inflation for February came in at 6.07% (vs 6.01% in January 2022) due to an increase in food inflation, with Core inflation broadly unchanged. WPI inflation inched slightly higher to 13.11% (from 12.96% in January 2022). This was the 11th consecutive month with WPI print in double digits resulting in the average WPI reading for FY2022 being 12.72%. IIP data for January 2022 continued to remain weak at 1.3% (vs 0.7% in Dec 2021). Trade deficit for February 2022 came in at USD 20.88 billion (USD 13.12 bn last year). GST collections continue to remain robust with revenues for March 2022 at an all-time high of INR 1.42 trillion (higher by 15% Y-o-Y).

CPI Combined (YoY)



The G-Sec calendar was announced with the borrowing frontloaded at INR 8.45 Lakh Crs for H1 FY2023, higher than market expectations. Weekly auction sizes will be INR 32,000-33,000 Crs. In line with feedback from market participants, the GOI announced that issuances will also happen in the 7-year bucket going forward. The SDL calendar for Q1 FY2023 was also announced, with a gross borrowing for the quarter at INR 1.90 Lakh Crs. Gross T-Bill borrowing for Q1 FY2023 will be INR 4.32 Lakh Crs with weekly auction sizes of INR 33,000-34,000 Crs. The WMA limit for GOI for H1 FY2023 is set at INR 1.5 Lakh Crs. RBI announced another USD/INR 1.5-year Sell Buy Swap auction worth USD 5 billion to be conducted on April 26, 2022. This can be viewed as another tool used by the RBI for pulling out surplus liquidity from the system. Petrol and diesel prices have seen price hikes over the last couple of weeks on higher Crude prices with the cumulative increase now ~ INR 10 per litre.

10-year G-Sec traded in the 6.75%-6.90% during the month. Markets continued to witness good supply from Bank CD issuances, however commensurate demand for these papers kept levels in check. OIS levels inched higher during the month by 15-20 bps. Primary issuances in corporate bonds saw good demand from end investors, with cutoffs for a few issuances coming significantly below secondary market levels. Corporate bond spreads in the longer end continue to remain tight due to a lack of primary supply.

10-Year G-Sec

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

In this backdrop of policy normalization now being seen globally, soaring Crude prices and inflation prints above RBI's estimate, what steps the Central Bank takes to manage the growth inflation tradeoff while ensuring smooth Government borrowing this year will be the key monitorable going forward.

Source: MOSPI, Internal, Bloomberg