

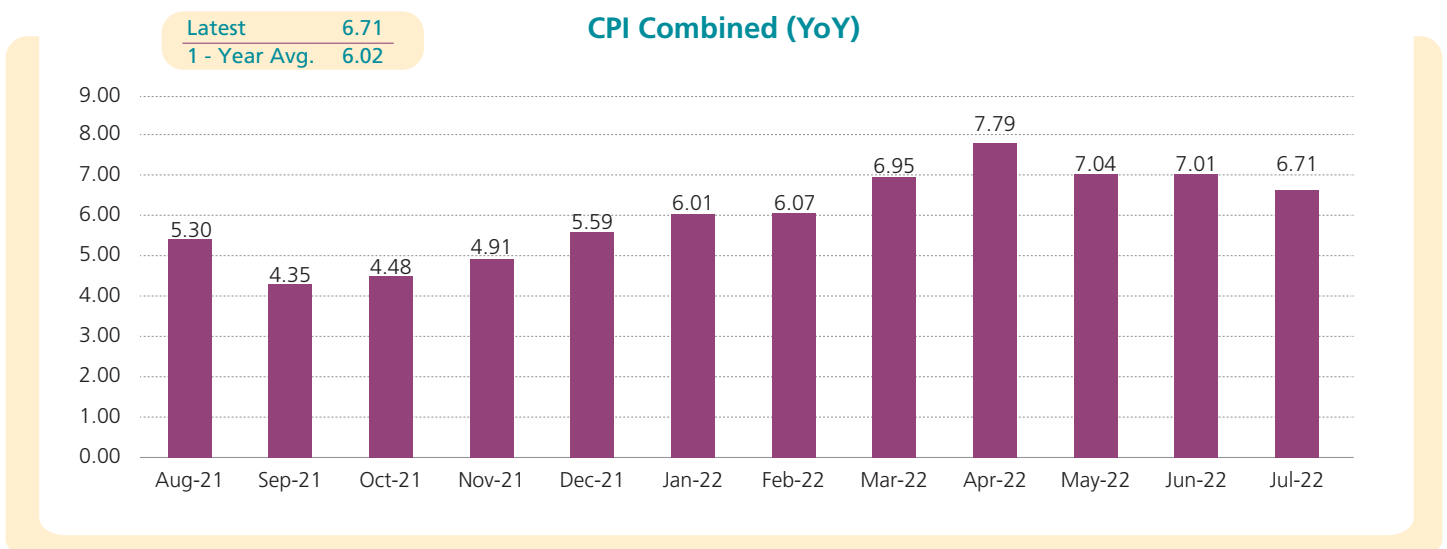


Advanced economies continued to grapple with higher inflation and aggressive policy tightening remained a common theme across economies. The recent inflation prints in the US, UK and Eurozone read as 8.3%, 9.9% and 10.0% respectively. The Federal Open Market Committee (FOMC) in its September meeting raised rates by 75 bps taking the policy rates to 3.00%-3.25%. The dot plot indicated federal funds rate to increase to 4.4% by December 2022 and 4.6% by December 2023. The FOMC revised the growth projections lower while increasing forecasts of inflation and unemployment rate. The Fed Chair indicated that rates might remain higher for longer to curb inflation. The European Central Bank (ECB) also delivered a hawkish rate, raising policy rates by 75 bps, while indicating further rate hikes to come even if the economy headed towards recession. The Bank of England (BoE) also raised policy rates by 50 bps to 2.25%. This was their seventh consecutive rate hike. The BoE also announced reduction of their Government bond holdings by GBP 100 bn over the coming year.

US Treasury yields remained volatile throughout the month with the 10-year benchmark trading in the range of 3.20%-4.00% during the month. The yield curve continues to remain inverted with 2-year vs 10-year currently at 40 bps. Crude prices during the month traded in the range of USD 85/bbl to USD 95/bbl. UK Treasury yields rose sharply during the month with 10-year yields touching 4.50% before the BoE announced a Quantitative Easing (QE) program and tax cuts announced earlier were reversed. This also resulted in softening of US Treasury yields from highs of almost 4.0%.

MACROECONOMIC DEVELOPMENTS

On the domestic front, CPI inflation for August 2022 came in higher than expectations at 7.00% (vs 6.71% in July) due to higher food inflation. Core CPI remained broadly unchanged at 5.9%. WPI inflation for August 2022 hit a 11-month low of 12.41% (vs 13.93% in July) due to lower fuel and manufactured products inflation.



IIP data for July 2022 also came in lower than expectation at 2.4% (vs 12.7% in June), with capital goods and consumer durables showing deceleration.

Trade deficit continued to remain high at USD 27.98 bn, with the cumulative Trade deficit for the April-August period at USD 124.52 bn.

PMI numbers although still in expansion, are lower than previous month prints.

GST revenues, however, remain buoyant with September collections at INR 1.48 Lakh Crs and credit off-take remains upbeat with non-food Bank credit growing at 16.0% in August 2022.

The G-Sec calendar was announced with the gross borrowing for H2 FY2023 at INR 5.92 Lakh Crs (including INR 16,000 Crs of Sovereign Green bonds). No FRBs were announced in the borrowing and weekly auctions would be to the tune of INR 28,000-30,000 Crs.

The SDL calendar for Q3 FY2023 was announced, with a gross borrowing for the quarter at INR 2.53 Lakh Crs. Gross T-Bill borrowing for Q3 FY2023 stood at INR 2.86 Lakh Crs with weekly auction sizes of INR 22,000 Crs.

MARKET PERFORMANCE

On a month-on-month basis as on September 30, 2022) Short term rates moved up sharply with money market rates increasing by 25-50 bps during the month. G-Sec continued to witness spread compression with the 10-year G-Sec moving up by around 20 bps, while the 2-5 year segment moved up by 35-45 bps

10-Year G-Sec



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

Corporate bonds also moved up by 30-40 bps during the month. OIS levels shot up even higher by 45-60 bps. With Dollar strengthening witnessed, Rupee has seen depreciation with USD INR trading in the 81-82 band..

Source: MOSPI, Internal, Bloomberg

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