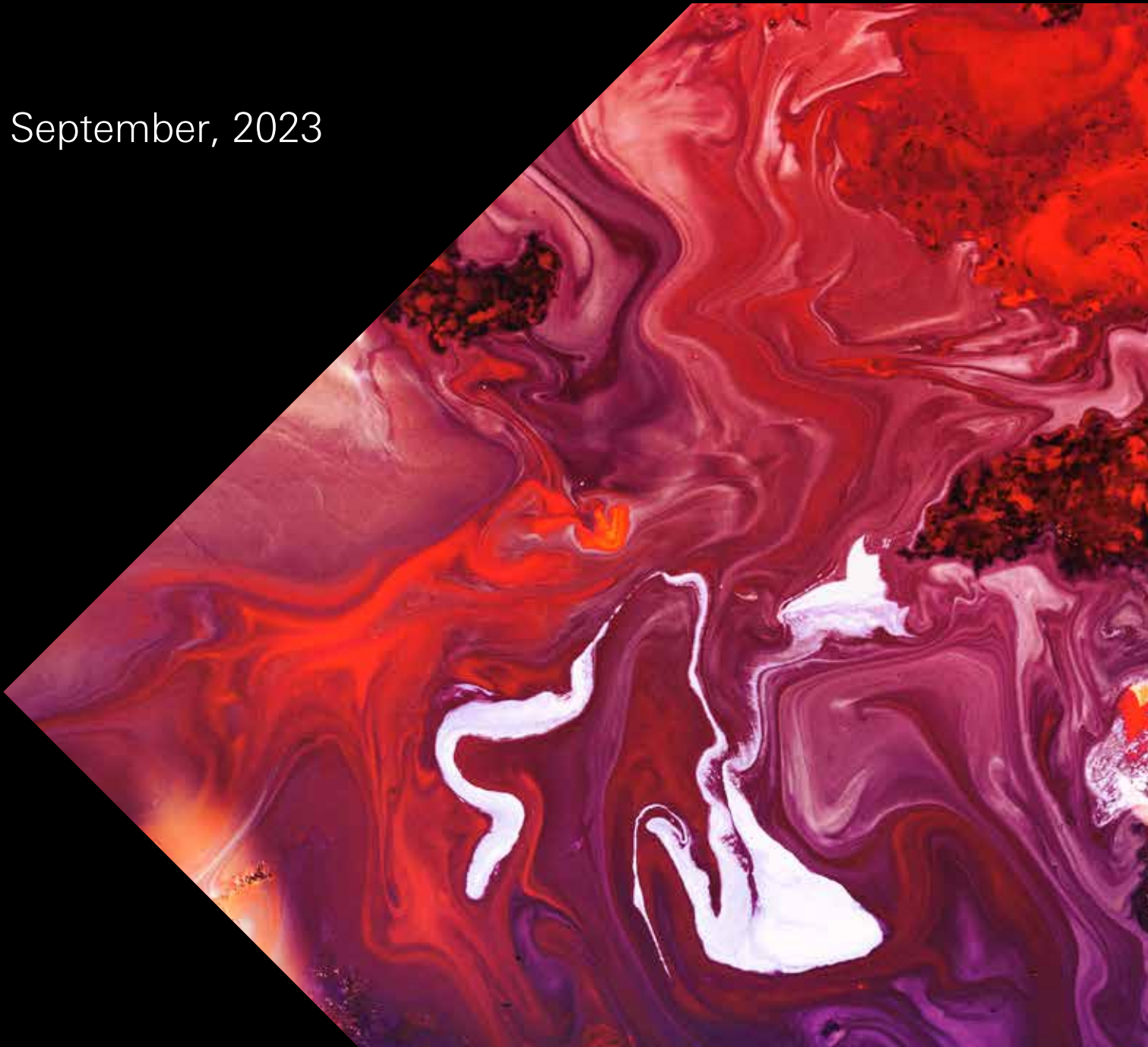


Debt Market Review

September, 2023



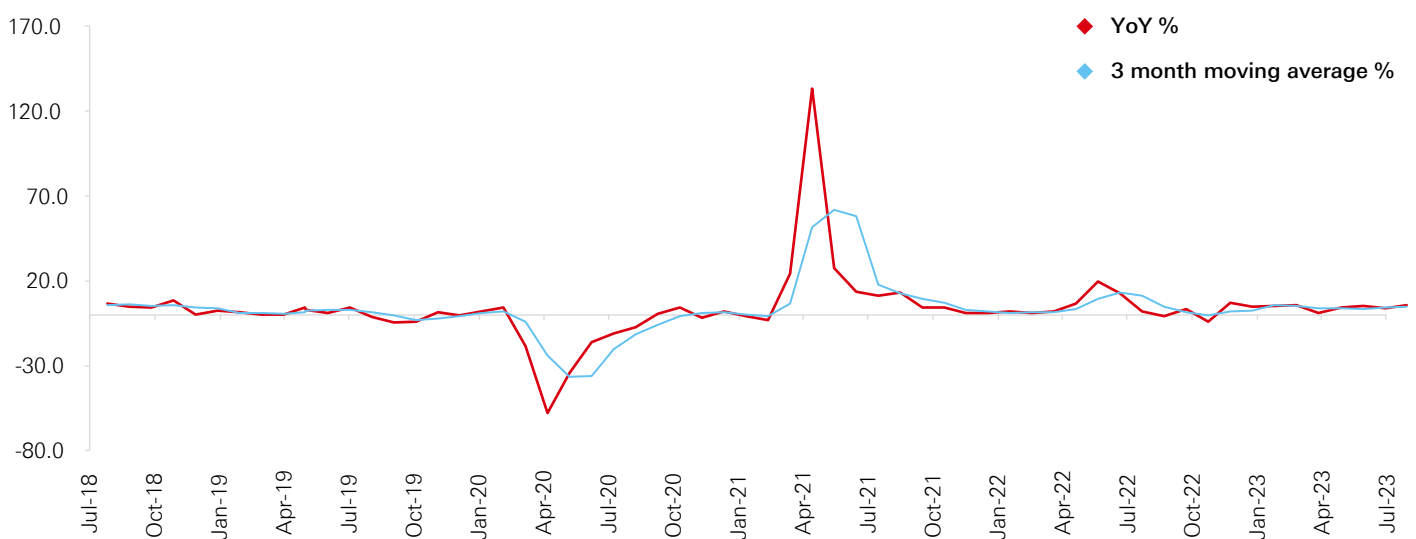
Global markets continued to remain volatile during the month, with “higher for longer” rates emerging as the key theme going forward. The Federal Open Market Committee (FOMC) maintained status quo in its September meeting, while providing a hawkish guidance. The dot-plot guidance on terminal rate was retained at 5.6% for 2023, implying the possibility of one more rate hike in 2023. The European Central Bank (ECB) raised policy rates by another 25 bps, while providing a dovish guidance indicating that they are likely done with policy tightening. The Bank of England (BOE) kept policy rates unchanged (after 14 consecutive rate hikes), however, the decision to maintain status quo was not uniform. US Treasury yields saw a sharp rise during the month, with the 10-year benchmark moving from 4.11% in end August to 4.57% in end September and is currently trading even higher. Crude prices also inched up during the month in response to production cuts by the Organization of the Petroleum Exporting Countries (OPEC+), reaching a peak of ~ USD 97/bbl before reverting to ~ USD 90/bbl in end September.

Domestically, the key event during the month was the much-awaited index inclusion of Indian Government Bonds (IGBs) into the GBI-EM Global index suite and its relevant derivative benchmarks. India is expected to reach the maximum weight of 10% in the GBI-EM Global Diversified Index (GBI-EM GD), with the inclusion staggered over a 10-month period starting June 28, 2024, through March 31, 2025 (i.e., inclusion of 1% weight per month). GBI-EM GD accounts for USD 213 billion worth of assets. Only IGBs issued under the Fully Accessible Route (FAR) with a residual maturity of 2.5 years (from June 28, 2024) will be eligible for inclusion. This turns the fiscal demand supply dynamics very favorable by bringing in a new set of investors into Indian markets and paves the way for IGBs inclusion in other global indices.

Macro-Economic Developments

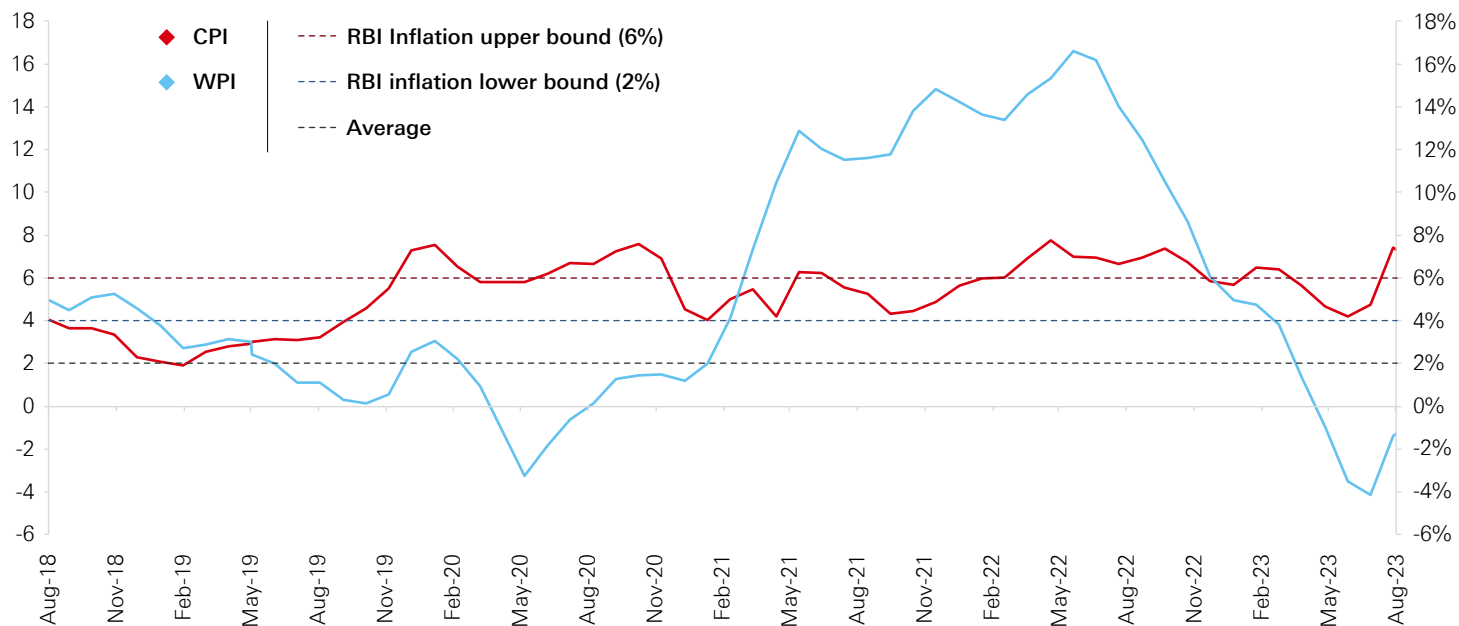
- ◆ On the domestic macro front, CPI came in lower than expectations at 6.83% (vs 7.44% in July), led by a correction in vegetable prices. Core inflation came in marginally lower at 4.8%. The borrowing calendar was announced in end September, with the gross borrowing through G-Sec in H2 FY2024 at INR 6.55 Lakh Crs (in line with Budget estimates). A new 50-year security has been announced for auction.

Index of Industrial Production - IIP



Source: MOSPI, Data ended September 2023 except otherwise mentioned
Past performance is not indicative of future performance

Inflation target and trend

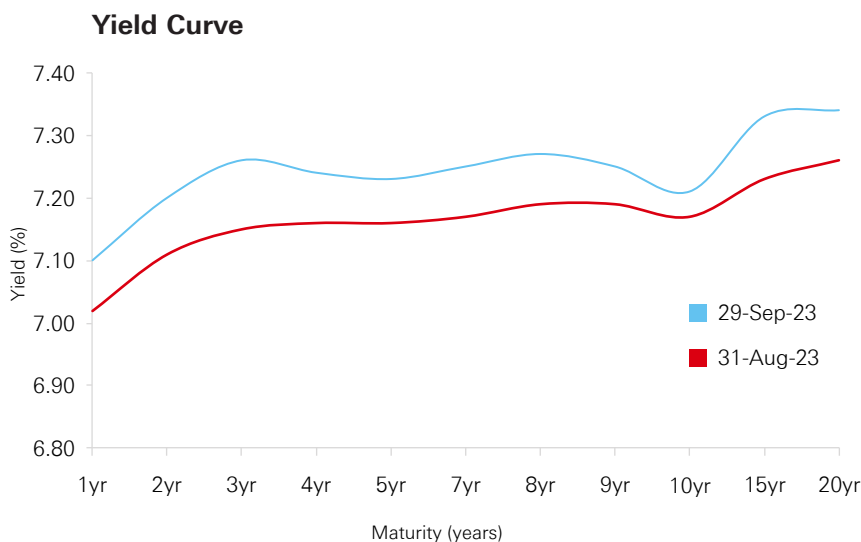


Source: MOSPI, RBI, Data ended September 2023 except otherwise mentioned
 Past performance is not indicative of future performance

MARKET MOVEMENTS

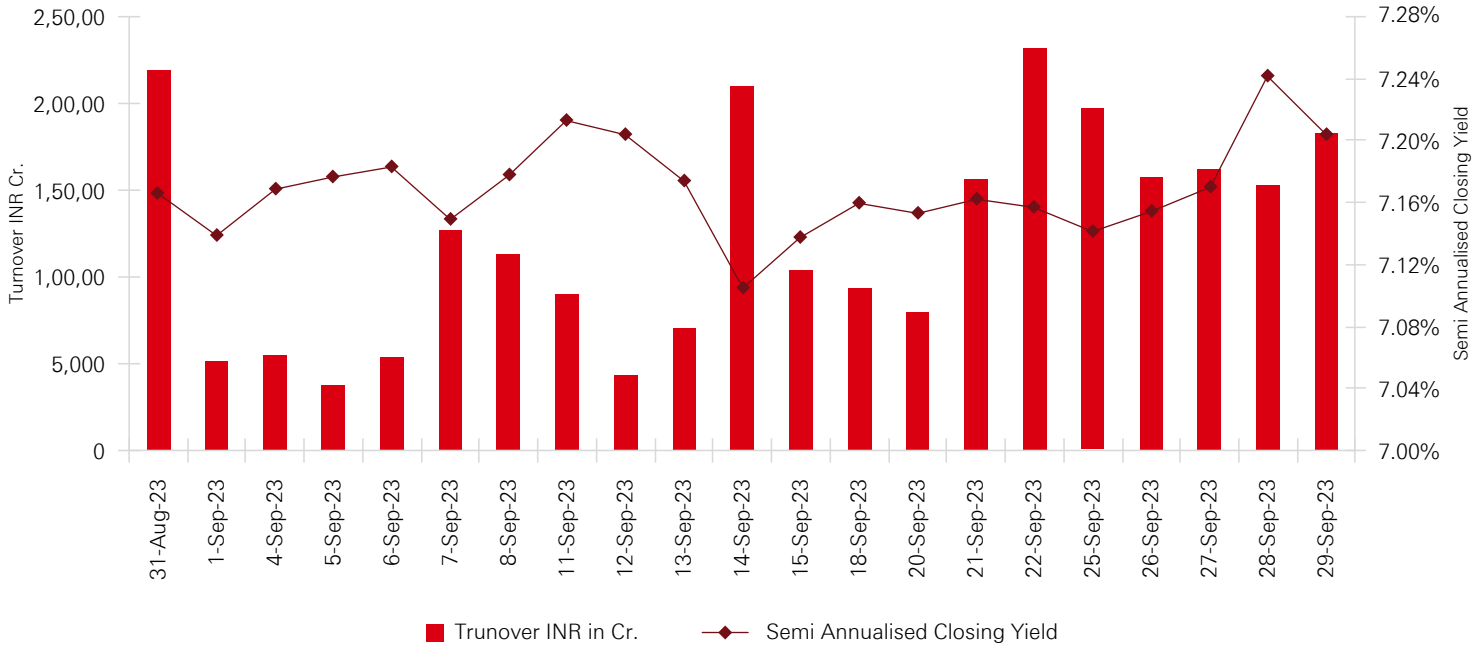
In terms of market movements during the month, 2-3 year G-Sec moved up sharply by ~ 12 bps, while the 5-10 year G-Sec rose by around 8 bps. Corporate bond yields inched higher by 3-7 bps across various points of the curve. T-Bill rates moved up by around 2-4 bps during the month. Overnight Indexed Swap (OIS) levels spiraled upwards as a reaction to higher US Treasury rates, with the 2-5 year OIS curve higher by 20-25 bps during the month and 1-year OIS up by 12 bps. Liquidity remained negative for most of the month, with bank borrowing from MSF being the highest in the recent past. RBI seems to be comfortable to keep liquidity near neutral or negative.

Debt Market Indicators	29-Sep-23	31-Aug-23
Call Rate	6.50%	6.30%
3-mth CP rate	7.41%	7.30%
5 yr Corp Bond	7.63%	7.58%
10 Yr Gilt	7.21%	7.17%
Repo	6.50%	6.50%
SDF	6.25%	6.25%
CRR	4.50%	4.50%
1-mth CDs	7.05%	7.00%
3-mth CDs	7.04%	7.05%
6-mth CDs	7.25%	7.20%



Source: CRISIL Fixed Income database. Data as on September 2023 except mentioned otherwise

Movement of 10 Year Gilt Benchmark



Source: CRISIL Fixed Income database. Data as on September 2023 except mentioned otherwise

Source: Bloomberg & HSBC MF estimates as on Sep 2023 end or as latest available.

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