Market Minutes – Debt market snippets

30 **Nov '21**

1) Economic indicators continue to show improvement

Markets traded mostly in a narrow range last week with a mild drift upwards. Towards the end of the week, given sharp fall in UST and crude prices, and fears of new COVID variant, bond yields rallied by 3-4 bps across most of the curve. Overall for the week, curve closed 1-2 bps lower across 5 yr and beyond segment with mild underperformance in some of the less liquid securities. Primary cutoffs came in marginally weaker in the weekly G-Sec auction while SDL auction cutoffs came in at 6.87% in 10yr in stronger states with further rally in secondary by the end of the week. Next week SDL also sees fairly small auction. Corporate bond yields traded in a narrow range with largely flattish trend in short end in PSUs, while NBFC spreads particularly in 2023 segment adjusted upwards. 10 yr corporate bond continued to rally and closed at 41-42 bps spread.

In corporate bonds, we continue to see NBFCs being primary issuer with KMIL 3yr at 5.90%, 2 yr at 5.45%, HDB 3 yr at 5.80%, Sundaram 3yr at 5.77%, 2 yr at 5.27, ICICI Bank Infra 7 yr at 6.67, Tata Capital Finance 10 yr at 7.44% IRFC was the lone PSU issuer- 15 yr at 6.95%, LIC Housing, Tata Capital Housing, HDFC Credila were some of the other issuers.

Rupee traded in a narrow range before weakening towards end of the week closing at 74.87. FX reserves was flattish at 74.87. Strong outflows in equity with nearly INR 30-INR 50 bn outflow every day in past 5-6 trading sessions. This has completely reversed the INR 185 bn inflow earlier in the month and MTD is now marginally negative as far as equity flows are concerned. Debt also saw further outflows and is –INR 18 bn MTD.

G-Sec Curve movement: Mild flattening trend continues.

2) Inflation and Liquidity update

Inflation estimates: Vegetable prices have continued to inch up in November and base effects are less favorable and inflation could inch up beyond 5% in November. While recent drop in crude prices if sustained is positive, core inflation being elevated could still push inflation over 6% in January '22 before settling lower.

Liquidity: Remains strong, though pace of RBI absorption has increased in longer term windows.

Source: HSBC Asset Management India, Bloomberg, Data as at 26 Nov '21

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Source HSBC Asset Management, Bloomberg, Disclaimer: This document has been prepared by HSBC Asset Management (India)

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 HSBC Asset Management (India) Private Limited, 9-11 Floors, NESCO IT Park, Building no. 3, Western Express Highway, Goregaon (East), Mumbai 400 063, India.
Email: hsbcmf@camsonline.com | Website: www.assetmanagement.hsbc.co.in

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