

## Market Minutes – Debt market snippets

3 Dec '21

### 1) India GDP growth

- India 2QFY22 GDP growth came in at 8.4% and GVA at 8.5%, both higher marginally than consensus. Overall GDP was 0.3% higher than 2 years back (2QFY20 levels). Agri growth was robust at 4.5%, despite a strong base, and manufacturing GVA was also reasonable at 5.5%. On services side, public services GVA grew 17.4% on the back of spending by state and central governments. Contact intensive services (trade hotels and transportation), and finance and real estate growth was sequentially stronger but remain below Q2FY20 levels. On the demand side, private consumption continues to be below pre-Covid levels. Gross fixed capital formation grew 11% and rose 1.5% above pre-Covid levels while government consumption grew strongly

### 2. Economic indicators

- November '21 GST revenues were at INR 1.31 trn, similar to the previous month and well above the trend in previous two quarters.
- Manufacturing PMI grew strongly to 57.6 from 55.9 in October '21 and services PMI while easing marginally from October '21 levels remained strong at 58.1 driven by strong uptick in new orders.
- Overall Composite PMI rose to 59.2 from 58.7, strongest since January 2012.
- Core sector output (8 main sectors which are also part of IIP, constituting 40% of IIP) grew 7.5% in October (0.5% in the year ago) v.s 4.4% in September '21
- Fiscal figures continue to remain robust, with fiscal deficit in 7M FY 2022 remaining only at 36% of budgeted deficit.
- Gross tax collections higher by 56% in the period, and expenditure by 10%

### 3. Market Update

- Markets traded in a narrow range for most of the week despite positive global cues as 10y was unable to go below 6.31/32 levels. Post auction on Friday, when we saw cutoffs coming in on the higher side, markets sold off further and 10 y closed at 6.37, higher by 4 bps for the week. Similar move seen in the 5yr, while longer end securities and spread securities in the 5-10 yr space were less impacted. Corporate bonds were flattish with a positive bias and spreads narrowed further marginally across the curve. SDL spreads also continued to inch lower – 45 bps currently and primary auction cutoffs were also lower than 50 bps. Primary auction sizes continue to be low - next week also at INR 80bn- lower than INR 100 bn for past 3-4 weeks.
- Primary corporate bonds - we continue to see NBFCs being primary issuers. We saw a fair bit of issuances in 10 yr space by NBFC and HFC with HDFC raising INR 100 bn at 7.05, LICHF 7.5 bn at 7.13, Bajaj Finance 7.5 bn 10Y at 7.15, ICICI Home Finance 0.85 bn at 7.30, TCFSL 10 y 2.19 bn at 7.22 and Aditya birla Sunlife Insurance at 7.63. In 2-5 yr space, we saw LICHF raising 2 yr 9.5 bn at 5.32, 5yr 10bn at 6.40, KMIL 4bn 2yr at 5.45, 3 yr at 5.90, Axis Finance 3Y at 5.95 (1bn each), L&T Finance 1.5 bn 3y at 6.25, ICICI Home Finance 5 y at 6.50. Pipeline also consists of LICHF 10 y, KMPL 3y, HDB 2y, Chola 3y floating, Motherson Sumi etc.
- Rupee traded in a narrow range before weakening towards end of the week closing at 75.11
- FX reserves declined by USD 2.7 bn to USD 637 bn

- Outflows continued in equity, with November closing at INR -53 bn outflow after being positive by more than INR 180 bn in the first couple of weeks. December 1<sup>st</sup> two trading sessions have seen an additional –INR 37bn outflow on the equity side. Minor outflows in the debt side in December thus far at INR -1.6 bn (in addition to INR -10 bn in November)
- G-Sec Curve movement: Mild flattening trend continues.

#### 4. Inflation and Liquidity update

- Inflation estimates: Vegetable prices inched in November '21 and base effects are less favorable and inflation could be at higher end of our expected ranges. While recent drop in crude prices if sustained is positive, we have not yet seen pass-through into retail prices and core inflation being elevated could still push inflation over 6% in December and January '21.
- Liquidity: Remains strong, though pace of RBI absorption has increased in longer term windows.

Source: HSBC Asset Management India, Bloomberg, Data as at 3 Dec '21



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

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