Market Minutes – Debt market snippets

23 **Nov '21**

1) Economic indicators continue to show improvement

Markets traded in a narrow range with a positive bias especially as crude prices declined later in the week. Overall we saw a near 4-5 bps move lower across most of the curve on G-Sec side. On the corporate side, we saw similar 3-8 bps rally across various segments of the curve.

Primary cutoffs came in strong in the weekly G-Sec auction while SDL auction cutoffs came in at 6.90 in 10y in stronger states, 6,92 in weaker states, 2029 (8yr) at 6.71, and 18-20 yr at 6.97-99.

In corporate segment, we continue to see NBFCs being primary issuer with KMIL 3 yr at 5.85, L&T Finance 3yr at 6.25, Tata Cleantech 3y at 5.95, Axis Finance, 5 yr at 6.80, M&M Finance 10 y at 7.45. Other issuances included REC floating rate note at 66 bps over 3m T-bill and Tata Motor Financial Holdings at 245 bps over 3m T-bill, and PNB Basel Tier 2 at 7.10 and some insurance companies issuing sub debt.

G-Sec Curve movement: Over a 1-month period, 14yr and 30 yr have significantly outperformed along with spread securities in 5-10 yr space.

Switch auction saw INR 120 bn of securities converted form 2022 maturity securities primarily into FRB in 2031 and 34 maturities

Rupee traded with a positive bias and closed at 74.24 v.s 74.45 at the end of the previous week

Forex reserves decreased by ~USD 0.7 bn to USD 640 bn.

2) Inflation and Liquidity update

October WPI inflation came in at 12.5%, increasing from 10.7% in September. Food inflation was at 3.1%. Fuel and power inflation rose sharply to 37.2% from 24.8% in September. Core WPI inflation rose further to 12.1% (September: 11.4%), with inflation in some of imported products like metals and chemicals above 20%.

Vegetable prices have continued to inch up in November and base effects are less favorable and we could see inflation higher by 25-45 bps in November while December inflation could inch closer to 6% given unfavorable base effects. Overall Oct- Dec inflation expected to be higher than RBI estimate while Jan- Mar should largely track RBI estimate despite the decrease in fuel prices.

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

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