

## Market Minutes – Debt market snippets

### 9 Nov '21

#### 1) Economic indicators continue to show improvement

GST collections for October '21 (September '21 Sales) came in at INR 1.3 tn, higher than INR 1.7 tn and up 23.7% y-o-y, and second highest ever GST collections (highest in March at INR 1.4 tn).

India Services PMI came in at a decadal high of 58.4 v/s 55.2 in September, driven by strong new orders and output. MFG PMI also improved to 8 months high of 55.9 from 53.7, and overall composite PMI rose to 58.7, highest in 9.5 years. Here again, input price pressures remained a headwind.

However sub-indices such as business sentiment and input price index continued to face headwinds. India trade deficit stayed elevated for a second month in a row at USD 19.9 bn (Sep '21: USD 22.6 bn, Aug '21: USD 13.8 bn, Apr-Aug '21 avg: USD 11 bn).

While there was some decline in oil imports month on month, this was partly offset by rising non-oil imports which grew 45.8% y-o-y (45% over Oct-19 as well) and non-oil non-gold imports also grew 43.3% y-o-y (34.5% over Oct 19) while gold imports also more than doubled y-o-y.

GOI cut excise on petrol by INR 5/ ltr and by diesel by INR 10/L. Several states, especially BJP ruled states have also followed up by cutting state VAT sharply by anywhere between INR 5/ltr to INR 13/ltr, thus leading to overall cut of anywhere between INR 10/L to INR 19/L. Impact on GOI fiscal deficit is expected to be INR 450 bn for the current fiscal.

#### 2) Debt markets traded mixed with a positive bias

Markets traded mixed with a positive bias in a shortened week and closed around 3 bps lower on the 10 y and on the 5 yr. 1-2 yr segment tended to drift higher. On the corporate side, we continued to see yields drift higher in the short end, 1-2 yr segment higher by ~8-9 bps, 3 yr by ~5-6 bps while 5-10 yr segment was largely unchanged. Primary SDL came in at 6.96, around 59 bps at the time of auction. Next week auction size in SDL remains small at INR 60 bn.

No major issuance in the week except for some sub debt issuance of NBFCs such as ICICI HFC and AA-rated NBFC like Hinduja Leyland Finance.

Rupee traded with a positive bias and closed at 74.46 v/s 74.87 in the previous week. FX reserves increased to USD 643 bn (increasing by USD 1.8 bn for the week ended Oct 29). Overall debt flows in October were INR -33.6 bn (outflow) and equity outflows were INR -170 bn. So far in Nov '21, we have seen mild outflows in equity and around INR 10.7 bn inflow into equities

Inflation is likely to have bottomed out in September and October inflation is expected to be 6.5%. Vegetable prices have started to move up sharply in October '21. Oct- Dec '21 quarter is likely to well exceed RBI estimate while Jan-Mar '21 average is likely to be in line with RBI's estimate at an elevated 5.8%. November estimate of 4.8%-5.2% might come in at the lower end of the range given the sharp cut in fuel prices. However, core inflation is likely to stay elevated given other broad based price pressures seen.

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

In G-Sec curve movement, over a 1month period, 2 - 3 years segment has performed the worst as curve has bear flattened.



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