APR 2021

PINC

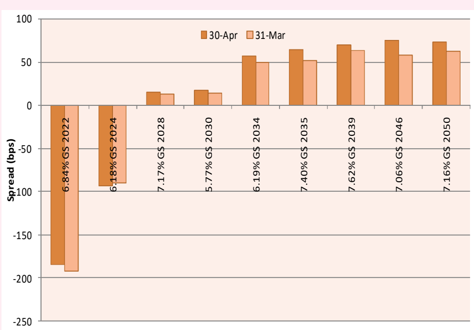
MONTHLY REPORT (Apr)| DEBT MARKET INDIA

CONTENTS

YIELDS OF GOVERNMENT SECURITIES (%)

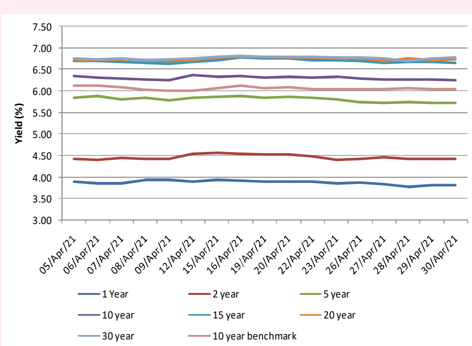
Yield at ↓	March	April
5.22% GS 2025 (5 Year Security)		
Month Opening	5.64	5.51
Month End	5.59	5.38
High	5.80	5.59
Low	5.54	5.32
5.85% GS 2030 (10 Year Security)		
Month Opening	6.20	6.18
Month End	6.17	6.02
High	6.27	6.19
Low	6.11	5.95
6.19% GS 2034 (14 Year Security)		
Month Opening	6.76	6.68
Month End	6.68	6.63
High	6.86	6.68
Low	6.58	6.53

SPREAD IN G-SEC SECURITIES (bps)



* SPREAD from 5.85% GS 2030

G-SEC YIELD VARAIATION (%)



Benchmark: 5.85% GS 2030
SOURCE: CCIL

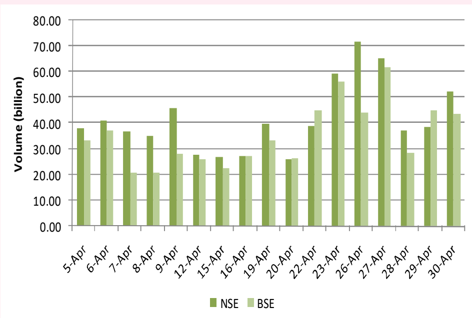
OVERVIEW

- Government bond yields which were trading at the elevated levels during the month starting came off from their highs on the MPC dovish tone in its MPC meeting and also announcement of the buying of the government securities from the secondary market by G-sec acquisition programme or G-SAP 1.0. However, investors were disappointed on RBI not indicating the longevity of the accommodative stance in the policy. Bond prices remained in thin range for most of the week because of the lined up holidays in the month and also as investors bet on the central bank support to the market amid heavy supply of government securities.
- The market was not able to sustain the gains made after the MPC meeting as investors concern rose after the devolvement of the securities in the first auction of the current financial year in its weekly auction outlining that the demand of the papers is limited in the market. Concern also rose on sharp rise in the wholesale inflation (WPI). Rise in the US treasury yields and crude oil prices also aided to the rise in the yields of the securities. RBI accepting the securities at lower levels than the market expectation in the GSAP 1.0 also added to the market concern. Increasing global risk appetite of the investors limited the movement in the market.
- Market found some support after RBI did not accept any bid in the particular securities in next two G-Sec auction indicating that it is not happy with the current level at which securities are trading. Investors were seen speculating he levels at which central bank wants to anchor the yields. RBI announcement of the special OMO for simultaneous purchase and sell of the government securities supported the market. Investors were cheered on strong demand of the securities in the last auction of the month where RBI awarded the yields at better levels than the market expectation.
- RBI in its monetary policy committee (MPC) meeting announced to keep the policy rates unchanged while maintaining the accommodative stance. The committee kept the growth outlook for FY:2021-22 unchanged at 10.5% while warning at the downside risk because of the second wave of COVID-19. On inflation front RBI noted that the supply side pressure remains lowering the inflation for the Q1:FY2021-22 by 20bps to 5.0%. Members voted unanimously on the decision. RBI reiterated its commitment to avail adequate liquidity into the system.
- Minutes of the April Monetary policy meeting showed that the members are likely to maintain the accommodative policy for longer than expected terming the need of the policy to be growth supportive as the risk on the economic recovery presided because of the second wave of COVID-19 infection. They also emphasised on the importance of vaccination in recovery and mitigating the spillovers of the global shocks on the economy. On inflation board mostly remained optimistic expecting long term inflation to be stable. RBI Governor, Shaktikanta Das said that the RBI's objective is to ensure orderly evolution of the yield curve and avoid volatility in G-sec market.

CORPORATE BONDS YIELDS (%)

	3 Year	5 Year	10 Year
Month Opening	5.27-5.30	6.03-6.07	6.80-6.84
Month End	5.16-5.20	5.70-5.72	6.80-6.84
High	5.35-5.40	6.03-6.07	6.84-6.86
Low	5.16-5.20	5.70-5.72	6.70-6.74

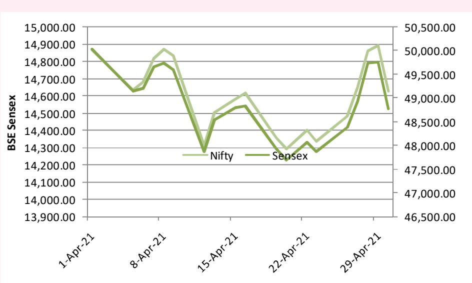
CORPORATE BOND VOLUME ON NSE & BSE



EQUITY BNCHMARKS

	March	April
SENSEX-30		
Month Opening	49,741	48,782
Month End	49,509	48,788
High	51,812	48,986
Low	48,238	48,036
NIFTY-50		
Month Opening	14,702	14,798
Month End	14,690	14,631
High	15,336	15,044
Low	14,264	14,151

BENCHMARK INDICES DAILY TREND



CORPORATE BONDS

- Ending the lacklustre trade in March because of the inventors' speculation on the borrowing by the central government in the first half of the financial year, corporate bond yields were sharply down before getting stable following the RBI decision to maintain status quo in the policy meeting and demand of the securities by the insurance companies, banks and mutual funds. Yields mostly remained steady in the secondary market with low volume as the managers were mostly involved in the trading based on the portfolio requirement. Yields rose marginally in the month end in the secondary market as investors were selling securities to make room for the fresh issuances and on huge borrowing by the central government in the current financial year.
- Speaking on the corporate bonds after the MPC meeting RBI Governor said that in synchronisation with G-sec yields, corporate bond yields also hardened across issuers and rating categories in the recent period. Since, end of January 2021, AAA corporate bond yields of 3-year and 5-year maturities have firmed up by 30 bps and 31 bps, respectively, by March 31, 2021. Reflecting these developments, corporate bond issuance in February at Rs 45,685cr has moderated from its peak of Rs 88,130cr recorded in December 2020. In the other measures RBI MPC decided to continue to deploy regular operations under the LAF, longer-term repo or reverse repo auctions and forex operations.

INDIAN EQUITY MARKET

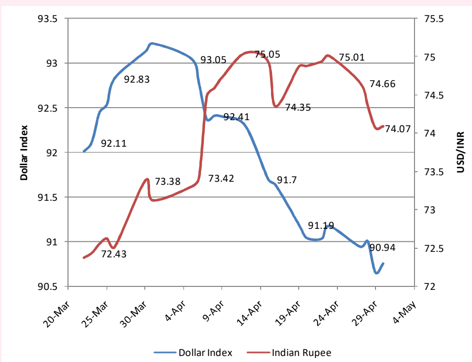
- Indian equities started the months with a sharp decline on increasing cases of infection in the country fearing investors over the fallout on the economic growth and concern over the country going into the lockdown again. However, indices recovered largely moving in tandem with the global markets on increasing risk appetite of the investors and government and central banks support to the market. Government stance of not imposing the complete lockdown and to go for target based restrictions cheered investors. Indices further advanced on RBI stance of maintaining high liquidity into the system and to remain growth oriented. Overseas investors showing optimism in the emerging market economies despite rise in the infection cases also supported the equities.
- However, after being advancing in the first week of the months indices trade with mixed sentiments while falling sharply during the mid month after India reported record number of cases with sharp jump in the tally and projection of situation to go worse in coming days on crimpling healthcare facilities leading to fear of foreign outflow and breakage in the supply chain. The indices recovered during the month end as Investors bet that the effect of the restrictions imposed will be more localised than affecting the overall growth of the economy. Globally equities are trading with gains on expectation of faster economic recovery supported by the government support and vaccinations.

INDIAN RUPEE

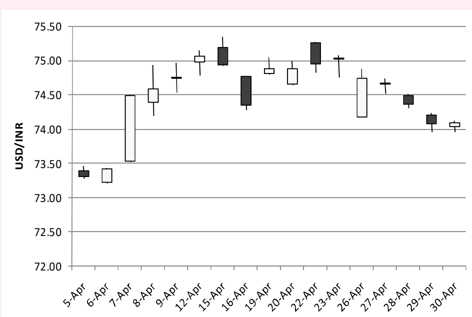
	March	April
Month Opening	73.76	73.38
Month End	72.12	74.10
High	73.76	75.34
Low	72.27	73.21

NOTE: VALUE IN RUPEE/DOLLAR

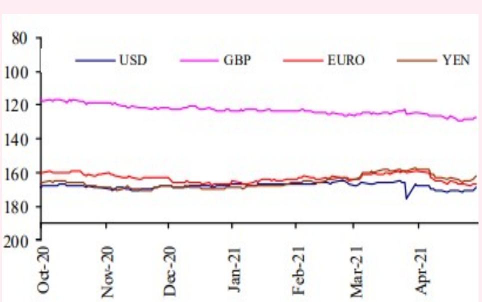
INDIAN RUPEE & DOLLAR INDEX



USD/INR DAILY MOVEMENT



INR EXCHANGE RATE



SOURCE: CCIL

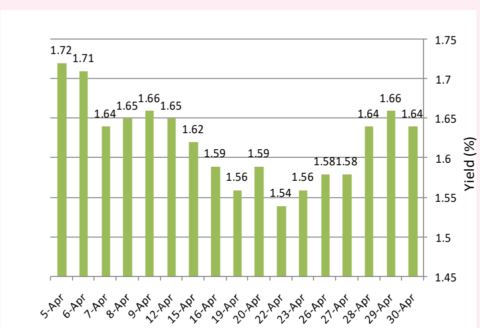
INDIAN RUPEE

- Indian Rupee depreciated sharply for most of the month after the RBI monetary policy meeting where RBI indicated for maintaining the loose policy for the considerable future and to maintain high liquidity into the system despite surge in the inflation. The currency depreciation was also led by the fear of foreign outflow from the nation as the coronavirus cases keep on increasing in the country forcing to states to implement the restrictions impacting the overall growth of the economy.
- The currency retraced some of its losses as investors bet that the overall country's recovery might not be impacted with the restrictions and the effect will be more localised. Foreign investors showing optimism in the Indian economy aided to the gains in the currency. Ease in the dollar index on increasing risk appetite of the investors and gains in the European currencies provided some support to the market. Heavy selling in the Indian equities on month starting and dollar demand by the banks probably for the importers weighed on the currency.
- The US Treasury department in a semi annual report on the foreign exchange policies of its major trading partners showed its dissent on the RBI intervention in the foreign exchange market and said that the India's central bank should refrain from accumulating extra exchange reserve. It pointed out that this may lead to hardship on the trade agreements between both the nations. The report said "a country cannot simultaneously have an open capital account, a fixed exchange rate and an independent monetary policy. At any point, it has to choose two of the three options." However, it also acknowledges the difficulties faced by the emerging market economies in 2020.
- A report released by the rating agency, India Ratings and Research (Ind-Ra) expects Indian currency to be averaging around Rs 77.10 per dollar in the FY:2021-22. It said that the currency was in pressure in the mid November on uncertainty because of COVID-19 but appreciated on the back of domestic demand recovery, a decline in the number of COVID-19 infections, vaccine rollout, and the measures announced by the government in the Union Budget FY21-22 before depreciating again in April 2021 on second wave of infection. It expects currency to remain highly volatile following the evolving global and local macroeconomic condition.
- As per the economists Indian currency is expected to weaken in the coming months because of high inflation concerns and rising import costs on increase in the fuel prices. Increase in the government debt to GDP which IMF said has increased to 90.0% from 74.0% before will also push the currency down. RBI maintaining high liquidity into the system and loose monetary policy amid outbreak of the pandemic and its intervention in the currency forward market will add to the depreciation in the currency. Growth concerns and foreign outflow from the nation with the fear of falling heath infrastructure in the nation is also a big concern for the currency traders.

US TREASURY MONTHLY DATA (%)

US Treasury (5yr)		
Month	March	April
Open	0.70	0.94
Close	0.94	0.85
High	0.95	0.87
Low	0.66	0.82
US Treasury (10yr)		
Month	March	April
Open	1.39	1.74
Close	1.74	1.63
High	1.78	1.74
Low	1.38	1.53
US Treasury (30yr)		
Month	March	April
Open	2.14	2.41
Close	2.41	2.30
High	2.52	2.42
Low	2.13	2.21

US 10 YEAR TREASURY YIELD DAILY DATA (%)



BRENT OIL PRICE ($/Barrel)

Month	March	April
Open	64.85	63.19
Close	63.54	66.66
High	71.38	68.43
Low	60.27	61.25

US TREASURY

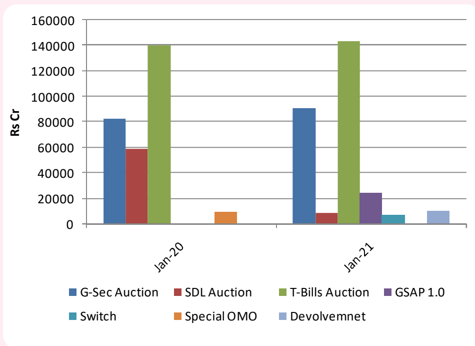
- The US treasury yields remained in thin range for most of the month led by the market concern over the increase in the inflation and decreasing appetite for the safer assets as investors gained confidence following the huge stimulus package by the US president Joe Biden and increasing spending by the central government on strong recovery in the US economy. Continuous efforts made by the central bank to maintain liquidity into the system weighed on the treasuries. After sharp gains in the yields of the securities during the starting of the month treasury yields came off on increasing demand of the securities by the investors particularly interest shown by the Japanese investors and fed officials continuous comments reiterating that the rise in the inflation will be short lived.
- However, yields rose at the month end before the Federal Reserve meeting as investors offloaded the securities in fear that the central bank may tighten the policy than expected earlier as the economic indicators post the economy to recovering faster. The yields were marginal down after the meeting that were the FOMC members said that the yields and the pace of the asset purchase programme will be keep steady until significant recovery in the economy and also until string signs of country achieving the inflation and employment target. Strong demand of the securities in the auctions and increasing political tensions between the US and China and between China and Ukraine supported the prices of the securities. Increasing vaccination raised hope of faster solution to the pandemic.

CRUDE OIL

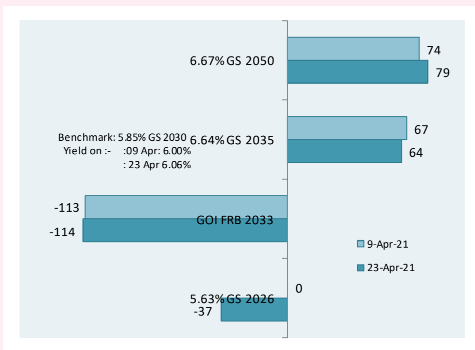
- After being coming down from their month high at the end of March, oil prices remained mostly stable as the concern over the rising infections in two of the major importers of the crude oil, India and Japan feared investors of falling demand amid hope of OPEC+ (Organisation of petroleum exporting countries and alliance) regulating the oil prices. However, oil prices traded with positive bias for most of the days on fall in the production from Libya because of the budgetary shortage and the oil producers expecting situation to get worse in Libya. Strong economic data from various regions all increased expectation of strong global economic recovery and the increase in the oil demand.
- OPEC and alliance decision to increase the output by May and increase in the oil inventories in the US raised some fear among investors on the oversupply of the crude oil but the optimism shown by the members states on strong global economic recovery and OPEC and International Energy Association (IEA) raising their outlook for the oil demand, expecting substantial increase in the oil demand from the second half of the calendar year supported the rise in the oil prices. Increase in the oil production from Iran with hope of ease in the regulation on Iran exporting the oil to the other countries and Saudi Arabia decision to rollback its unilateral decision of cut in the oil production weighed on the prices whereas.

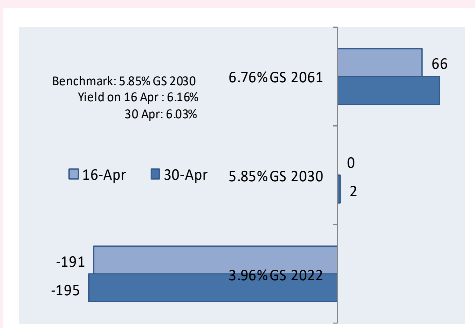
INDIAN DEBT MARKET

RBI OPERATIONS (in Rs Cr) (Apr 2020 Vs Apr 2021)

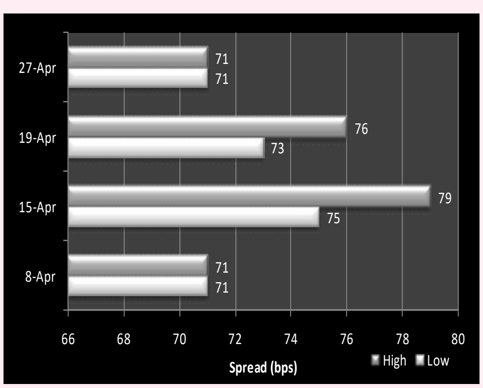


G-SEC AUCTION SPREAD (bps)





SPREAD IN SDL AUCTION FROM BENCHMARK (bps)



***Spread of the cut off yields for 10 year state government securities from 10 year G-Sec benchmark, 5.85% GS 2030.**

AUCTION OF CENTRAL GOVERNMENT SECURITIES (G-Sec)

- Apr 09th: RBI accepted Rs 26,926cr against the offered amount of Rs 32,000cr in the first auction of the central government securities in the financial year. RBI devolved Rs 10,926cr of New GS 2026 while setting its coupon at 5.63% and exercised green shoe option accepting additional amount of Rs 3879cr and Rs 954cr respectively in FRB 2033 and New GS 2035. RBI decided the coupon for 2035 maturity as 6.64%. Cut off yields for the securities came lower than the market expectation.
- Apr 16th: RBI in its weekly auction of the central government securities (G-Sec) accepted Rs 11,326cr against the offered amount of Rs 26,000cr as RBI did not accept any amount in 10 year benchmark while accepting partial amount in longer tenure and additional amount in short maturity security. RBI awarded the cut off yields for the securities marginal higher than the market expectation.
- Apr 23rd: RBI accepted Rs 22004cr worth of central government securities against the offered amount of Rs 32,000cr as RBI did not accept any bid in security maturing in 2026 and accepted partial amount in longest tenure paper (2050) whereas accepting only additional amount in FRB 2033 and 2035 maturity security. The cut off yields for the securities were in line with the market expectation.
- Apr 30th: RBI accepted Rs 30,835cr more than the notified amount of Rs 26,000cr as RBI exercised green shoe option accepting additional amount in the three securities. Cut off yield for all the securities were in line with the market expectation.

AUCTION of STATE DEVELOPMENT LOANS (SDL)

- Apr 08th: RBI accepted Rs 4,000cr in auction of state government securities (SDLs) while awarding the cut off yield for 10 year SDL in line with the market expectation. Cut off yield for longer tenure securities came better than the market expectation whereas cut off for 4 years Rajasthan SDL came higher. RBI awarded the cut off yield for 10 year at 6.75%, 71bps above 10 year G-sec benchmark, 5.85% GS 2030.
- Apr 15th: States accepted Rs 1,700cr same as the offered amount while awarding the cut off yields for the 10 year securities marginally higher than the market expectation whereas cut off for 12 year Jammu and Kashmir came better. RBI awarded the cut off yields for 10 year Meghalaya and Rajasthan at 6.82% and 6.78% respectively, 79bps and 75bps above 10 year G-Sec benchmark.
- Apr 19th: RBI borrowed Rs 3,250cr worth of securities while awarding the cut off yields in line with the market expectation. RBI awarded the cut off yields for papers maturing in 2031 in range of 6.82% to 6.85% or 73bps to 76bps above 10 year G-Sec benchmark, 5.85% GS 2030. For 30 year security (Telangana) cut off yield came at (6.89%) market levels.

- Apr 27th: In auction of state government securities (SDLs), RBI accepted Rs 200cr in 10 year security issued by Manipur while awarding the cut off yield in line with the market expectation. RBI awarded the cut of yield as 6.78%, 71 bps above 10 year G-Sec benchmark, 5.85% GS 2030.

OPEN MARKET OPERATIONS (OMOs)/ G-SAP

- Apr 15th: In Open Market Purchase Operation (OMO) under G-sec Acquisition Programme (G-SAP 1.0) RBI purchased Rs 25,000cr worth of five government securities. This is the first such operation by the RBI in the current financial year. The cut off price for most of the securities came lower than the market expectation whereas cut off for longer tenure (2035) came at higher price. OMO purchase operation includes Rs 7,511cr worth of current 10 year G-Sec benchmark, 5.85% GS 2030 at cut off yield of 6.03%. RBI received bids worth Rs 1,01,671cr.

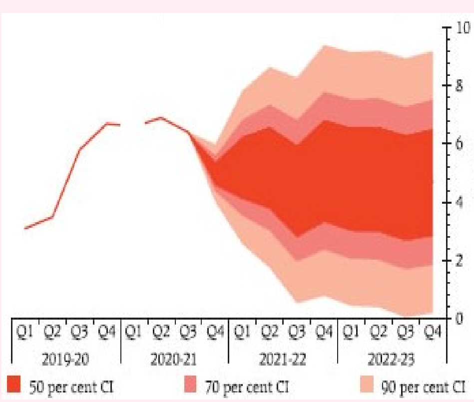
SWITCH/CONVERSION AUCTION

- Apr 19th: In Switch/Conversion auction, RBI switched Rs 7,093cr worth of short maturity papers into securities with longer tenure. The longer maturity papers issued by the RBI includes 6.76% GS 2061 (Rs 2,542cr) and 6.64% GS 2035 (Rs 5,049cr). RBI awarded the cut off yields for the securities lower than the market expectation. Notified amount in the switch auction was 20,000cr.

T-BILL AUCTION

- Apr 07th: RBI accepted Rs 36,000cr in auction of the Treasury Bills (T-Bills) while awarding the yields of the securities in line with the market expectation. Cut off yields for the 91 day T-Bill was set as 3.35%, 3.59% for 182 day T-Bills and 3.74% for 364 day T-Bill.
- Apr 12th: RBI accepted Rs 36,000cr same as the offered amount while awarding the cut off yields for all the three securities in line with the market expectation. RBI awarded the cut off yield for 91 days T-Bill at 3.35%, 3.61% for 182 days T-Bill and 3.76% for 364 days T-Bill.
- Apr 20th: RBI accepted Rs 36,000cr same as the offered amount in auction of the T-bills while awarding the cut off yields for the securities in line with the market expectation. The cut off yield for the 91 day T-Bill was set at 3.34%, 3.53% for 182 day T-Bill and 3.75% for 364 day T-Bill.
- Apr 28th: RBI accepted Rs 36,000cr in auction of the three Treasury Bills while awarding the yields better than the market expectation. RBI awarded the cut off yield for 91 days T-Bill at 3.32%, 3.45% for 182 days T-Bill and 3.72% for 364 days T-Bill.

RBI INFLATION FORECAST



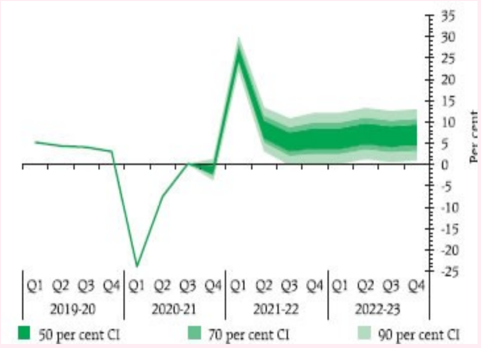
CI: CONFIDENCE LEVEL
SOURCE: RBI

HIGHLIGHTS OF MONETARY POLICY COMMITTEE (MPC) MEETING (April 5-7, 2021)

Source: CCIL

- The MPC left the policy repo rate under the LAF at 4.0%. Consequently, the reverse repo rate under the LAF stands at 3.35% and the MSF rate and the Bank Rate at 4.25%.
- The MPC will continue with the accommodative stance as long as necessary to sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy.
- These decisions are in consonance with the objective of achieving the medium-term target for CPI inflation of 4% within a band of +/- 2%, while supporting growth.
- CPI inflation is projected as 5.0% in Q4:FY21; 5.20% in Q1:FY22, 5.20% in Q2, 4.40% in Q3 and 5.10% in Q4, with risks broadly balanced.

RBI GDP PROJECTIONS (%)

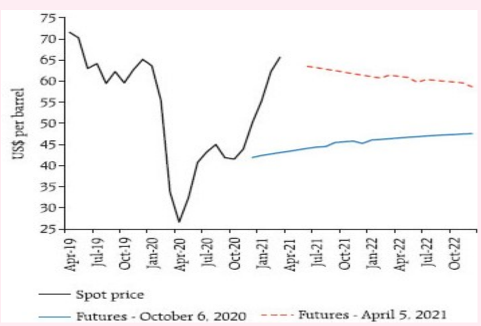


CI: CONFIDENCE LEVEL
SOURCE: RBI

RBI CPI ESTIMATION & ACTUAL

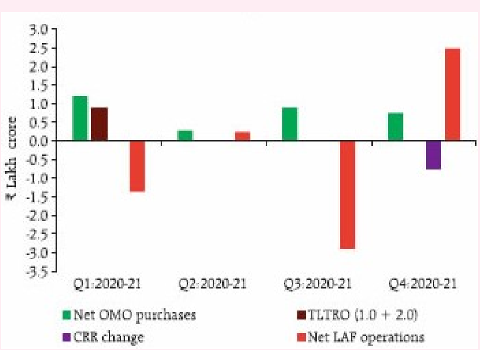
SOURCE: NATINAL STATISTICS OFFICE (NSO) & RBI

BRENT OIL PRICE PROJECTIONS



SOURCE: BLOOMBERG

LIQUIDITY MANAGEMNET BY RBI IN FY:2020-21



- Projection of real GDP growth for FY22 is retained at 10.50% consisting of 26.20% in Q1, 8.30% in Q2, 5.40% in Q3 and 6.20% in Q4.
- All members of the MPC unanimously voted for keeping the policy repo rate unchanged and continuing with the accommodative stance as long as necessary.

Global Economy:

- Gradual but uneven economic recovery. Second and third wave of infection in major economies a concern.
- Inflation remains benign in major advanced economies (AEs).
- Equity and currency markets have been turbulent with the increase in long term bond yields and the steepening of yield curves. Major equity markets have scaled new peaks in March, while currencies are trading mixed against a generally firming US dollar. With the bond markets sell-offs, EME assets came under selling pressure and capital outflows imposed depreciating pressures on EME currencies in March.

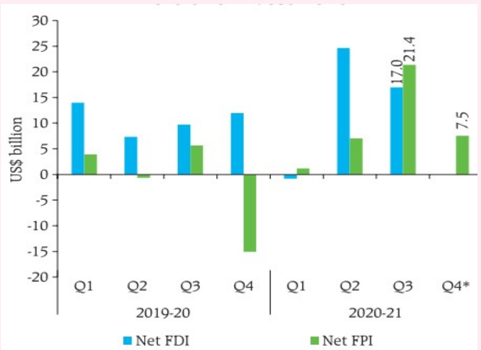
Domestic Economy:

- High frequency indicators suggest recovery in the economy in past few months. However, some indicators slipped in March after being expanding in February.
- Headline inflation (5.0%) increased in February with core inflation (6.0%) increasing by 50bps.
- System liquidity remained in large surplus in February and March 2021 with average daily net liquidity absorption of Rs 5.9 lakh crore.
- Crude oil prices have picked up on optimism of demand recovery.
- Corporate bond issuances at Rs 6.8 lakh crore during 2020-21 (up to February 2021) were higher than Rs 6.1 lakh crore during the same period last year.
- India's foreign exchange reserves increased by US$ 99.2 billion during 2020-21 to US$ 577.0 billion at end-March 2021.
- Issuances of commercial paper (CPs) were higher by 10.4% during December 2020 to March 2021 than in the same period of the previous year.

Outlook:

- Inflation is likely to be subjected to both upside and downside pressures.
- Optimism on the growth outlook.
- The renewed jump in COVID-19 infections in certain parts of the country and the associated localised lockdowns could dampen the demand for contact intensive services, restrain growth impulses and prolong the return to normalcy.

NET FPI & FDI INVESTMENT IN INDIA

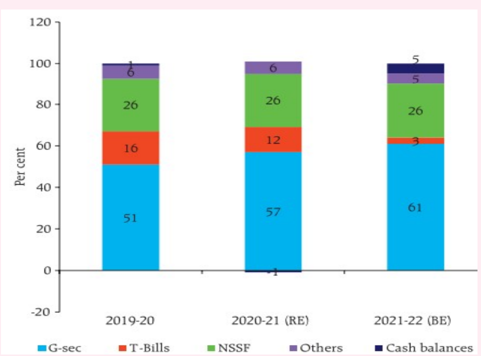


SOURCE: RBI

DECLINING WAY IN CPs

WAY: WEIGHTED AVERAGE YIELD
CPs: COMMERCIAL PAPERS
SOURCE: SBI

CENTRE'S FISCAL DEFICIT FUNDING



SOURCE: RBI

INDIA GSI COLLECTION (Rs Cr)

LIQUIDITY GUIDANCE

- As part of liquidity management operations, RBI will conduct variable rate reverse repo (VRRR) auctions of longer maturity.
- RBI put in place a secondary market G-sec acquisition programme or G-SAP 1.0 of committing upfront to a specific amount of open market G-sec purchases.
- For Q1:FY22, RBI announced a G-SAP of ₹1 lakh crore.

STATEMENT ON DEVELOPMENTAL AND REGULATORY POLICIES

- **Liquidity Measures**
  - The TLTRO on Tap Scheme was extended by a period of six months, i.e., till September 30, 2021.
  - RBI extended fresh support of Rs 50,000cr to the AIFIs for new lending in FY22.
- **Regulation and Supervision**
  - RBI will constitute a Committee to undertake a comprehensive review of the working of ARCs.
  - RBI extended the PSL classification for lending by banks to NBFCs for 'on-lending' for six months, i.e. up to September 30, 2021.
  - RBI enhanced the loan limit per borrower against the pledge/hypothecation of agricultural produce backed by NWRs/(e-NWRs).
- **Debt Management**
  - The WMA limits for State Governments/UTs was revised to an overall limit of Rs 47,010cr for all states, as against the current limit of Rs 32,225cr (fixed in February 2016), representing an increase of about 46%. RBI will also continue with the enhanced interim WMA limit for a further period of six months up to September 30, 2021.
- **Financial Inclusion**
  - RBI will construct and periodically publish a "Financial Inclusion Index" (FI Index).
- **Payments Systems**
  - Payment system operators regulated by RBI will be allowed to take direct membership in Centralised Payment Systems viz-RTGS and NEFT.
  - Interoperability will be mandatory for full-KYC Prepaid Payment Instruments (PPIs) and for all acceptance infrastructures. The limit of outstanding balance in such PPIs was raised to Rs 2 lakh.
  - RBI allowed the facility of cash withdrawal, subject to a limit, for full-KYC PPIs of non-bank PPI issuers.
- **External Commercial Borrowings**
  - Unutilized ECB proceeds drawn down on or before March 1, 2020 can be parked in term deposits with AD Category-I banks in India prospectively up to March 1, 2022.

MINUTES OF THE MPC MEETING

(April 22nd)
SOURCE: CNBCTV18

- **Shaktikanta Das**
  - Clear signs of revival of growth in domestic economy.
  - Improving demand conditions including external demand, investment enhancing measures by government impart upside to growth prospects.
  - RBI's objective is to ensure orderly evolution of the yield curve, avoid volatility in G-sec market.
  - Going forward, RBI would continue to ensure ample surplus systemic liquidity.
  - Too early to give explicit time-based forward guidance.
  - Forward guidance in terms of securing a sustainable growth on a durable basis itself testifies to our commitment.
  - Commitment is to continue to mitigate COVID impact on economy, while ensuring that inflation remains within the target.
  - Need to continue to sustain the impulses of growth in the new financial year 2021-22.

- **Michael Patra**
  - Risks to the recovery have become accentuated since the February meet.
  - Risks: new waves of infections, inexorably slow pace of vaccinations.
  - Risks: moderation in several high frequency sentiment indicators, global risks and spillovers.
  - Monetary policy has to remain supportive of economy until recovery is more sure footed.
  - Inflation expected to remain within range over a 12- month horizon.
  - Longer term inflation expectations remain broadly stable.

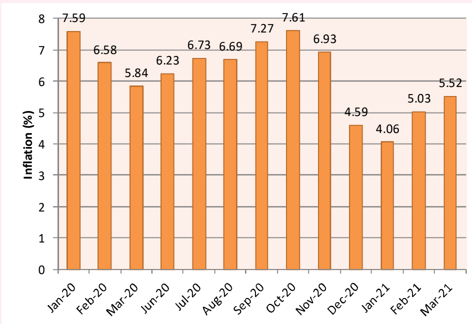
- **Ashima Goyal**
  - Growth uncertainty has increased with the second wave of COVID-19.
  - Even 10 percent growth most analysts expect for FY22 will barely take us to 2019 level.
  - We have to make up for lost time, alleviate widespread job loss, income stress.
  - Expected growth is high because of the base effect and does not imply sustained growth at potential.
  - Greater uncertainties require more flexibility for the MPC, support data-based guidance.

- **Shashanka Bhide**
  - Pace of recovery of output needed to offset the negative impact of the COVID shock will substantial.
  - Improvement in growth performance in 2H FY21 is fragile and will require strong policy support.
  - CPI inflation rate in the short run is projected at less than 5.3 percent in FY22, but risks remain.

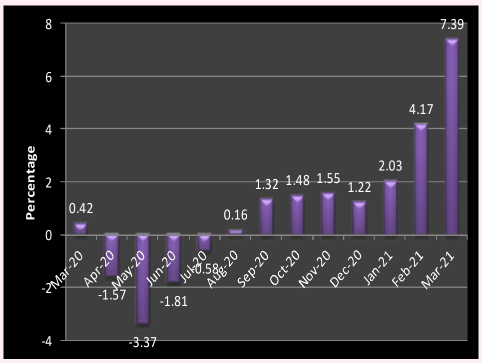
- **Jayanth Varma**
  - Economic recovery remains uneven and incomplete.
  - Renewed jump in COVID infections has increased downside risk to growth momentum.
  - Inflation rates forecast to remain elevated for some time.
  - Balance of risk and reward is in favour of monetary accommodation.
  - Unfortunately forward guidance has failed to flatten the yield curve.
  - See little merit in persisting with time-based forward guidance.
  - In favour of state contingent guidance to support growth, maintain inflation within range.

- **Mridul Saggar**
  - Ramping up vaccination, testing & treatment holds key to protecting economic recovery.
  - Health policies have become the first line of defence.
  - Monetary and fiscal policies can only play a second fiddle.
  - Economic recovery is beginning to lose some steam.
  - Priority is to support growth from the possible shock from the second wave

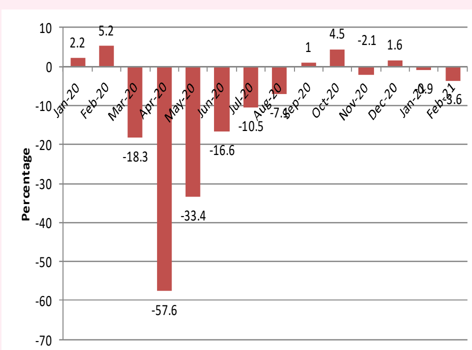
INDIA CPI INFLATION



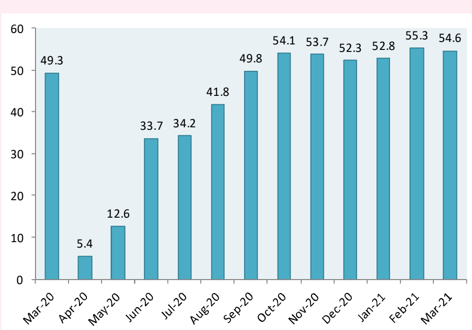
INDIA WPI INFLATION (%)



INDIA IIP DATA



INDIA SERVICE PMI

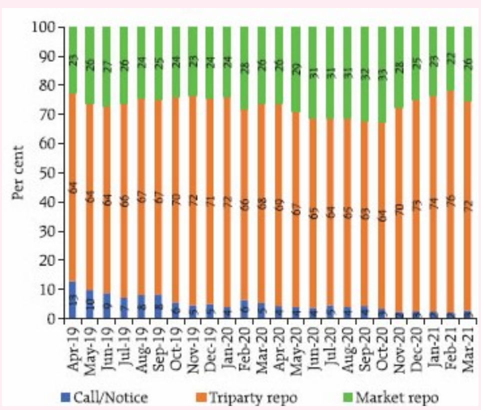


ECONOMIC NUMBERS

- As per the data released by the government, inflation based on the consumer price index (CPI) in the country increased by 5.52% in the month of March 49 bps higher than the inflation in the month of February and more than the economists expectation of 5.35%-5.40%. This is the fourth consecutive month that the inflation has remained within the RBI prescribed range of 4.0% (+/-2.0%). Rise in the headline inflation is mainly because of the increase in the food prices which increased by 4.94% against 3.87% rise seen a month ago. The core CPI inflation that is inflation without consiidering food and fuel prices moved up to 5.72% in March compared with 5.59% in February 2021. The cumulative CPI inflation has increased to 6.16% in April-March quarter in FY:2020-21 compared with 4.77% in same period of FY:2019-2020.
- Inflation based on the Wholesale Price Index (WPI) for the month of March rose to over 8 month high on account of surge in the fuel prices and related petroleum products and basic metal prices. Ministry of Commerce & Industry said that the WPI inflation stood at 7.39% in March compared to 4.17% in February. Data for the month of January was also revised sharply higher to 2.51% from earlier preliminary reading of 2.03%. "Due to nationwide lockdown, the WPI index for the month of March 2020 (120.4) was computed with relatively low response rate," the ministry statement said. Such a high level of WPI was last recorded in October 2012, when inflation was 7.4%.
- India's Index of Industrial Production (IIP) for the month of February contracted by 3.58% registering its second consecutive contraction in the current year. IIP expanded by 1.6% in December 2020 before being slipping to -0.87% in January 2021. This fall is mainly attributed to a steep contraction in manufacturing output, according to data by the Ministry of Statistics and Programme Implementation (MoSPI). MoSPI has also revised the data for the month of January to -1.60%. Mining sector disappointed in February 2021 with -5.52% contractions however, the key concern remains manufacturing, where contraction deepened from -1.31% in January 21 to -3.65% in February 21.
- Foreign investor (FPIs) continued their buying spree for the third straight month in March, investing Rs 17,304cr in the Indian markets, showed the recent data released by the Reserve Bank of India. However, investment declined towards the end of the month on increasing cases of infections, fresh restriction imposed and sure in the global yields on inflation concern. Investment in March includes Rs 10,482cr into equities and Rs 6,822cr in the debt segment. Earlier, FPI pour in Rs 23,663cr in Indian markets in February and Rs 14,649cr in January. In a separate data released by the Ministry of Commerce and Industry total FDI inflow into the nation stood at $72.12 billion during April to January in FY:2020-2021, 15% higher as compared to the first ten months of FY:2019-20.

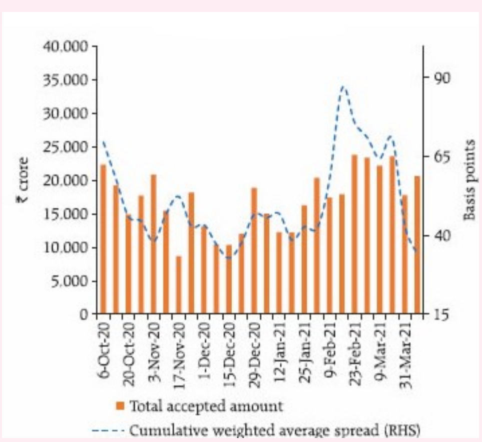
- The data released by the Ministry of Finance showed India recording all time high of Rs 1.23 lakh crore in GST collection in the month of March, crossing Rs 1 lakh crore marks for the consecutive six month indicating strong recovery in the country's economic activity. The collection in March in 27.0% higher compared to the GST collected in the same month a year ago mainly because of increase in the collection revenues from import of goods that rose by 70.0%. The gross GST revenue collected March includes Rs 22,973cr in CGST, SGST is Rs 29,329cr and IGST is Rs 62,842cr. The ministry highlighted that the GST revenue witnessed a growth rate of -41%, -8%, 8% and 14% in the first, second, third and fourth quarters of this financial year respectively, compared to the same period last year indicating the trend in the recovery.
- Manufacturing activity in India recorded its slowest pace in March in past seven months as per the data released by HIS MARKIT. The survey showed India Manufacturing Purchasing Managers' Index (PMI) for the March expanded by 55.4 compared to 57.5 a month ago indicating the effect of the recent restrictions because of surge in the cases and also on shortage of new orders and raw material supply. As per the economists the economists the reading remaining above the long term series average indicates positive outlook on the country. IHS MARKIT said that the recent

MONEY MARKET OPERTAIONS SHARE



SOURCE: CCIL

SDL AMOUNT RAISED & SPREAD OVER G-SEC



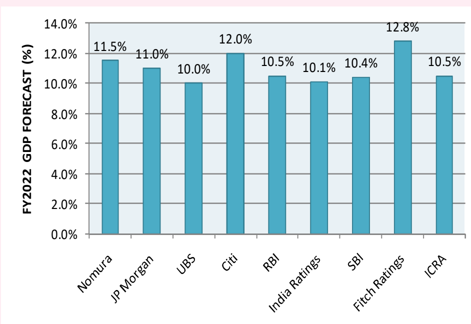
SOURCE: RBI

GOVERNMENT OF INDIA AND RBI

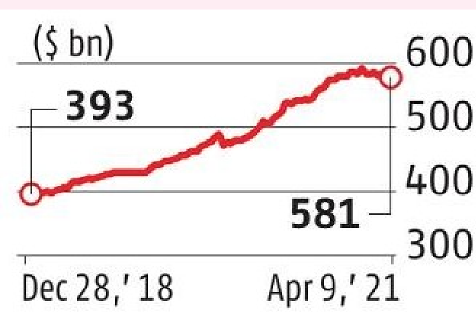
- NITI Aayog Vice Chairman Rajiv Kumar said that the country need to prepare for greater uncertainty because of the second wave of infection and government may need to respond with the fiscal measures whenever required. However, he still stressed that despite the second wave of infection forcing halt on many economic activities country's GDP will grow by 11.0% in the current financial year. He said that the second wave may have wider indirect effects on economic activities and therefore we need to prepare for greater uncertainty, both in consumer and investor sentiments.
- RBI Governor, Shaktikanta Das in the press conference after the monetary policy meeting announced secondary market G-sec acquisition programme or G-SAP 1.0 for the year 2021-22. Under this programme central bank will be conducting the Open Market operations (OMO) for purchase of central government securities to enable a stable and orderly evolution of the yield curve amidst comfortable liquidity conditions. He said that for Q1 of FY:2021-22, the RBI has decided to announce a G-SAP of Rs 1 lakh crore and the first purchase of government securities worth Rs 25,000 crore under G-SAP 1.0 will be conducted on April 15.
- The Insurance Regulatory and Development Authority of India (Irdai) has permitted the insurance companies to invest in debt securities issued by Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs) in order to improve the overall yield of the portfolios held by the firms, while providing more long-term funding to the realty sector. The move comes after the Finance Bill proposed permitting trusts to issue debt securities. The regulator said that insurers can invest in debt securities of InvITs and REITs rated not less than AA under the approved investment category with a cap of 3.0% of their total fund size at any point in time. In case of a subsequent downgrade, the instrument will become part of their other investments.

- RBI in a note titled census of Census on Foreign Liabilities and Assets of Indian Direct Investment Entities, 2019-20; said that total FDI in India increased by 1.2% at market value (in rupee terms) during FY:2019-20. The yearend market valuation of equity especially that of the listed companies was strongly influenced by the stock market crash in March 2020 at the onset of COVID-19 pandemic. FDI equity of unlisted companies witnessed a 15.9% growth and total overseas direct investment recorded higher growth of 13.4% during the financial year. The ratio of inward to outward direct investment at market value stood at 4.7% in March 2020.
- In the monthly bulletin report released by the RBI, it said that the Indian economic activity is holding well against spike in the COVID-19 cases. However, it also showed concern that the restriction imposed will disrupt the supply chain adding to the inflation concerns. The report mostly showed optimism on the recovery in the Indian economy based on the hope of strong corporate earnings and steady rise in the capital utilisation. It also emphasised that the market participants are losing faith in the central bank anticipating policy tightening to be sooner and hence front running the economy.

INDIA FY2022 GROWTH PROJECTIONS (%)

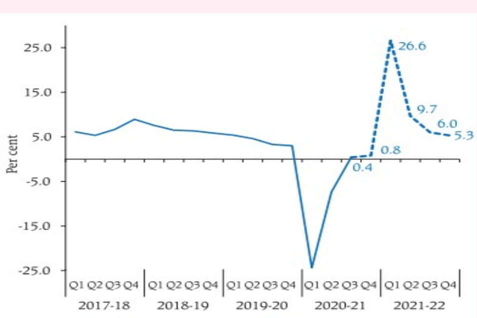


INDIA FOREIGN EXCHANGE RESERVES



SOURCE: BUSINESS STANDARDS

RBI GDP PROJECTIONS (%)

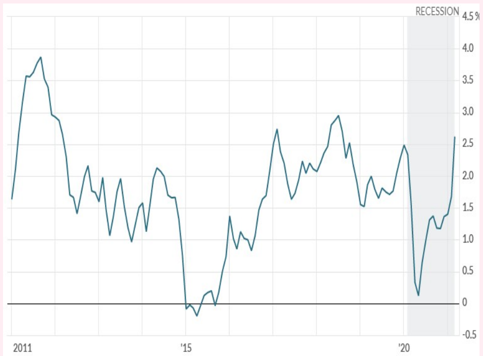


RATING AGENCIES/ BROKERAGE FIRMS/MEDIA REPORTS

- UBS Securities India warned that the elevated risk because of the worsening of the fiscal position as the pandemic takes a toll on the finances may prompt rating agencies to downgrade the sovereign rating of the country in next 12 to 18 months. It said that as per its calculations country fiscal deficit is expected to be increasing to 11.8% of the GDP in the FY:2020-21 against 7.8% in FY:20219-20. The report published by the firm said that the fiscal deficit is likely to be narrowing down in coming year but will remain elevated around 10.0%. It added that the public debt is also rising up sharply (72% in FY:2019-20 to 89% in FY:2020-21) and country need a nominal GDP growth of 10.0% to stabilize it.
- JP Morgan has downgraded the forecast for Indian GDP as the second wave of COVID-19 infection in the country forced India to impose various restrictions at the local levels that is likely to affect the demand supply chain. In a note JP Morgan said that the second quarter of the calendar year 2021 India may register a contraction of (-)16.0% much lower than the previous forecast expecting Indian economy to be increasing by 6.5%. It expects strong rebound in the third and fourth quarter on the presumption that the wave passes in the second quarter. Full year 2021-22 growth is marked down to 11.0% from earlier forecast of 13.0%.
- Care Ratings has revised down the GDP forecast for India for the FY:2021-22 citing the persistent increase in the coronavirus cases in the country and states imposing fresh restrictions to contain the spread of the virus. As per its new projections India is estimated to be expanding by 10.2% in the current financial year from its earlier projection of 10.7% to 10.9% growth. This is the third revision by the rating agency in the last one month. The report showed concern on the people coming together in the state elections and Kumbh Mela that may lead to exponential rise in the infection cases.

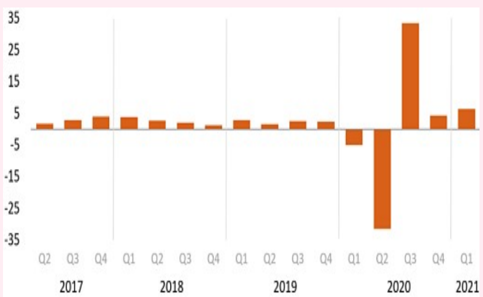
- International Monetary Fund (IMF) projected India to be the fastest growing economy in 2021 with the expectation of it to be growing by 12.5%. However, it raised concern on the new strain of the virus and potential shifts in the financial status because of the job losses and supply demand contraction. In its latest World Economic Outlook (WEO) it projected India to be growing by 6.9% in 2022. The latest forecasts suggest that India is well placed to experience a solid economic recovery in 2021, in contrast to other emerging markets and developing economies, where it is likely to take longer to return to pre-crisis levels.
- Rising cases of infection in the country are taking toll on the country's economic growth said the report released by the global brokerage firm Nomura. In a report titled 'India: Standing tall amid second wave' it projected Indian economy to be growing by 12.6% from earlier 13.5% in the current financial year. It said that for the calendar year 2021 India will be growing by 11.5% a decline from 12.4% estimated earlier. The brokerage firm further warned of the GDP growth falling to 12.2% if the rising cases of infection in the country persist with more states following the lockdown and restriction measures.
- As per the media reports government is likely to announce another round of stimulus package to cope with the second wave of infection that may derail the economic recovery in the country. The reports also said that the government is planning to expand its vaccination drive so that more people will get vaccinated sooner. Contrary to the industrialists' claims of economy to be in a taper tantrum because of the new wave of infection, government hold the stance that it will not derail the economic progress severely and government will take the appropriate steps accordingly.
- Brickwork Ratings has sharply revised down the India's growth projection from 11.0% to 9.0% in the current financial year pointing that half the country's economic activity came to an halt because of the deadly second wave of the coronavirus. It also said that the outlook remain largely positive due to lower base. It emphasised that the until the pandemic spread is contained and vaccination of the substantial amount of the population is achieved businesses impacted by the social distancing norms, supply shortages and labour shortages will continue to be remain under stress. Demand reduction will continue to trail the economy it added.
- The US Chamber of commerce warned that the effect of recent spike in the COVID-19 infection in Indian may spillover on the global economic recovery dragging it downward as many firms in the US runs back office operations in India. It also showed concern that the situation is likely to be worsening in the sixth biggest economy in coming days before it will get better. US goods and services trade with India amounted to $ 146.1bn in 2019, according to the US Trade Representative's office. India was the ninth largest US goods trading partner in 2019.
- Global forecasting firm Oxford Economics has revised down the projections for India GDP growth from its earlier estimation of 11.8% to 10.2% citing the second wave of infection in the country. It said that the escalating health crises with acute shortage of resources and lack of a convincing government strategy to contain the pandemic pose a threat to the recovery of the Indian economy. The agency emphasised that the in view of the current situation more restrictions on the mobility may be imposed while targeted lockdown measures will give some relief to the economy. It said that the contraction in the country's GDP is likely to be followed to the second quarter.
- Economists believes bond yields to be increasing in coming months on expectation of increase in the borrowing by the states after the central government gave node to the state governments allowing them to borrow 75.0% of their annual market borrowing limit of 4.0% of their respective Gross State Domestic Product (GSDP) in the first nine months of the current fiscal as reported by the media. This is more than the 50.0% borrowing permission given a year ago. As per the reports centre has asked the states to spend a part of the borrowing on the incremental capital expenditure mainly aimed to regain the spending momentum.
- The ongoing 'second wave' the novel coronavirus disease (COVID-19) pandemic could put India's economic recovery at risk, according to a report released by the Asian Development Bank (ADB). The report said excluding the second wave, India's economy, was expected to grow 11.0% in fiscal year 2021, which ends March 31, 2022, amid a strong vaccine drive. India's gross domestic product (GDP) was expected to expand 7.0% in 2022. Continued economic recovery boosted by increased public investment, vaccine rollout and a surge in domestic demand will trigger this strong rebound, ADB said.

US INFLATION TREND (%)

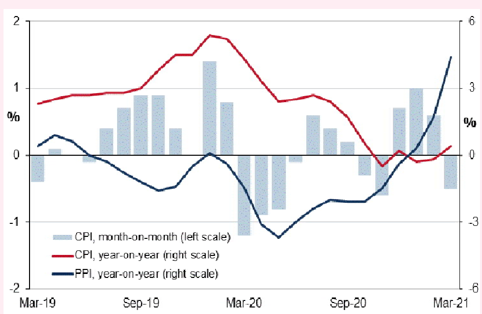


SOURCE: MARKETWATCH

US GDP GROWTH (%)

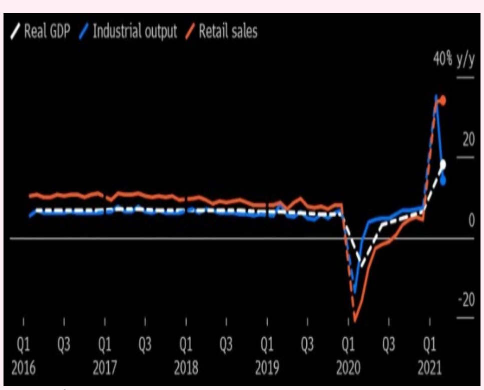


CHINA PPI DATA & CPI INFLATION (%)



Source: Advisor Perspective

CHINA GDP GROWTH



Source: Aljazeera

GLOBAL ECONOMY

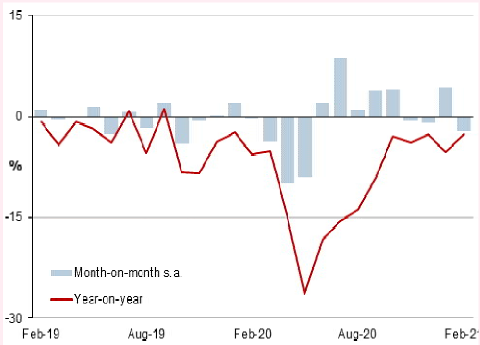
U.S

- Minutes of the Federal Reserve (FOMC) March Meeting showed that the members are likely to keep ultra easy policy for a substantial longer time as they expect economy needs an ample growth and Fed is likely to refrain from taking steps based on the employment and the inflation forecast and may remain more tilted based on the observed outcomes. This is shift from the earlier policy statement where it said that it would adjust policy in anticipation of inflation. In the meeting, the Fed's policymakers kept the short term borrowing rates anchored near zero and announced to continue buying at least $120 billion in bonds each month.
- In the US Federal Reserve policy meeting, FOMC members showed more conviction on the strong economic revival while maintaining the policy rates to its historic low of near zero percent and monthly asset purchase programme at $120 billion including $80 billion in US treasuries to keep the long term yields of securities in check. In a statement after the meeting, it said that with the vaccination and strong policy support signs on uncertainty have diminished and the recent data has strengthened. It also added that Inflation has risen, largely reflecting transitory factors. The board indicated that it will not change the pace of the bond buying programme until substantial progress on the employment and inflation is made.
- Inflation for the month of March in the US increased in the fourth straight month. As per the official data released. Consumer Price Index (CPI) in March was 0.6% higher than the inflation a month ago, or 2.6% on year on year bases registering the highest pace in the past two and the half year. Increase in the inflation is mainly because of the increase in the demand amid shortage in the raw material and finished products because of the restrictions implemented earlier. Drop in the coronavirus cases and increasing vaccination further boosted the consumer confidence. However, the increase is mainly because of sharp jump in the gasoline prices which increased by 9.1%. This is the biggest increase in inflation since August 2018 reported the Labour department. Headline inflation for the month of February was at 1.7%.

CHINA

- People Bank of China (PBoC) in its latest statement announced that the one year loan prime rate (LPR) will remain unchanged at 3.85% and the five year LPR was also left unchanged at 4.65%. This is the twelfth straight month that the China's central bank has maintained the interest rates. The flat loan prime rate fixing followed first quarter GDP figures that came in slightly below market forecasts. The decision of the bank was in line with the market expectation but the investors are still concerned that on the economic impact of the possible policy tightening. Last week medium term lending facility (MLF), a lending reference rate set monthly by 18 banks was also left steady.

JAPAN INDUSTRIAL PRODUCTION

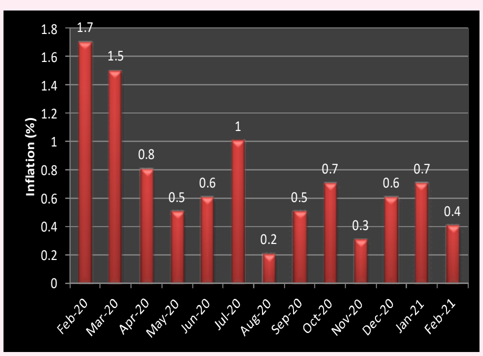


SOURCE:FOCUSECONOMICS

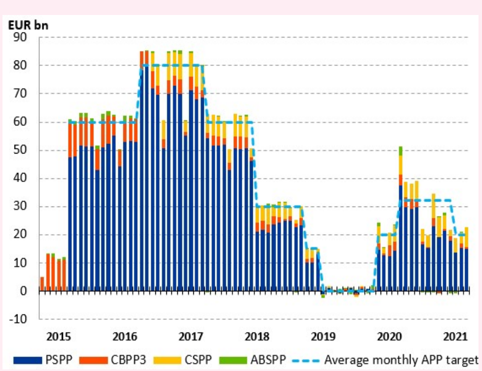
UK GDP DATA

Base Year 2018 = 100
SOURCE: STATISTA

UK INFLATION TREND (%)



ECB BOND PURCHASE UNDER VARIOUS SCHEMES



SOURCE:ECB & EUROPA.EU

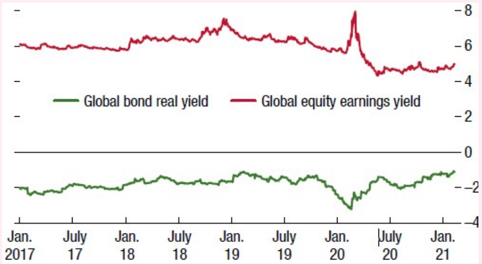
JAPAN

- Bank of Japan (BoJ) in its policy rate review meeting maintained the policy rates with its short-term interest rate target at -0.1% and 10 year bond yields around 0%. It said that the inflation is likely to miss the target of 2.0% in the years to come because of the fresh restrictions being imposed in the country to fight for the third wave of the pandemic. The bank said that the recent developments have increased the uncertainty on the growth and hence it will maintain its massive stimulus programme. The BoJ Governor also indicated that the bank may take more policy easing steps if needed. The bank predicted inflation to stay well short of its 2.0% target.
- Japan's industrial production decreased by seasonally adjusted 1.3% month-on-month basis in February, recent data from the Ministry of Economy, Trade and Industry showed on Monday. In the initial estimate, industrial production fell by 2.1%. Upward revision in the data is basically because of the jump in the inventories and from decline of 1.0% to 0.7% and in shipment which rose by 20 basis point from earlier estimate of 1.5%. These gains are mostly attributed to the fact that shipments to China which were increased by 37.2%. According to the Ministry of Finance, exports rose by 16.1% in March, its highest monthly gain since November 2017, and an improvement from expectations of 11.6%.
- Business activity in Japan struggle in the month of March as the businesses try to recover from the negative impact of the coronavius pandemic. As per the data rolled out by Jibun Bank Japan Services Purchasing Managers' Index (PMI) activity in March contracted by 48.3 better than the previous month reading of 46.3. This is the 14th straight month service activity in Japan contracted, however with the slowest pace since the start of the pandemic. As per the economists private sector activity seen stabilizing in the country but the recent surge in infection in certain parts remain a concern. In a another data released by the Jibun Bank Japan's manufacturing PMI increased by 52.7 in March

EUROPE/EUROZONE

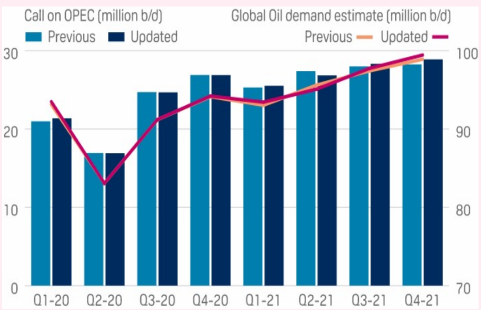
- European Central Bank (ECB) in its monetary policy decided to keep the policy largely unchanged, maintaining the policy rates stable iterating that the favourable financial conditions are needed for reducing the uncertainty and bolstering the confidence, thereby safeguarding medium term price stability. The central bank also said that it will continue with its massive bond buyback programme to address the rising yields. After the last policy ECB has purchased 74 billion Euros in bonds in March, up from 53 billion and 60 billion Euros in February and January respectively. ECB earlier decided that its Asset purchase programme will remain within the planned envelope of 1.85 trillion Euros until March 2022

GLOBAL BOND YIELDS & EQUITY RETURNS (%)



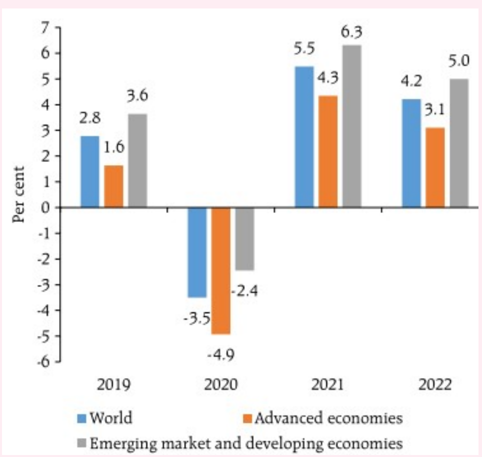
SOURCE: IMF

OPEC OIL DEMAND PROJECTIONS



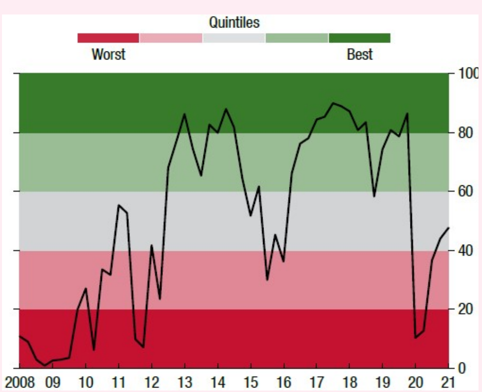
SOURCE: OPEC

GLOBAL GDP GROWTH (%)



SOURCE: IMF

IMF GROWTH AT RISK FORECAST



OTHER COUNTRIES & INTERNATIONAL BODIES

- Reserve Bank of Australia (RBA) announced to keep the policy interest rates unchanged at 0.10% despite upbeat economic data from the country. Speaking on the growth (fastest in past 32 years) recorded by the Australian Home Values sparking fear of bubble in the economy, the bank said that it is monitoring the situation closely. RB indicated that is likely to keep the policy rates at the current levels until 2024. The RBA is looking to achieve an unemployment rate of 4.0% or less to trigger higher wages and lift inflation to between 2.0% and 3.0% which currently stand at 0.9%. Unemployment is currently at 5.8% in Australia.
- Minutes of the Monetary policy meeting released by the central bank of Australia showed that the board is likely to maintain highly accommodative policy until the targeted employment and inflation is achieved which is not expected to be happening before 2024. Minutes said that the committee will take all the necessary and reasonable steps for the supporting the Australian economy. It said that it will not raise cash rate until actual inflation is the target band and will remain committed to three year yield target of 10 bps. The board is ready to undertake further bond purchases, beyond Australian $200 billion announced.
- In the latest meeting of the IMF with the World Bank, IMF was more optimistic on the global growth expecting it to be growing by 6.0% in the current year after being contracting by (-)3.3% in 2020. The IMF in the statement said that the vaccination aimed at ending the pandemic will help in boosting the economic growth. However, it showed concern on the vaccination distribution especially to the poor nations and pointed out that the recovery will depend on the ending of the health crises. IMF said that it is in favour of the global minimum corporate tax that would reduce the ability of companies to shift their profits to tax havens.
- In the 16th OPEC and non-OPEC Meeting, members showed optimism on the recovery in the oil demand followed by global economic recovery supported by unprecedented levels of monetary and fiscal support. The statement said that the recovery is expected to pickup pace in the second half of the year but also showed concern on the rising cases of infection in few parts of the world. The Meeting decided on the continued implementation of the production adjustment decision with marginal boost in the output from May 01st.
- In a note published by the UBS, it remains bullish on the emerging market economies (EMEs) compared to the returns in the developed market (DMs). Despite rising cases of infection in India, it remained one of the most preferred investment locations. It expects further upside in the coming 6 to 12 months in the EMEs driven mainly by the cheaper segments such as select cyclical and value stocks and also because of ultra loose monetary policies. Among EMEs, UBS most preferred markets are Russia, China, India, and Singapore and its least preferred are Hong Kong and the Philippines.

OUTLOOK

Gilts:

- Government bond prices are expected to remain in thin range in coming month on uncertainty over the levels at which RBI might be capping the yields. Believe in the central bank that it will take measures to relieve the market from the oversupply of the government securities may limit the possible gains in the yields which on fear of inflation to remain elevated. Demand of the securities is expected to remain low despite economic stress because of the rising cases of infection in the country as investors believes that the government will bail out the businesses by providing some relief package.
- Rise in the US Treasury yields and crude oil prices will poses a threat to the demand of the securities by the foreign investors. Fear of increase in the supply of the state government securities may also keep the yields elevated. Corporate bond are expected to trade in concert with the change in the yields of the central government securities. However, growth prospect and infection trajectory in the coming weeks led by the vaccination and increase healthcare will govern the market levels.

Rupee:

- Indian Rupee may show some resilient at the current levels and is expected to appreciate as global investors remained optimistic on their investment in the emerging market economies particularly in India and China. Optimism on the strong economic growth despite increasing cases of COVID-19 will also support the currency. However, ultra loose monetary policy, high inflation number, rising crude oil prices and threat of rise in the US treasury yields may limit the appreciation.

Equity Indices:

- Indian equity benchmark indices may trade in green in the coming months on foreign investors pouring into the country for better return despite the restrictions being imposed in various parts of the country. Investors also bet that the fiscal and monetary policies are likely to remain growth oriented for quite a longer time. Increasing retail investor’s participation in the equity market and high liquidity into the system will also lead to the gains in the equity stocks. However, market may be cautious as the recent rally is termed as the overbought market position and formation of bubble by some investors.

Inflation:

- Inflation in the country is expected to remain elevated after recent restrictions imposed in more than half of the country discouraging the demand and breaking the supply chain. Normal monsoon as predicted by the Indian metrological department (IMD) will cap the rise in the food prices whereas increasing fuel prices will add to the rising in the commodity prices and making commutation and supplies costlier.

Domestic Growth:

- Growth momentum as penned by the country in the third quarter that carried into initial months of the fourth quarter of the last financial year may derail because of the lockdown like restriction imposed by the states to curb the spread of the infection that has crumbled the country’s healthcare sector. Global and domestic agencies have also lowered their earlier growth projections because of the closing of the non essential services.

US Treasury Yields:

- US Treasury Yields may increase in the coming months in fear of rise in the inflation in the US on increasing government spending and cheap availability of the money. Federal Reserve chairman Jerome Powell reiterating that the rising yields reflects the increasing growth prospect while showing the central bank commitment to maintain the policy rates to its historic low for a considerable future will lead to sideways movement in the yields.

Global Growth:

- Global growth is expected to witness a strong upward growth momentum mainly led by the US and China as both the countries came close in addressing the COVID-19 problem with increasing vaccination and government and central bank support to the distress sectors. Strong economic data posted by the nations in past months advocates the increase in the global growth. In Asia, growth may lose its pace with some major economic in the region imposing fresh restriction to fight against the second and third wave of the virus.

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