JUN 2021

PINC

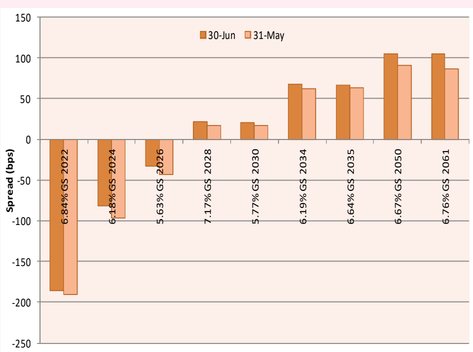
MONTHLY REPORT (JUN)| DEBT MARKET INDIA

CONTENTS

YIELDS OF GOVERNMENT SECURITIES (%)

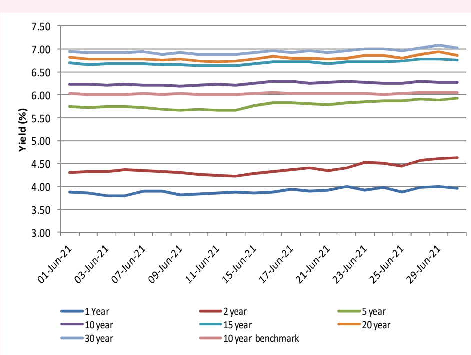
Yield at ↓	May	Jun
5.63% GS 2026 (5 Year Security)		
Month Opening	5.57	5.60
Month End	5.59	5.72
High	5.60	5.75
Low	5.50	5.48
5.85% GS 2030 (10 Year Security)		
Month Opening	6.02	6.03
Month End	6.02	6.05
High	6.04	6.07
Low	5.96	5.89
6.64% GS 2035 (15 Year Security)		
Month Opening	6.63	6.66
Month End	6.65	6.72
High	6.66	6.76
Low	6.56	6.59

SPREAD IN G-SEC SECURITIES (bps)



* SPREAD from 5.85% GS 2030

G-SEC YIELD VARAIATION (%)



Benchmark: 5.85% GS 2030
SOURCE: CCIL

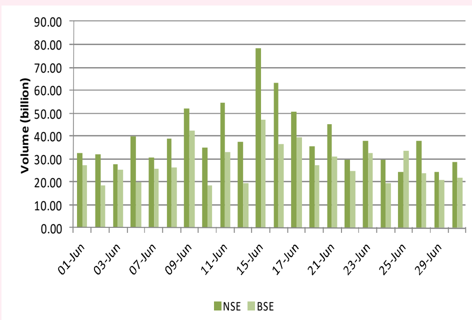
OVERVIEW

- Government bond prices traded in narrow range for most of the month as investors were uncertain on the levels at which RBI want to anchor the yields of the securities. Except for 10 year G-Sec benchmark (5.85% GS 2030) yields of the securities increased with spread widening on market disappointment over lack of support by the RBI in other papers. Yields increased after the minutes of the monetary policy meeting showed that the members are concerned on the inflation. Movement in the US treasury yields and crude oil prices also governed the market movement.
- Yields increased on the month starting after reports flashed that the government might be increasing the borrowing because of the shortfall in the revenues. But, yields recovered later on central bank announcing the third tranche of the GSAP 1.0 operation. Inflammatory concern after the hawkish Federal Reserve tone in its policy meeting leading to selling in the global markets weighed on the investors' appetite for the securities. Weekly G-Sec operation also heave governed the market movement.
- RBI in line with the market expectation kept the policy rates unchanged at 4.00% (repo rate) in its monetary policy meeting while maintaining the accommodative stance. RBI has revised down the GDP forecast for the country for the FY:2021-22 to 9.5% from its earlier projection of 10.5%. CPI inflation was projected as 5.1% for the current financial year. RBI governor has announced another round of the purchase of central government securities worth Rs 1.2 lakh crore under GSAP 2.0 and said that the remaining Rs 40,000 crore under GSAP 1.0 will be conducted on 17th June of which Rs 10,000 crore would constitute purchase of state development loans (SDLs).
- RBI through notification said that the limits for foreign portfolio investors (FPI) investment during the current fiscal year in government securities (G-sec) and State Development Loans (SDLs) will remain unchanged at 6.0% and 2.0% of outstanding stocks of securities respectively. Also, as per the circular entire increase in limits of the SDLs will be added to the General sub-category of SDLs. RBI said the allocation of incremental changes in the G-sec limit over the two sub categories general and long term will be retained at 50:50 for FY:2021-22. The revised limit for April-September 2021 period is Rs 10.14 lakh crore, including Rs 2.43 lakh crore for G-sec General, Rs 1.12 lakh crore in G-Sec long term, Rs 1.47 lakh crore in SDLs and Rs 5.74 lakh crore for corporate bonds.
- RBI has revised the rate of interest on Government of India Floating Rate Bond, 2031 (FRB 2031) applicable for the half year Jun 7, 2021 to Dec 6, 2021. It was set as 4.59% per annum for the above period against the earlier 4.29%. The rate of interest on the FRB, 2031 is set at average rate of the implicit yields at the cut-off prices of the last three auctions of Government of India 182 day Treasury Bills plus a fixed spread of 1.0% and day count as 365 days.

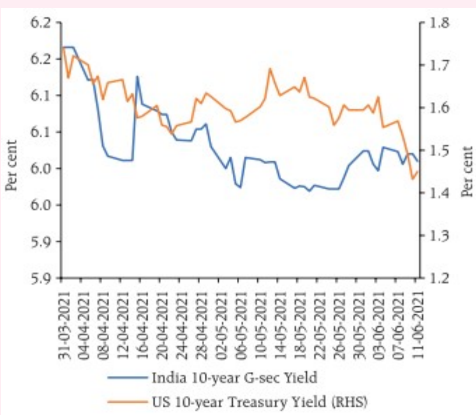
CORPORATE BONDS YIELDS (%)

	3 Year	5 Year	10 Year
Month Opening	5.15-5.17	6.65-5.70	6.78-6.81
Month End	5.24-5.25	5.72-5.73	6.88-6.90
High	5.24-5.25	5.72-5.73	6.88-6.90
Low	5.00-5.04	5.63-5.65	6.65-6.68

CORPORATE BOND VOLUME ON NSE & BSE

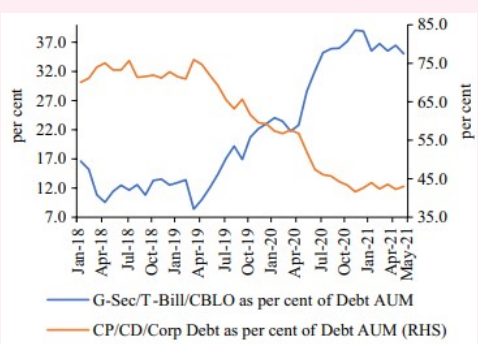


10 YEAR G-SEC VS 10 YEAR UST



SOURCE: MONTHLY REPORT RBI

MUTUAL FUND INVETMNETS



Source: RBI

CORPORATE BONDS

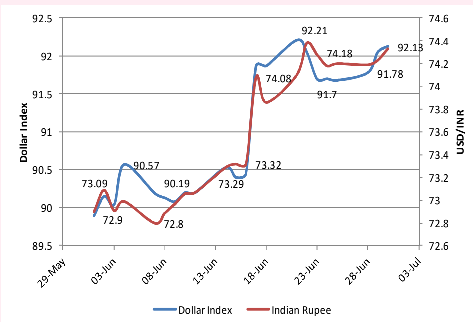
- Yields in the corporate bonds mostly remained traded taking direction from movement in the yields of the central government securities, the US treasury yields, crude oil prices and domestic demand of the securities. Volume in the market remained low as investors were searching for fresh directions amid dwindling between the next move by the central bank as the inflation rose sharply after the economy was hit by the second wave of the pandemic. For most of the month major activity in the corporate bond remained limited to the shorter end of the security amid high liquidity and on fear of the losing the capital in anticipation of rising yields.
- Market witnessed rising yields on the first day of the month after reports flashed indicating increase government to announce additional borrowing leading to surge in the yields of the government securities. However, yields found some ground as investors were mostly based in the requirement based trading in the initial week on caution ahead of the MPC meeting after economic sentiments took a hit on the restrictions imposed because of the second wave of COVID-19. Some buying was seen on investors' optimism over the RBI maintaining the accommodative stance for a longer period and to remain committed on pushing for the economic growth
- Yields of the security fell sharply after the RBI MPC meeting as the policy remained mostly in line with the market expectation and raised expectation of RBI regulating the market by keeping the yields by regularly announcing the measures. Strong demand was seen by the Mutual Fund and insurance companies particularly in the 2024 segment of the securities on decline in the yields of the government securities in the segment and large inflow into the market. But the fall in the yields was ephemeral as the inflation number for the month of May at its six month high and above the RBI upper limit of 6.0% raised concern amid investors on prolonging of the RBI ultra loose policy.
- During the middle of the month most of the fund houses were selling papers mainly issued by the stated owned entities on redemption pressure at the quarter end. Yield also rose after the members in the monetary policy committee showed concern in the minutes of the policy released over the rising prices of the commodities raising fear that the central bank may not entertain the current policy for a longer period. Rising yields of short maturity witnessed some buying by the Mutual Funds and the insurance companies.
- During the month end most of the participants were seen shifting to the government securities for easy exit as the liquidity is more in these securities compared to the corporate bonds. Yields of the five year segment fell on buying by the Mutual funds whereas those of 10 year paper were trading higher on selling by the banks. Cogencis report that the RBI may issue a new borrowing calendar with increased borrowing weighing on the market appetite.

INDIAN RUPEE

	May	Jun
Month Opening	74.25	72.57
Month End	72.62	74.33
High	74.33	74.45
Low	72.32	73.11

NOTE: VALUE IN RUPEE/DOLLAR

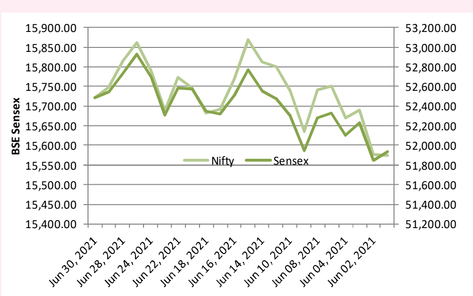
INDIAN RUPEE & DOLLAR INDEX



EQUITY BNCHMARKS

	May	Jun
SENSEX-30		
Month Opening	48,356	52,067
Month End	51,937	52,482
High	52,013	53,126
Low	48,028	51,450
NIFTY-50		
Month Opening	14,481	15,617
Month End	15,582	15,721
High	15,606	15,904
Low	14,416	15,452

BENCHMARK INDICES DAILY TREND



INDIAN RUPEE

- Indian Rupee was sharply down particularly at the end of the month on sharp increase in the dollar index led by the market view that the US Federal Reserve might increase its rates sooner than expected and on increase in the risk appetite with the re-emergence of the cases of infection in Asia. Sharp surge in the crude oil prices also weighed on the market sentiments. Currency remained in narrow range for most of the month as investors were in search for fresh direction amid lack of cues. Banks were seen buying dollars probably for the oil importers.
- Economists believe Indian Rupee to be sliding down by the end of the current year with some expecting it to be touching Rs 76.00 per dollar levels despite sharp appreciation shown by the currency in the month of May as the external factors and the internal growth concern will keep the Indian economy in distress. As per the reports Rupee will find it hard to gain giving the sharp surge in the crude oil prices which may alienate the India's fiscal position further impacted by the soaring commodity prices and ultra lose monetary policy. Additionally, sluggish economic recovery and surge in dollar demand could also push the rupee lower.
- Fitch solutions in its report said that it expects currency to be trading sideways for rest of the month following the RBI intervention to maintain relative rupee stability in order to manage imported inflation arising from high global oil prices. However, it projected currency to be weakening marginally in coming months. The report also mentioned that the RBI may pursue weaker currency to control the spillover effect of the rising inflation in the US. The rating agency said that the currency will trade in range of Rs 72.30 per dollar to Rs 75 per dollar over the reaming of the year.

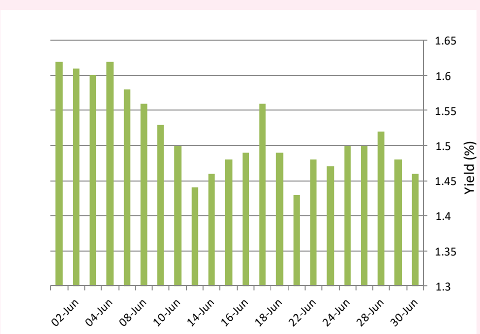
INDIAN EQUITY MARKET

- Indian equity benchmark indices were flat during the month starting on muted global cues and investors access the impact of the second wave of infection on the economic recovery. Some buying was seen on increasing risk appetite of the investors with falling cases of infection in the country but inverts fear on the rising inflation that may prompt central bank to move away from its accommodative monetary policy. Hope that the government will support the distress sectors supported the market. Market took a dive after the reports on freezing of the foreign accounts of Adani group creating panic amid investors.
- Indices traded sideways amid limited movement despite government taking measures as investors were concerned that the steps announced by the government might not bring any immediate impact. Profit booking by the investors and market fear that the equities might be overbought lead to decline in the stocks. Foreign investors also turned bearish on the Indian economy during the latter half of the month after new variant of the virus gripped the nearby nations.

US TREASURY MONTHLY DATA (%)

US Treasury (5yr)		
Month	May	Jun
Open	0.86	0.80
Close	0.79	0.89
High	0.87	0.96
Low	0.71	0.70
US Treasury (10yr)		
Month	May	Jun
Open	1.63	1.61
Close	1.58	1.46
High	1.70	1.64
Low	1.46	1.35
US Treasury (30yr)		
Month	May	Jun
Open	2.30	2.29
Close	2.26	2.09
High	2.42	2.33
Low	2.15	1.92

US 10 YEAR TREASURY YIELD DAILY DATA (%)



BRENT OIL PRICE ($/Barrel)

Month	May	Jun
Open	66.70	69.39
Close	69.32	75.13
High	70.24	76.60
Low	64.57	69.29

US TREASURY

- The US treasury yields fell during the month as investors were hopefully that the Federal Reserve might not be tapering its asset purchase programme soon as anticipated by the market during the month starting. During month starting yields increased led by the market worry over rising inflation that may prompt the central bank to divert from its early policy. However, yields mostly remained under pressure during the month witnessing some sharp fall on market optimism that the inflation is likely to be transitory and also following the comments made by the various members in the FOMC committee including Federal Reserve Chairman, Jerome Powell. Various economic data particularly unemployment rate which Fed is much worried about governed the yields movement.
- Yields rose during the mid month on the hawkish tone by the Fed members in the FOMC policy meeting where they projected that they are expecting at least two rate hikes by 2023 change from their earlier projection of no rate hike till 2023. Yields revert to fall sharply as members sound dovish in there speech made at various forums implying that the central bank may be pushing for the growth. Federal Reserve raising its inflation forecast was taken well by the market as investors believe that this might hold back the central bank from making changes to its existing policy. Increasing cases of coronavirus infection in Asia and Europe during the month end further advocated the appetite for the safer assets.

CRUDE OIL

- Oil prices increased for most of the week led by the increasing optimism over the recovery in the oil demand as the economies pulled out the restrictions imposed increasing the public movement and also economic recovery. Investors bet on the faster normalization in the social and economical situation with increasing pace of vaccination in the major economies. Oil prices witnessed some resistant that were mainly the footprints of the last month where restrictions were imposed in India, third largest importer of the crude oil to counter the second wave of the pandemic. Ease in the restrictions and strong economic data from around the world helped in the oil prices gains.
- Oil stabilized in the latter half of the month as the Asian countries witnessed new restrictions being imposed after a new variant spread across the nations. Developing geopolitical situation between the US and Iran (on the export restrictions being imposed on Iran) also gave direction to the oil prices. Investors are highly optimistic that the oil demand will rise sharply in the coming months and bet that any increase in the oil prices by the OPEC and alliance will fall short on the rising demand of the oil. Falling crude oil inventories in the US supported the surging oil prices. Many big investment and brokerage firms believe that the oil prices may touch $80 per barrel by the end of the current year. Sharp rise in the commodity prices in past few months cheered oil investors.

INDIAN DEBT MARKET

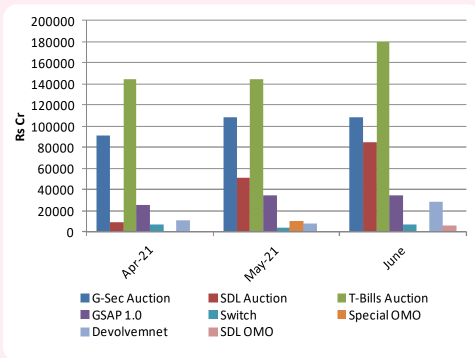
AUCTION OF CENTRAL GOVERNMENT SECURITIES (G-Sec)

- Jun 03rd: In auction of central governments securities RBI accepted Rs 34,610 crore including devolvement of Rs 10,735 crore and Rs 1,945 crore in 5.63% GS 2026 and 6.67% GS 2050 respectively. RBI accepted additional amount of Rs 2,610 crore in 6.64% GS 2035. RBI awarded the securities at better cut off yields than the market expectation.
- Jun 11th: RBI accepted Rs 26,750 crore against the offered amount of Rs 26,000 crore as RBI accepted additional amount of Rs 750 crore in shorter maturity paper. Cut off yields for the securities came at better levels than the market expectation except for longer tenure which was slightly lower. RBI has devolved Rs 9,975 crore in 5.85% GS 2030 on the primary dealers while awarding the cut off yield at 5.99%.
- Jun 18th: RBI accepted Rs 34,500 crore against the offered amount of Rs 32,000 crore including Rs 2,778 crore devolvement in 5.63% GS 2026 on the primary dealers. RBI accepted additional amount of Rs 2,500 crore in 6.64% SG 2035. The cut off yields for the securities set by the RBI were mixed as RBI awarded better cut off in short maturity paper (2026) while cut off yield for longer end (2050) came higher than the market expectation.
- Jun 25th: RBI accepted Rs 12,048 crore including devolvement of Rs 2,899 crore in 4.26% GS 2023 on the primary dealers and green shoe of Rs 48 crore in 6.76% GS 2061 against the offered amount Rs 26,000 crore. RBI did not accept any amount in 5.85% GS 2030. The cut off yields for the short maturity came better whereas cut off for 6.76% GS 2061 was higher than the market expectation.

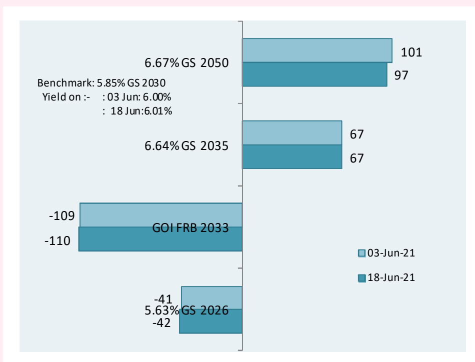
AUCTION of STATE DEVELOPMENT LOANS (SDL)

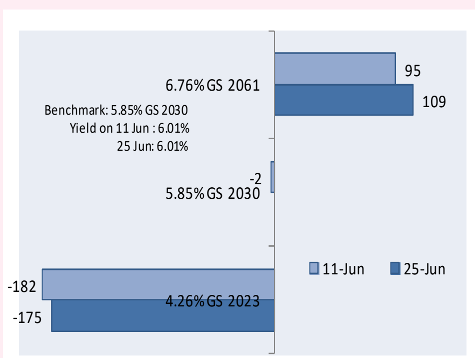
- Jun 01st: RBI accepted Rs 19,550 crore same as the offered amount as Maharashtra accepted additional amount in its 10 year security while Rajasthan did not accept any amount in its 9 year reissue. Cut off yields for most of the securities came in line with the market expectation. RBI awarded the cut off for 10 year in range of 6.81% to 6.85%, that is 79bps to 83bps above 10 year G-Sec benchmark.
- Jun 08th: RBI accepted Rs 11,500 crore more than the offered amount of Rs 11,000 crore as Gujarat accepted additional amount of Rs 500 crore in its 9 year security. RBI awarded the cut off yields for most of the securities in line with the market expectation. Cut off yield for 10 year papers were range of 6.80% to 6.81%, 78bps to 79bps above 10 year G-Sec benchmark.
- Jun 15th: In auction of state government securities RBI accepted Rs 13,600 crore against the offered amount of Rs 13,100 crore as Maharashtra accepted additional amount of Rs 500 crore in its 10 year security. Cut off yields were mostly in line with the market expectation. Cut off for 10 year came in range of 6.75% to 6.84%, 72bps to 81bps above 10 year G-sec benchmark.

RBI OPERATIONS (in Rs Cr) (Apr 2021-Jun 2021)

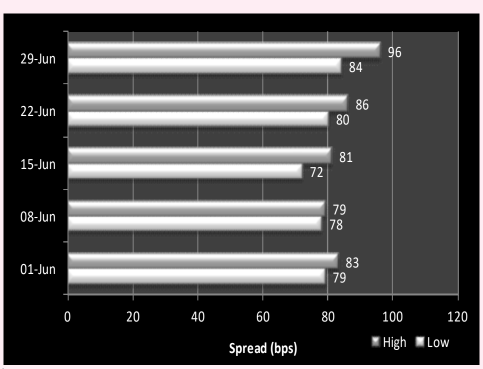


G-SEC AUCTION SPREAD (bps)





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.**

- Jun 22nd: RBI accepted Rs 19,600 crore compared to the offered amount of Rs 19,100 crore in auction of state government securities (SDLs) as Maharashtra accepted additional amount of Rs 500 crore in its 10 year security. Cut off yields for most of the securities came higher than the market expectation. Cut off yields for Andhra Pradesh securities with 15 and 16 years maturity came sharply higher. RBI awarded the cut off for 10 year SDL in range of 6.83% to 6.89%, 80 bps to 86 bps above 10 year G-sec benchmark, 5.85% GS 2030.
- Jun 29th: RBI accepted Rs 20,600 crore same as the offered amount while awarding the cut off yields for most of the securities higher than the market expectation. Cut off yields for the 10 year SDL came in range of 6.88% to 7.00%, 84bps to 96bps above 10 year G-Sec benchmark. Gujarat and Maharashtra accepted additional amount in their 10 year security while Punjab did not accept any amount in 20 year Punjab.

OPEN MARKET OPERATIONS (OMOs)/ G-SAP

- Jun 17th: In the third tranche of GSAP 1.0 operation, RBI purchased Rs 34,575 crore worth of three securities while rejecting all the bids in rest three. This is more than the notified amount of Rs 30,000 crore. Also, RBI purchased Rs 5,425 crore in the state developments loans (SDLs) against the notified amount of Rs 10,000 crore. RBI awarded the cut off yields higher than the market expectation for most of the securities while cut off for 10 year benchmark, 5.85% GS 2030 was set at 5.99% better levels by purchasing Rs 26,779 crore in the security.

SWITCH/CONVERSION AUCTION

- Jun 21st: RBI switched Rs 6,710 crore worth of short maturity securities while issuing Rs 7,006 crore of longer maturity papers. This is against the notified amount of Rs 10,000 crore. RBI awarded the cut off yields for the securities in line with the market expectation. The cut off for 6.64% GS 2035 was set at 6.67% and that for FRB 2033 between 4.86% to 4.92%.

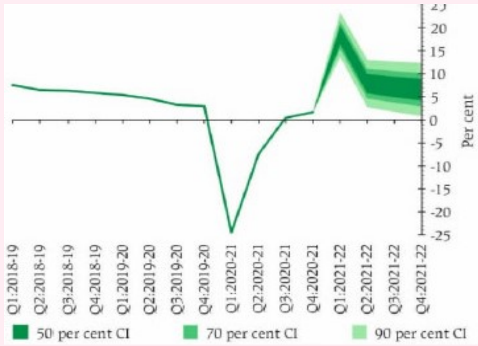
T-BILL AUCTION

- Jun 02nd: RBI accepted Rs 36,000 crore same as the offered amount while awarding the cut off yields for the securities marginally higher than the market expectation. Cut off yield for 91 day T-Bill was set at 3.41%, 3.65% for 182 day T-Bill and 3.74% for 364 day T-Bill.
- Jun 09th: RBI accepted Rs 36,000 crore in auction of Treasury Bills (T-Bills) 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 3.40%, 3.64% for 182 days T-Bill and 3.76% for 364 days T-Bills.
- Jun 16th: In auction of Treasury Bills today, RBI accepted Rs 36,000 crore while awarding the cut off yields for all the three securities higher than the market expectation. RBI has awarded the cut off yield of 3.47% for 91 days T-Bill, 3.70% for 182 day T-Bill and 3.85% for 364 days T-Bill.
- Jun 23rd: RBI accepted Rs 36,000 crore in auction of the Treasury Bills (T-Bills) while awarding the cut off yields for the securities marginally higher than the market expectation. RBI awarded the cut off as 3.47% for 91 days T-Bill, 3.72% for 182 days T-Bill and 3.88% for 364 days T-Bill.
- Jun 30th: RBI accepted Rs 36,000 crore same as the offered amount in auction of Treasury Bills (T-Bills) while awarding the cut off yields for all the three securities at the market expectation. RBI set the cut off yield for 91 days T-Bill at 3.44%, 3.72% for 182 days T-Bill and 3.89% for 364 days T-Bill.

OVERNIGHT INDEX SWAP (OIS)

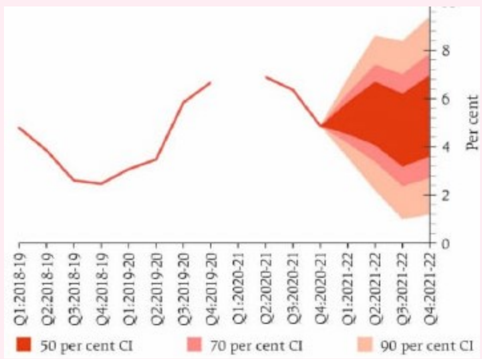
- Overnight Index Swap (OIS) have jumped sharply during the month led by the increasing fear over the rising inflation in the economy creating panic amid investors that the central bank may be revising the rates sooner. Five year OIS rates jumped by more than 30 bps whereas one year also witnesses a surge of 20bps. Investors fear that central banks may unwind the policy sooner and may announce the policy changes in consecutive policies. Inflation is expected to remain elevated on supply constraint as demand picks up in the economy.
- Liquidity in the market increased during the month end as per the data given by the central bank. Market liquidity was registered as Rs 6.00 lakh crore on July 01st against the liquidity of Rs 5.14 lakh crore on first day of June.

RBI GDP PROJECTIONS (%)



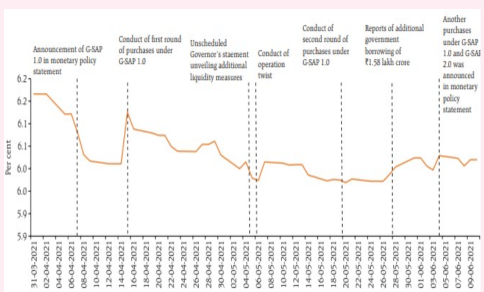
CI: CONFIDENCE LEVEL
SOURCE: RBI

RBI INFLATION PROJECTIONS (%)



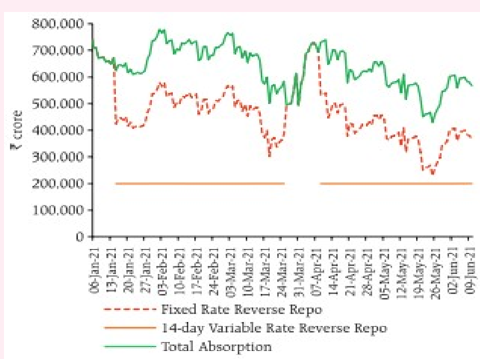
SOURCE: RBI

MOVEMENT IN 10 YEAR YIELD (%)



SOURCE: BLOOMBERG

LIQUIDITY MANAGEMNET BY RBI



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

Source: CCIL

- The MPC left the policy repo rate under the LAF unchanged at 4.0%. Consequently, the reverse repo rate under the LAF remains unchanged 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 revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target of 4% with a band of +/- 2%.
- CPI inflation is projected at 5.10% during FY22: 5.20% in Q1; 5.40% in Q2; 4.70% in Q3; and 5.30% in Q4:FY22; with risks broadly balanced.
- Real GDP growth is now projected at 9.50% in FY22, consisting of 18.50% in Q1; 7.90% in Q2; 7.20% in Q3; and 6.60% in Q4:FY22.
- The second wave of COVID-19 has altered the near-term outlook, necessitating urgent policy interventions.
- All members of the MPC unanimously voted to keep the policy repo rate unchanged at 4.0% to continue with the accommodative stance as long as necessary.

Statement on Developmental and Regulatory Policies

- Liquidity Measures
  - Introduction of a separate liquidity window of Rs15,000 crore with tenors of up to three years at the repo rate till March 31, 2022 for contact-intensive sectors. Banks will be eligible to park their surplus liquidity up to the size of the COVID loan book, created under this scheme, with RBI under the reverse repo window at a rate which is 25 bps lower than the repo rate or, termed in a different way, 40 bps higher than the reverse repo rate.
  - RBI will provide a further special liquidity facility of Rs16,000 crore to SIDBI to meet MSMEs' short- and medium-term credit needs.

- Regulation and Supervision
  - The exposure threshold for Resolution Framework 2.0 was enhanced to Rs 50 crore

- Financial Markets
  - Authorised Dealer banks were permitted to place margins on behalf of their FPI clients for their transactions in G-Secs (including SDLs and T-Bills), within the credit risk management framework of banks.
  - RRBs were permitted to issue Certificates of Deposit (CDs) to eligible investors. Further, all issuers of CDs will be permitted to buy back their CDs before maturity, subject to certain conditions.

➢ <u>Payment Systems</u>

- NACH will be available on all days of the week throughout the year, effective August 1, 2021.

LIQUIDITY GUIDANCE

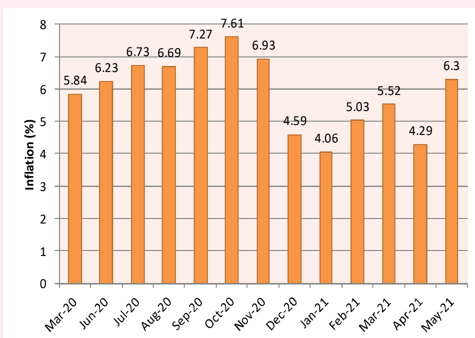
➢ Another operation under G-SAP 1.0 for purchase of G-Secs of ₹40000 crore will be conducted on June 17, 2021. Of this, ₹10000 crore would constitute purchase of SDLs.

➢ RBI will undertake G-SAP 2.0 in Q2:FY22 and conduct secondary market purchase operations of ₹1.20 lakh crore to support the market.

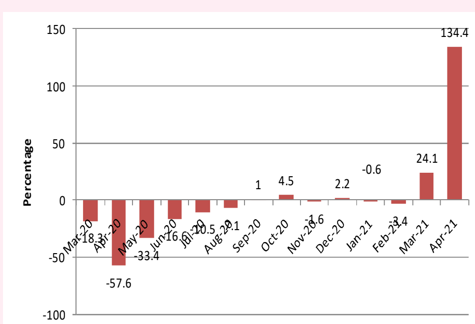
➢ RBI will continue to conduct regular OMOs for liquidity management.

The next meeting of the MPC is scheduled during August 4 to 6, 2021.

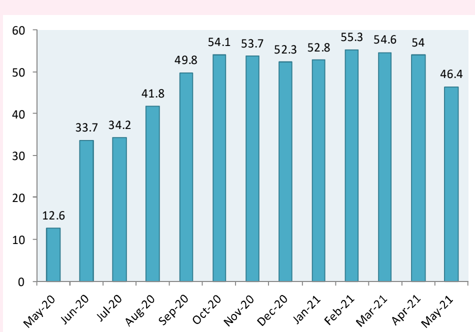
INDIA CPI INFLATION



INDIA IIP DATA



INDIA SERVICE PMI



Source: IHS MARKIT

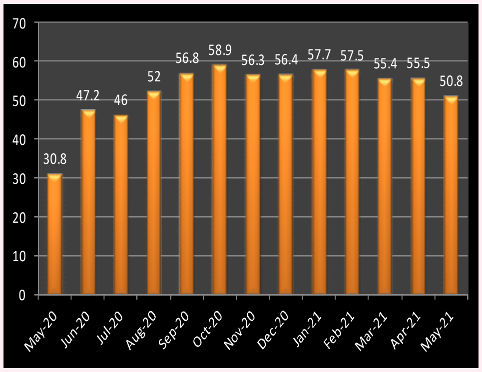
<u>ECONOMIC NUMBERS</u>

➢ Headline inflation of the country surged to breach the RBI target limit of 6.0% in May, for the first time in six month because of the sharp increase in the food inflation. As per the official data released inflation based on consumer price index (CPI) in May stood at 6.3% compared to the inflation for the month of April at 4.23%. Food inflation surged sharply to 5.01% in May from 1.96% in April. The reading in the month of May is much higher than the market expectation of 5.3% around. Core inflation that is inflation without considering prices of food and energy recorded as 6.6%.

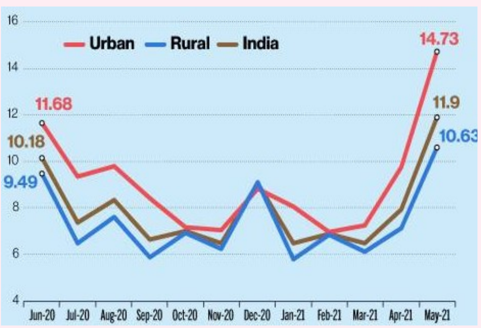
➢ Inflation based on the whole sale price index (WPI) accelerated to the highest pace in the month of May majorly driven by the rising prices of the commodities particularly that of crude oil and manufactured goods. As per the official data released by commerce and industry ministry, WPI inflation rose to 12.94% in May compared to 10.49% a month ago. WPI hitting its all time high is also supported by the low base effect. WPI inflation for the month of May 2020 stood at -3.37%. Inflation in the energy sector rose sharply to 37.61% from 20.94% in April, in manufacturing products inflation increased to 10.83% from 9.01% whereas inflation in food articles eased marginally to 4.31%.

➢ The recent official data released by the National Statistics Office (NSO) said that the India's GDP contracted by 7.3% in the FY:2020-21 compared to growth of 4.0% in the previous financial year. This is lower than the NSO estimate of 8.0% contraction. India witnessed the expansion of 1.6% in the fourth quarter of the FY:2020-21, better than the market expectation as most part of the economy was unlocked after the first wave of the pandemic. The gross domestic product (GDP) had expanded by 3.0% in the corresponding January-March period of FY:2019-20. India's GDP growth had already been slowing down for nearly half a decade with COVID-19 pandemic compounding the stress on the economy.

INDIA MANUFACTURING PMI

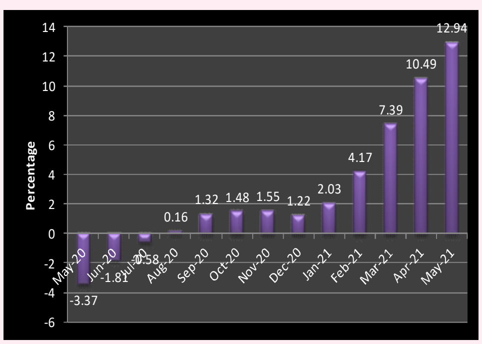


INDIA UNEMPLOYMENT RATE (%)

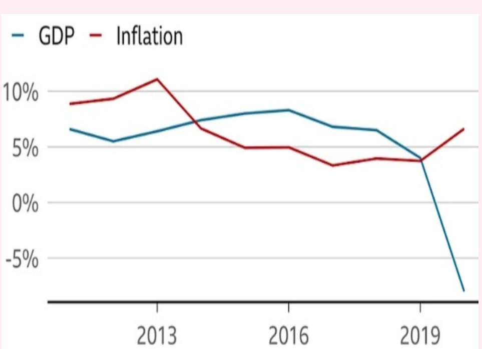


Source: BS

INDIA WPI INFLATION (%)



DIVERGING INDIA GROWTH & INFLATION



SOURCE: YAHOO

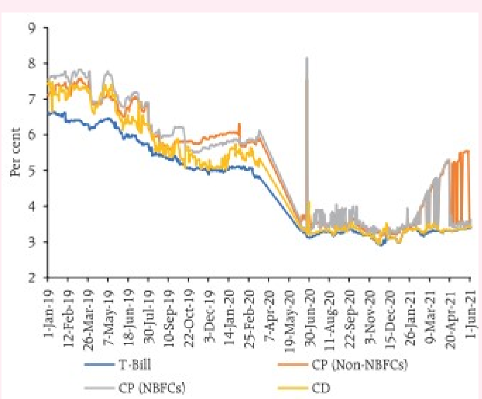
- India's fiscal deficit for the FY:2020-21 stood at 9.3% of the GDP, said the data released by the Controller General of Accounts (CGA). This is lower than the 9.5% deficit estimated by the finance ministry in its revised budget estimates. The revenue deficit at the end of the fiscal stood at 7.42%, as per CGA data. Better than the expected deficit is because of the higher than expected revenue collection. However, historically this is the highest fiscal deficit recorded by the central government. The preliminary data released by the CGA showed that the expenditure was 1.8% higher than the revised estimate following the heavy spending by the government amid fall in its overall revenue collection. The government has set a target to reduce fiscal to 6.8% of GDP this fiscal.
- IHS Markit said that the India's manufacturing Purchasing Managers' Index (PMI) for the month of May fell to 50.8 from 55.5 in April as companies recorded slowest rise in new orders and output in past ten months because of the restrictions imposed in various part of the country to counter the second wave of infection. The firm said that the restriction have led to the concern surrounding the business confidence towards the year ahead outlook. Fall in the manufacturing PMI in May is also because of the difficulty in procurement of raw material and fall in almost all the indices compared to April said Pollyanna De Lima, Economics Associate Director at IHS Markit. However, he also pointed out that the impact is less severe than registered during the first wave of the pandemic.
- India's Index of industrial production (IIP) or the factory output improved by rising 134.4% in the month of April mainly because of the low base effect as the economy was under lockdown in the same month last year. Data released by the National Statistic Office said that the country's IIP stands at 126.6, almost at the same level in April 2019 (126.5), showing the impact of the second wave of the economy. NSO stated that many units reported nil production in April because of the restrictions impacting the comparisons between the indices. Industrial Output shark by 57.3% in April 2020.
- Unemployment rate in the country in the month of May shoot up to 12 month high of 11.9%, said Centre for Monitoring Indian Economy (CMIE) in its recent report. Lockdown imposed in most of the states for controlling the rising cases of COVID-19 infection forced various businesses to remain close in the month of May and leaving the workers workless. Unemployment rate touched its peak in May 2020 registering a figure of 23.0% before falling down sharply in June 2020 to 10.18%. Unemployment rate stood at 7.97% in the month of April 2021. In a separate data released by the Centre for Economic Data and Analysis (CEDA) based on the ILOSTAT database of International Labour Organisation unemployment rate rose to its highest level since 1991 to 7.11% during 2020 as coronavirus pandemic caused economy to come to a screeching halt.

- According to the data released by the Ministry of Finance, Goods and Service Tax (GST) collection in the month of May stood at Rs 1.02 lakh crore sharply lower than the collection of Rs 1.04 lakh crore recorded in the previous month. GST collection remaining above Rs 1 lakh crore despite the strict lockdown restrictions imposed in most of the states is a good sign said ministry. The actual revenue collection will be higher due to extension of the date for filling the returns and current figure includes GST collected till the 4th of June. This is the eighth month in a row that GST revenues have crossed the Rs 1 lakh crore mark.
- RBI consumer confidence survey showed that the index dropped to a record low of 48.5 in May 2021 from 53.1 in March 2021 as the second wave of infection grasped the country. The data also showed that the respondent were dissatisfied on the dwindling economy and were bleak on the year ahead outlook as reflected in the future expectation that dropped to 96.4 from 109.8 in the review period. Households median inflation perception for the current period jumped by 150 basis points to 10.2% while the inflation expectation for three months rose by 70 basis points to 10.8%, compared to the March 2021 survey; median inflation expectations for the year ahead have also remained at a hiked level of 10.9%. Under the index, 100 is the level that divides optimism from pessimism.
- India's service activity slumped into contraction after eight months following the reintroduction of restriction by the states amid escalating pace of infection. Fallout in the new work intakes and decline in the new businesses and output led to large decline in the service PMI. As per the data released by IHS MARKIT India's service PMI for the month of May was down to 46.4 from the expansion of 54.0 in April. The COVID-19 crises led to the decline in the country's service in both domestic and international market. Following the data IHS MARKIT showed concern towards the economic outlook pointing that the falling sentiments may prevent the job creations in near term.

FPI INVESTMENT

SOURCE: RBI

MONEY MARKET RATES

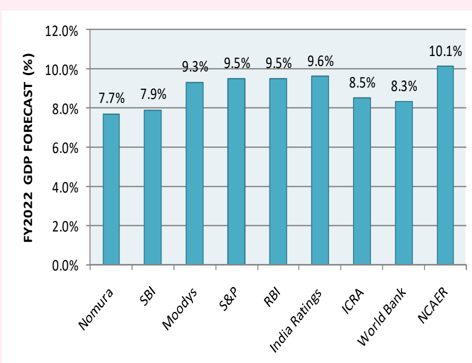


GOVERNMENT OF INDIA AND RBI

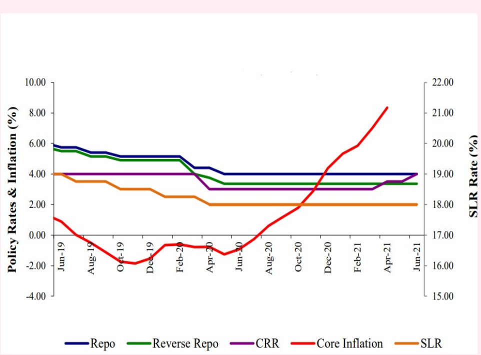
- Chief Economic Advisor (CEA) K Subramanian after the release of the GDP data said that impact of the second wave of coronavirus on the country's economy will be limited but warned to be cautioned on the uncertainty surrounding the pandemic. He also refrains from quantifying the GDP growth for the country stating that the path of the pandemic remains highly uncertain. CEA showed optimism on inflation expecting it to remain range bound and under the prescribed limit while expecting food grain production at the record levels on account of normal monsoon.
- RBI governor in a conference after the MPC Meeting shrugged off the market view that the RBI is committed in marinating only the 10 year yield close to 6.0%. He acknowledged that the yield curve is steep and pointed out that the curve steepness is basically because of the large liquidity into the system that led to the decline in the yields at the shorter end whereas yields of longer tenure are stable at the earlier levels. He also said that the central bank is committed on orderly evolution of the yield curve.
- Principal Economic Advisor, Sanjeev Sanyal said that he expects India to be registering close to double digit growth in the FY:2021-22 with economic activity normalizing as the number of COVID-19 cases were falling. He said that the reforms by the government will address the supply side constraint and the economy will also be supported by the foreign investment. Contrary to his view institutions such as the World Bank has lowered its projection from 10.1% to 8.3% while RBI cut it to 9.5% from 10.5%.

- A research paper published by the Reserve Bank of India authored by the Deputy Governor Michael D. Patra said that though the foreign exchange reserve provides cushion to the external shocks, a better gauge of external vulnerability is an assessment of specific indicators. The research paper pointed out that the India's record reserve of over $600 billion fall short in some measures for example import cover and liability outflows. It also talked about the India's international investment position which stands at 12.9% of the GDP implying India own a portion as liabilities to the foreigners over its assets and warrant a pragmatic assessment of reserve adequacy on FX reserves and market risk in a world of heightened global uncertainty.
- Monthly report published by the RBI estimated the India losing around Rs 2 lakh crore in output during the current financial year because of the second wave of the virus. The report pointed out that the second wave has hit the demand hard particularly in the rural areas. However, it also pointed out that the industrial production and exports have improved while agriculture and contactless services showed resistant and hold up well during the restrictions. It also bet on the economic recovery in the country largely led by the pace of the vaccination.
- Department of economic affairs in its monthly report said that the pace and coverage of the vaccination will be helpful for the country to regain the momentum of economic recovery. It also argued on the front loading of the fiscal measures and pointed out that the high frequency indictors are showing signs of advancement in the month of May after the second wave of COVID-19. The report also asked for increase in the health infrastructure and upscaling healthcare spending to for better management of such pandemic. The report is assured that the impact of the second wave of the economy will be restricted to the first quarter of the current financial year as the lockdown measures remained more localised.

INDIA GDP FORECAST (%)



TREND IN POLICY RATES



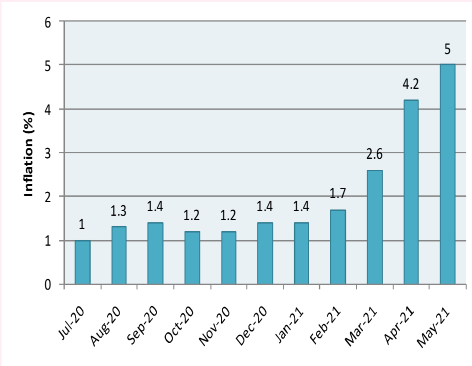
SOURCE: CCIL

RATING AGENCIES/ BROKERAGE FIRMS/MEDIA REPORTS

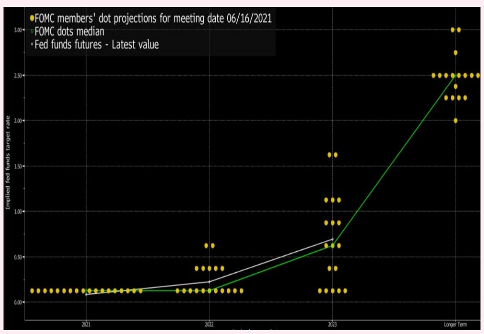
- The Organisation for Economic Co-operation and Development (OECD) has revised the India's GDP growth sharply down to 9.9% for the current financial year from its earlier forecast of 12.6% it predicted in March. It said that the recent resurgent of virus cases in the country has stalled the economic recovery. However, it said that the country can register a growth of 10.0% if it will be able to contain the pandemic quickly supported by pent up consumer demand, loose monetary and fiscal policies and strong external market growth providing momentum to the economy. The organisation said that tough India will be the fastest growing economy amid G20 it will be far from its pre COVID-19 levels in 2021. The group expected India to be growing by 8.00% in FY:2022-23.
- World Bank has revised the India's GDP forecast downward from its earlier projection of 10.1% to 8.3% for the FY:2021-22 following the economic distress created by the second wave of the pandemic in the country forcing the states into lockdown like restrictions. The global lender said that the COVID-19 impact has sharply depressed the consumer confidence and will continue to undermine the consumption and investment into the country. The bank has also said that the economic growth in the next financial year will be much slower than expected estimating it to be 7.5% on impacts of COVID-19 on households, corporate and bank balance sheets and possibly low levels of consumer confidence and heightened uncertainty on job and income prospects.

- SBI Ecowrap report said that the monetary policy space is squeezed and the central bank (RBI) will face challenges for boosting the India's growth and marinating the currency. The report emphasised that the fiscal policy need to support the growth. The report said that the rising inflation poses a threat to the monetary policy regulations. The report has also advocated the cautious approach by the centre implying that the increase in the centre borrowing by Rs 1.58 lakh crore for compensating the states on shortfall in the revenue collections and extension of schemes related to the VCOVID-19 relief measures will impact the centre's finances. However, the report was optimistic on the GST collections by the centre.
- Chief Economic Adviser at State Bank of India (SBI), Soumya Kanti Ghosh in an interview to the CNBC-TV18 said that there is expectation that the central bank (RBI) may sound a caution in its August Policy Meeting and there may be a shift in the policymakers' narrative in the second half of the financial year possibly by December 2021 or in February 2022 meeting. He said that the inflation is expected to remain above the RBI's targeted limit of 6.0% in the coming months. However, there may not be any change in the forthcoming monetary policy. He said the group has projected the headline inflation number for full fiscal year average at 6.1% and for core CPI at 6.4%.
- As per the media reports fund managers are shifting their portfolios by increasing their cash positions in the schemes to provide flexibility and buffer against market volatility. Bond market remained highly volatile in recent months with returns ranging from double digits to negative but the high inflation that is expect to persist for quite some time poses a threat to the actual ret of return on the debt funds. Rising inflation increases the interest rates of the instruments pushing the prices and hence the net asset value (NAV) of the long term instruments lower. Economists are expecting normalization of the monetary policy from the second half of FY:2021-22.
- ICRA Ratings said that the public sector banks (PSBs) after posting losses in the five consecutive year reported net profit in the FY: 2020-21 supported by the gains on their bond portfolios. The report published by the rating agency also highlighted that the return to profitability was supported by lower credit provisions on their legacy non-performing assets (NPA). It pointed out that the gains in portfolios rose sharply after RBI made steep cuts in the policy rates in the financial year. In FY2020-21, Public sector banks reported a net profit of Rs 32,848 crore as against loss of Rs 38,907 crore in FY:2019-20, said rating agency in its report. It said that the PSBs have made profits of Rs 31,600 crore due to gains in there bond portfolios.
- Moody's Investors Service has sharply cut the India's growth forecast for the calendar year 2021, expecting the country to be witnessing a single digit expansion of 9.6% from its earlier estimate of 13.9%. The report titled 'Macroeconomics India: Economic shocks from second COVID wave will not be as severe as last year's' emphasised that the pace of the vaccination will be the paramount in deciding the economic losses for the June quarter and pointed out that the impact of the second wave of COVID-19 will be restricted to the second quarter. Earlier Moody projected Indian recovery to remain gradual in the financial year 2022 with growth of 9.3%.
- S&P Global Ratings has slashed the growth forecast for the current financial year to 9.5% from its earlier projection of 11.0% evidencing the severe outbreak of the COVID-19 in April and May that forced states into lockdowns and hence hampering the economic activity. The rating agency also warned on the risk on the economic recovery from the further waves of the pandemic. It stated that the coronavirus related restrictions steered permanent damage to the balance sheets of the firms that will take years to recover. It estimated country to be penning growth of 7.8% in the FY:2022-23. It is showed concern on rising inflation amid constrained policy space.
- S&P said that the Indian banks will face a systematic risk as the second wave of the COVID-19 pandemic will impair the performance of the financial institution in the first of the current financial year. Banks will face the heat on weak collections and poor disbursement. Credit analyst at S&P Deepali Seth said that the stressed assets of the Indian banks will remain elevated at 11.0% to 12.0% in the next 12 to 18 months, expecting nonperforming assets (NPAs) to be increasing to 11.5% in the current year from 8.7% a year ago. "The second wave has front-ended weakness in asset quality," said S&P Global Ratings. It pointed out the downside risk possessed by the economy on emergence of the new variant in many parts of the world.

US CPI INFLATION (%)



FED DOT PLOT

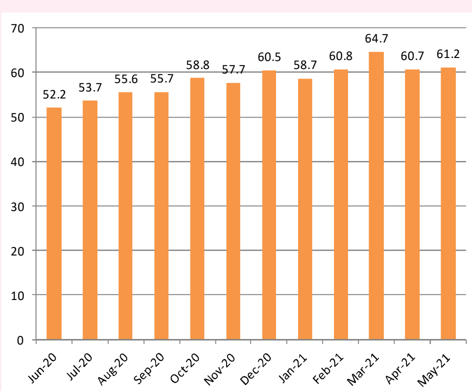


SOURCE: Bloomberg

FED FORWARD PROJECTIONS

	GDP RATE		INFLATION	
Year	Previous	Current	Previous	Current
2021	6.50%	7%	2.00%	3.40%
2022	3.30%	3.30%	2.00%	2.10%
2023	2.20%	2.40%	2.10%	2.20%

US MANUFCTURING PMI



SOURCE: ISM

GLOBAL ECONOMY

U.S

- The US Federal Reserve in its policy meeting decided to keep the policy rates for the federal funds unchanged at 0.00% to 0.25% and also to maintain its asset purchase programme. However, there is a shift in the dot plot from earlier members expecting rate hikes after 2023 to rate hike of at least 0.6% in 2023. The committee has also revised the growth estimate upward to 7.0% from the last projections of 6.5% and inflation outlook 3.4% from 2.4%. Members stick to the unemployment rate expecting it to be averaging 4.5%. Contrary to hawkish policy Federal Reserve Chair Jerome Powell in a hearing before a U.S. House of Representatives panel said that the US central bank is committed on the broad and inclusive recovery in the job market and will not raise interest rates too quickly based only on the fear of coming inflation.
- US consumer price inflation (CPI) rose to its highest level in May since August 2008 reported the labour department. Country registered the inflation of 5.0% in May against 4.2% in month earlier and compared to 0.1% for the same month a year ago when the economy was hit by the COVID-19 pandemic. Economists are divided on the long term inflation view with few expecting it to be transitory and because of the supply constraint as the demand surged sharply following the large scale vaccination. Other are expecting that if the trend continues this may lead to overheating of the economies and may force the central bank to tighten the monetary policy.

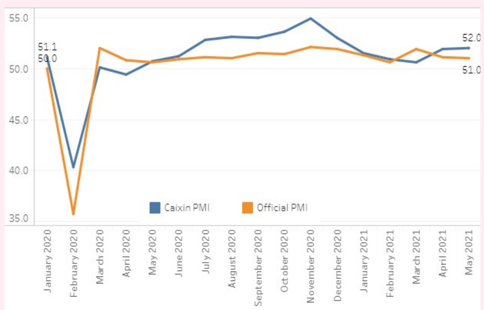
JAPAN

- Japan's GDP in the first quarter of the current year shrank slower than estimated earlier showed the second estimate GDP data given by the Japanese Cabinet Office. As per the revised estimate Japan's GDP contracted by 3.9% much lower than the preliminary estimate of 5.1% contraction. The revised gross domestic product (GDP) decline was mainly due to a smaller fall in public and capital spending, which both eased less than initially thought, offsetting a slightly larger fall in private consumption. Recent data shows reassuring signs in certain sectors providing a relief to the economists. GDP reading is also much better than the market expectation of 4.8% contraction.
- Bank of Japan (BoJ) in its monetary policy meeting minutes for the April's policy meeting showed optimism on the economic recovery. The minutes pointed that the massive stimulus measures deployed by the advanced nations across the globe will quicken the economic recovery in the global economies and also Japan's economy. However, policymakers also showed concern on the pace and the effectiveness of the vaccines on the virus and its variant and uncertainty arising on its economic impact. At the April meeting, the BoJ kept monetary settings intact and projected that inflation will miss its 2.0% target.

CHINA PPI TREND (%)

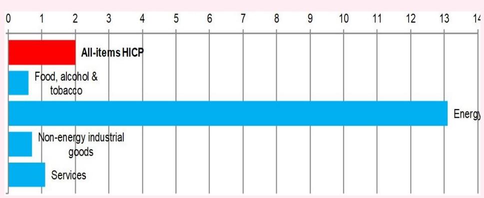
SOURCE: cgtn

CHINA MANUCTURING PMI



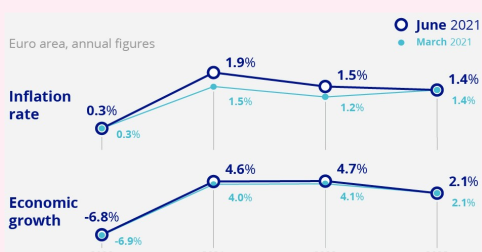
SOURCE: icis.com

EUROAREA INFLATION IN MAY (%)



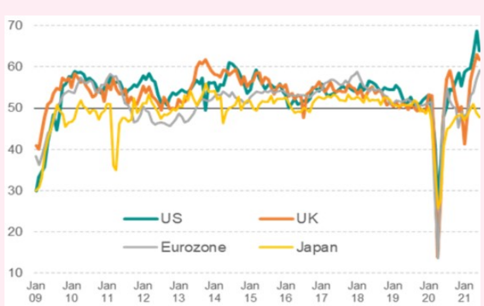
SOURCE: ICIS.COM

ECB MACROECONOMIC PROJECTIONS (%)



SOURCE: twimg

COMPOSITE PMI IN MAJOR ECONOMIES



SOURCE: IHS MARKIT

CHINA

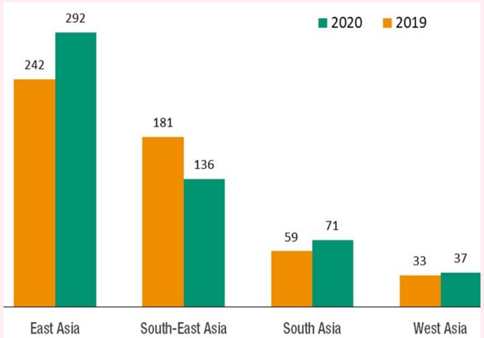
- China's one-year loan prime rate (LPR), a market based benchmark lending rate was kept unchanged at 3.85%. The five year LPR also remained unchanged from the previous reading of 4.65%, according to the National Interbank Funding Centre. China kept borrowing cost on one year medium term lending facility (MLF) loans unchanged last week. The MLF is one of the main tools in managing longer term liquidity in the banking system in the country, and serves as a guide for the LPR. The one-year loan prime rate was cut by 20 basis points and five-year rate by 10 basis points in April 2020. The move was in line with the market expectation as economist's believes that the factory output was largely hit in the Southern part of China because of the recent outbreak of COVID-19.
- China's central bank has raised the amount of money that financial institutions must set aside as reserves for their foreign exchange deposits, in the latest move to curb the Yuan's recent rapid appreciation. The increase in the reserve requirement to 7.0% from 5.0% will take effect from June 15 and is aimed at strengthening foreign exchange liquidity management for financial institutions, according to a statement by the People's Bank of China (PBOC). The move by the PBOC comes after the Yuan hit a fresh three year high against the US dollar. In a official data released Industrial production in China increased 8.8% in May, an increase below the 9.8% in April and China's producer price index rose 9% in May, faster than the market consensus and 6.8% increase the previous months.

EUROPE/EUROZONE

- Inflation in the EuroArea jumped to 2.0%, surpassing for the first time the European Central Bank (ECB) inflation target in more than two years. ECB has in its policy said that it will target the inflation keeping it close but below 2.0% levels. In April EuroArea recorded inflation of 1.6%. Rise in the inflation is mainly driven by sharp surge in the energy cost with increase in the oil prices. However, core inflation that is inflation excluding food and energy prices rose marginally to 0.9% from 0.8% a month ago. This sharp surge in inflation has created concern amid investors that the ECB might hasten to pullback its monetary policy stimulus announced last year.
- European Central Bank (ECB) in its monetary policy meeting showed high optimism over the economic recovery in the region while stating that it will be too soon to unwind the monetary support. Growth and inflation projections for this year and next were upgraded, as anticipated by the market. The Euro Area economy is now expected to expand by 4.6% in 2021 and 4.7% in 2022 versus the previous 4.0% and 4.1% projections earlier. Inflation forecasts, was also shifted higher to 1.9% in 2021 and 1.5% in 2022 from the 1.5% and 1.2% respectively estimated in March meeting.

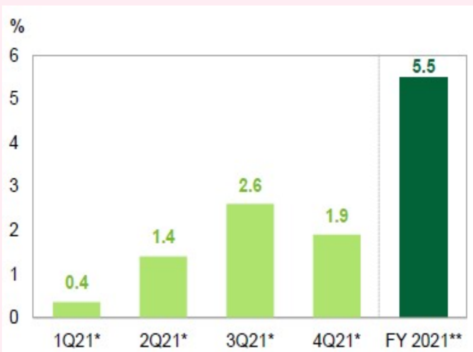
FDI INFLOWS IN DEVELOPING ASIAN REGIONS

(in Billion Dollars)



SOURCE: WORLD INREPORT 2021, UNCTAD

WORLD GDP PROJECTIONS (%)

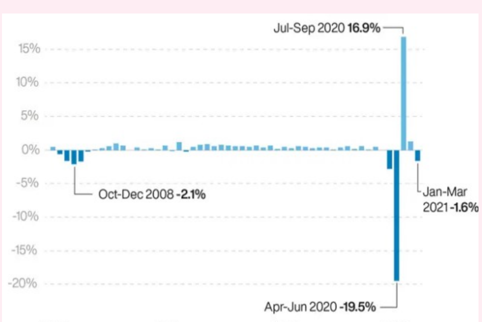


SOURCE: OPEC

UK INFLATION TREND(%)

SOURCE: bbci

UK QUATERLY GDP ECONOMIC GROWTH (%)



SOURCE: STANDARD.UK

<u>OTHER COUNTRIES & INTERNATIONAL BODIES</u>

- Reserve Bank of Australia (RBA) has kept the its official rates at the lifetime low of 0.1%, in sync with its earlier stance that the policy rates will remain in place until 2024 at the earliest. The RBA governor said that the economic recovery is better than expected with unemployment numbers falling below the pre pandemic levels. The RBA expects the unemployment rate which was recorded as 5.6% in March to be around 5.0% at the end of the year and around 4.5% at the end of 2022. It also said the central scenario for GDP growth has been revised up further, with growth of 4.75% expected over 2021 and 3.5% expected in 2022. Official data released showed inflation in Australia increased by only 0.6% this quarter showing pickup in inflation and wages growth is likely to be only gradual and modest said bank in its statement.
- Bank of England in its monetary policy meeting decided to keep the interest rates on hold at record low of 0.1% while raising its growth outlook for the country following the upliftment of the COVID-19 related lockdown measures. The board also raised its inflation forecast stating it to be remaining above 2.0% and can be even exceeding 3.0% but insisted that the rise in the inflation will be transitory. It projected country to be growing by 1.5% in the second quarter and recovering over to the pre pandemic levels by end of 2021. Inflation in the United Kingdom (UK) jumped sharply higher to 2.1% in May raising fear of the investment risk. This is the first time in past two years that the inflation has breached the central bank target of 2.0%. The main reason behind driving the inflation to these elevated levels is the rise in the fuel prices that witnessed a soaring 20.0% hike compared to last year.
- OECD in its latest economic outlook has warned on the uneven recovery in the global GDP if the work was not done for the equitable distribution of the vaccine across the globe. With the emergence of positive signs for the economic recovery, the OECD has upgraded the global economic growth forecast to 5.8% in 2021 from its December projections of 4.2%. In the report it has also estimated the GDP growth of 4.4% in 2022, sharply upward revision from 3.7% forecasted earlier. However, the economic organisation has raised concern on the pointing out the positive economic developments in some countries whereas other lagging sharply behind. The OECD has appreciated the governments and central banks efforts for managing the disastrous effects of the pandemic effectively.
- Organisation of Petroleum Exporting Countries (OPEC) in its monthly report has said that it expects oil demand to be rising by 5.95 million barrel per day (mbpd) in the current year led by the demand by the US and China. However, the organisation has also cited the uncertainties over the economic recovery as the pandemic cloud has not diapered completely. OPEC expects the world economy to be growing by 5.5% in 2021 with second half of the year witnessing strong recovery. Output in May rose 390,000 bpd to 25.46 million bpd, OPEC said.

OUTLOOK

Gilts:

- Government bond prices may witness some volatility on rising crude oil prices and following the movement in the US treasury yields amid RBI measures for supporting the market. Fear over increase in the supply of central government securities on already high borrowing number for the current fiscal year is denting the market sentiments. Bond prices are expected to trade with negative bias in coming months in view that the central bank may need to tighten the policy to counter the rising inflation in the economy. Yields curve may witness some flattening after sharp rise in the yields of the securities particularly in longer tenures.
- 10 year G-Sec benchmark, 5.85% GS 2030 may underperform on RBI announcement of the new 10 year G-Sec security and central bank holding around 70% of the security outstanding amount with himself. However, market is disappointment on lack of efforts by the central bank in this month for anchoring the rising yields. Volume in the market is expected to remain low as investors fear over the rising yields amid lack of significant cues. Trades in the corporate bonds may remain muted on heavy supply of central governments securities.

Rupee:

- Indian Rupee may trade following the movement in the dollar index reacting to the global developments and Federal Reserve upcoming policy. Currency may weaken in coming months as the rising crude oil prices may arise fear over the government’s current account deficit (CAD). However, overseas investment into the country and strong growth prospect may support the currency. As per the economists currency is expected to trade down (weak) by the end of the year.

Equity Indices:

- Indian equity benchmark indices may trade sideways following the global market movement depending on the risk appetite of the investors and market view on the central bank policies in the upcoming months as economies are seen heating up on rising inflation. However, market is expected to trade with positive bias on foreign investors expecting recovery with better returns supported by the government and RBI policies.

Inflation:

- Inflation in the country is expected to remain above the RBI upper limit of 6.0% mainly due to increase in the global commodity prices and the supply constraint as the demand is seen picking up. Better monsoon may give some relief to the food prices but the rising crude oil price that are expected to soar up in the coming months poses a threat. WPI inflation has already increased to all time high in last month penning a reading in double digit for the second straight month.

Domestic Growth:

- Domestic growth may witness some speedy recovery in the coming months conditioned that the country is not hit by another wave of pandemic. After most of the economy remaining close in the month of April and May country have seen some green shoots in June led by the increase in demand. Supply side remains a big problem with inflation remaining above the central bank target that may force the bank to shift from its ultra easy monetary policy hitting the domestic growth.

US Treasury Yields:

- US Treasury Yields are expected to remain volatile depending on the developing market sentiments over inflation and the Federal Reserve move to counter the same. With the reopening of the economies and increasing growth prospect amid hope of better returns investors are moving towards the riskier assets. After hawkish tone by the FOMC in its last meeting investors are concerned on Fed tightening the policy sooner while waiting for the clarity on its stand on growth and unemployment against inflation.

Global Growth:

- Prospect of global growth at the current juncture looks positive supported by the high rate of vaccination particularly ion the major economies but the uncertainty remain and depend on the path of the pandemic with new variants of the virus and the effectiveness of the vaccines on the same. However, supply side may remain constraint on frequent disruptions caused by the emergence of the virus dispersed over time and regions leading to restrictions in many parts. Demand side is also expected to remain bleak on rise in the unemployment and falling risk appetite.

SHOBHIT AGARWAL
(DEBT RESEARCH)
(shobhit.agarwal@pinc.co.in)