PINC

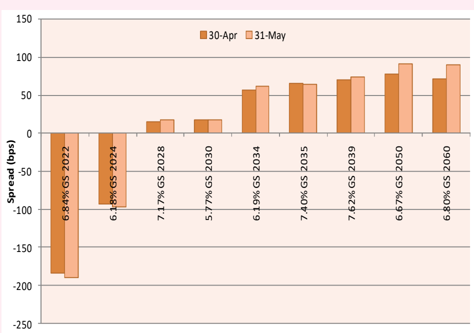
MONTHLY REPORT (May)| DEBT MARKET INDIA

CONTENTS

YIELDS OF GOVERNMENT SECURITIES (%)

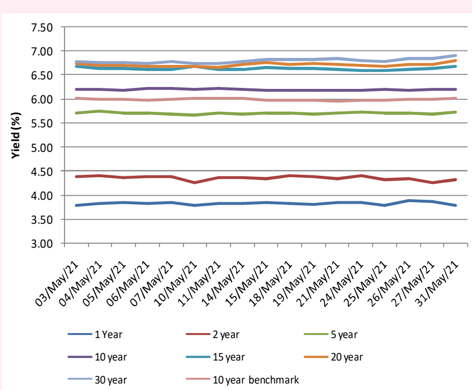
Yield at ↓	May	April
5.22% GS 2025 (5 Year Security)		
Month Opening	5.36	5.51
Month End	5.35	5.38
High	5.39	5.59
Low	5.26	5.32
5.85% GS 2030 (10 Year Security)		
Month Opening	6.02	6.18
Month End	6.02	6.02
High	6.04	6.19
Low	5.96	5.95
6.22% GS 2035 (15 Year Security)		
Month Opening	6.63	6.68
Month End	6.66	6.63
High	6.67	6.68
Low	6.55	6.53

SPREAD IN G-SEC SECURITIES (bps)



* SPREAD from 5.85% GS 2030

G-SEC YIELD VARAIATION (%)



Benchmark: 5.77% GS 2030
SOURCE: CCIL

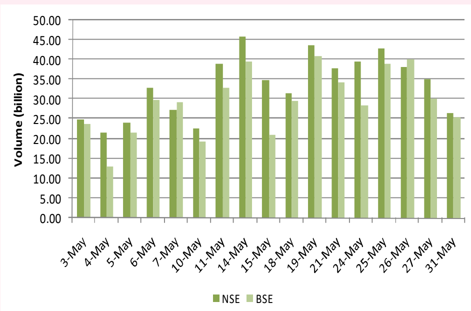
OVERVIEW

- Government bond yields traded in narrow range after falling sharply during the month starting in absence of any fresh triggers and waiting for the clarity where RBI wants to anchor the yields. Yields fell sharply after RBI governor announced measures including purchase of the government securities under GSAP 1.0. The yields also found support on RBI accepting the 10 year security at better levels than the market expectation also accepting lesser than the offered amount in the auctions. Yields slumped during the month end after the government announcement of increase in the borrowing. However, movement and the volume in the market was low as investors were waiting for the RBI monetary policy expecting central bank to announce another round of bond buying programme for July-September quarter.
- Government has announced to increase its market borrowing by around Rs 1.58 lakh crore in the current financial year to compensate the states for the shortfall in the tax collections. The reports said that the Goods and Service Department is estimating the shortfall of Rs 1.1 lakh crore against the 2.7 lakh crore that is need to be paid to the states because of the lockdowns implemented in various states and regions following the second wave of the COVID-19 pandemic. In the last financial year also the central government borrowed additional amount of Rs 1.1 lakh crore on behalf of the states and passed them on as back to back loans.
- 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.
- As per the economists RBI is likely to keep the 10 year bond yields below 6.00% levels as seen in the past by the central bank mopping up the liquidity in the 10 year benchmark. RBI has purchased Rs 41,451 crore of the 10 year security out of the outstanding amount of Rs 91,270 crore by conducting various open market operations (OMOs) and through government securities acquisition programme (G-SAP) apart from directly purchasing the security through the market. The central bank targeting the 10 year is because it acts as the benchmark for most of the securities and hence helps in controlling the yields with yield curve aligning itself according to the yield. Market expects RBI shifting its focus to the inflation ones economy gives the strong green shoot signals.

CORPORATE BONDS YIELDS (%)

	3 Year	5 Year	10 Year
Month Opening	5.15-5.16	5.70-5.75	6.80-6.81
Month End	5.12-5.15	5.65-5.70	6.72-6.74
High	5.20-5.24	5.72-5.75	6.77-6.78
Low	5.12-5.14	5.65-5.70	6.71-6.74

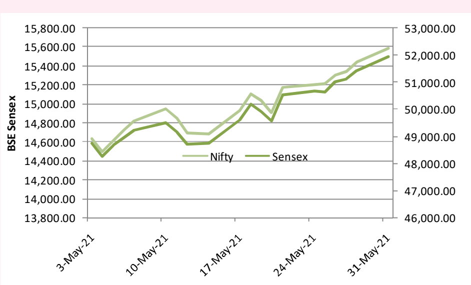
CORPORATE BOND VOLUME ON NSE & BSE



EQUITY BNCHMARKS

	May	April
SENSEX-30		
Month Opening	48,356	48,782
Month End	51,937	48,788
High	52,013	48,986
Low	48,028	48,036
NIFTY-50		
Month Opening	14,481	14,798
Month End	15,582	14,631
High	15,606	15,044
Low	14,416	14,151

BENCHMARK INDICES DAILY TREND



CORPORATE BONDS

- Corporate Bonds traded in narrow range for most of the week in absence of any fresh triggers and were mostly following the movement in the yields of the government securities. Yields of short maturity papers rose in the month starting on selling by banks. Fund houses, banks, insurance companies and brokerage firms were seen mostly trading in the AAA rated securities. Heavy demand of the corporate bonds by the mutual funds in the second week provided some relief to the yields of the securities. Volume in the market was muted as market participants refrain from placing fresh bets in the secondary market and were seen mostly involved in the primary market.
- Most of the firms were based on demand based trading while waiting for fresh issuance by the non bank lenders in the primary market. Yields of ten year securities fell marginally throughout the month on demand and following the fall in the yield of the 10 year G-Sec benchmark, 5.85% GS 2030. Investors remained hopeful that the RBI is likely to support the bond market. Bond yields ended the month on a steady note as investors wait for the RBI monetary policy statement.
- Some upcoming issuances: LIC Housing Finance to raise up to Rs 10 billion via 2028 bond, IIFL Wealth Management to raise Rs 2.5 billion rupees via NCDs, Housing Development Finance Corp Ltd (HDFC) to raise Rs 1.25 trillion via NCDs during a period of one year, HDFC Bank to raise up to Rs 500 billion via perpetual debt instruments over next 12 months, SBI Cards and Payment Services to raise Rs 20 billion via NCDs in one or more tranches and Tata Power will be raising Rs 55 billion by a NCD in one or more tranches.

INDIAN EQUITY MARKET

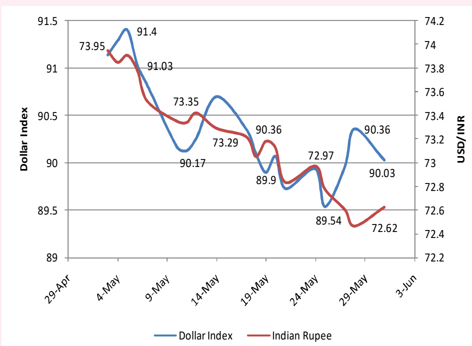
- Indian equity benchmark indices were mixed while trading with positive bias despite the lockdown being imposed in most of the states for containing the spread of the coronavirus infection as market participants were optimistic that the impact of these restrictions will be more localised and may not largely affect the overall growth of the country. Market participants are also betting on the government and central bank support to the sectors affected in the second wave of the pandemic. Reports that the government may announce the stimulus package led to the surge in the indices to record high.
- Indices witnessed some downturn in fear of high inflation that might force the central banks to tighten the monetary policy. Globally indices were positive as investors were cheered on falling cases of infection and also increase in the vaccination in the major economies. Investors were seen selling in the broader spectrum near the psychological levels of 15,000 and 50,000 in Nifty and Sensex respectively. Sharp surge in the crude oil prices and global agencies revising the growth of the country downward dented the market sentiments.

INDIAN RUPEE

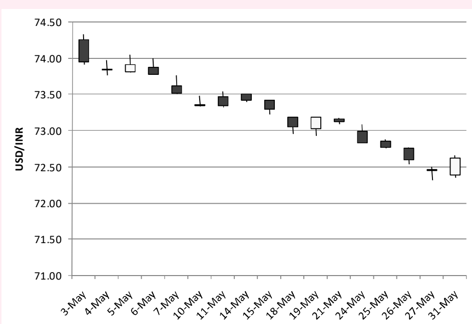
	May	April
Month Opening	74.25	73.38
Month End	72.62	74.10
High	74.33	75.34
Low	72.32	73.21

NOTE: VALUE IN RUPEE/DOLLAR

INDIAN RUPEE & DOLLAR INDEX



USD/INR DAILY MOVEMENT



INR EXCHANGE RATE

SOURCE: CCIL

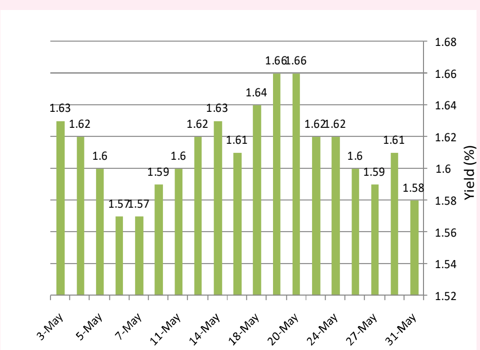
INDIAN RUPEE

- Indian Rupee appreciated largely during the month after remaining one of the worst performing currency in April following the buying in the Indian equity market as investors shrugged of the concern relating to the rising cases of infection in the country. Investors are optimistic that the impact of the second wave on the economy will be limited. The gain in the currency was further supported by the sharp decline in the dollar index. Greenback remained subdued for most of the month trading below 90.00 levels on inflammatory concern in the US and as the risk appetite of the investors increased with the reopening of the economies.
- Foreign inflow related to the IPOs and foreign investors showing optimism on the Indian economy supported the currency. Absence of the RBI from the forex market also supported the market sentiments. The gains were limited by the market concern on increasing crude oil prices and view that the currency may depreciated largely and the current rally is only short lived. Movement in the dollar index following the FOMC minutes and the economic data from the US provided some volatility to the currency.
- Economists are still betting that the currency is expected to be weakening in the coming months led by the increasing current account deficit because of the increasing commodity prices globally and on lag of vaccination compared to other major economies despite country pacing up its vaccination. Market is also expecting that the RBI may be increasing its asset purchase putting a downward pressure on the currency. However, the currency may find some support with Indian companies attracting foreign investors despite the ongoing pandemic situation and on weakening of the greenback.
- Indian Rupee has sharply rebounded in the month of May, with an appreciation of around Rs 1.50 per dollar becoming the best performing currency in Asia after depreciating sharply in April. As per the media reports the gains are mainly because of the local lockdown measures that helped in containing the infection and also because of the fresh inflow related to the fund raising activities by startups and IPOs. Sharp decline in the dollar index with the fall in the inflammatory concerns has also supported the currency. Economists are expecting currency to be depreciating in the coming months on increasing government spending.
- SBI in its research report argued that the exchange rate management by the RBI will help it in managing the inflation. It said that with every 1.0% change in the exchange rate inflation could be impacted by 0.1% to 0.13%. An appreciating currency allows central bank to manage the inflation because of supply side constraints leading to high domestic inflation. In a recent report published by the RBI, it pointed that the monetary policy rate is not found to respond directly to exchange rate movements or the federal funds rate, although the conduct of monetary policy is sensitive to financial shocks, both global and domestic ones.

US TREASURY MONTHLY DATA (%)

US Treasury (5yr)		
Month	May	April
Open	0.86	0.94
Close	0.79	0.85
High	0.87	0.87
Low	0.71	0.82
US Treasury (10yr)		
Month	May	April
Open	1.63	1.74
Close	1.58	1.63
High	1.70	1.74
Low	1.46	1.53
US Treasury (30yr)		
Month	May	April
Open	2.30	2.41
Close	2.26	2.30
High	2.42	2.42
Low	2.15	2.21

US 10 YEAR TREASURY YIELD DAILY DATA (%)



BRENT OIL PRICE ($/Barrel)

Month	May	April
Open	66.70	63.19
Close	69.32	66.66
High	70.24	68.43
Low	64.57	61.25

US TREASURY

- The US Treasury yields remained highly volatile following the developing market sentiments over the inflation scenario in the US. The yields were initially down during the month starting on fall in the inflammatory concern after the disappointing economic data from the US. The yields surged on heavy supply of the securities and the US inflation rising faster than anticipated turning market activity concentrated on the next move by the Federal Reserve. Investors feared that the central bank may revise its asset purchase programme sooner than expected tightening the monetary policy to protect the economy from overheating. Investors concern rose further after the minutes of the FOMC meeting hinted at tapering the government bond purchase.
- The yields retraced to move lower after the mixed economic data from the US economy raised concern that the economy might take longer than expected to return to growth and the rise in the inflation may be transitory as pointed out by the Federal Reserve chairman Jerome Powell. Strong demand of the securities during the month end also provided some relief to the bond market. Fed officials later commented that the central bank might continue with the accommodative stance. However, fall in the yields of the securities was limited by the increasing risk appetite of the investors with vaccination.

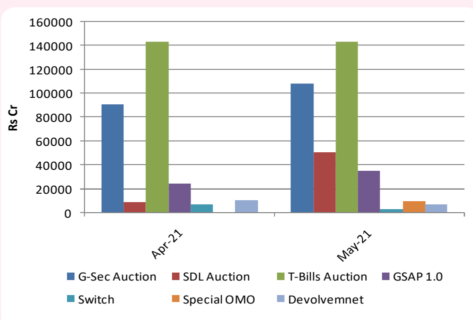
CRUDE OIL

- Oil prices increased in most of the month as the demand of the oil increased with the recovery in the economic activity as the countries started rolling back the lockdown restriction. Investors also remained optimistic that the OPEC and alliance will regulate the oil prices as per the demand. Oil prices dipped in the third week of the month after the report that the Iran and the US are in talks on removing the sanctions on the Iran that will boost the oil output. Oil prices also take a hit as the infection cases surged in India, third biggest importer of oil forcing states to implement restrictions. However, the fall was limited and the oil prices retraced to months high as investors bet that the market is ready to consume any increase in the oil production and the impact of the restriction in India will be marginal.
- Goldman Sachs in a note said that it expects the crude oil prices to be rising to $80 per barrel by the end of the current year despite additional production. It said that the increase in the supply of the oil from Iran will be offset by the massive vaccination and recovery in the demand with the opening of the economies. In April also the bank indicated that it sees crude oil will be witnessing the biggest demand jump ever recorded in 2021. In April Reuters reported quoting Goldman Sachs that the biggest jump in oil demand ever, a 5.2 million barrels per day (bpd) rise over the next six months led by the higher demand for travel and acceleration of vaccinations in Europe.

Pandemic related measures announced by RBI on May 5, 2021:

- To enable the State Governments to better manage their fiscal situation, RBI increased the maximum number of days of Overdraft in a quarter to 50 days and the number of consecutive days of Overdraft to 21 days. This facility will be available up to September 30, 2021.
- An on-tap liquidity window of Rs 50000 crore with tenors of up to three years at the repo rate was opened till March 31, 2022 to ease access to emergency health services.
- RBI will conduct special three-year long-term repo operations (SLTRO) of Rs 10,000 crore at repo rate for the SFBs till October 31, 2021, to be deployed for fresh lending of up to Rs 10 lakh per borrower.
- SFBs were permitted to reckon fresh lending to smaller MFIs (with asset size of up to Rs 500 crore) for on-lending to individual borrowers as priority sector lending up to March 31, 2022.
- The exemption to Scheduled Commercial Banks to deduct credit disbursed to new MSME borrowers from their NDTL for calculation of CRR was extended till December 31, 2021.
- RBI announced the Resolution Framework 2.0 for COVID related stressed assets of individuals, small businesses and MSMEs.
- RBI rationalized certain components of the extant KYC norms.
- Banks have been allowed up to March 31, 2022 to utilize 100% of floating provisions/countercyclical provisioning buffer held by them as on December 31, 2020 for making specific provisions for NPAs.

RBI OPERATIONS (in Rs Cr) (Apr-May: FY2022)



Operations	G-Sec Auction	SDL Auction
Total	1,99,656	59,700
Operations	T-Bills Auction	GSAP 1.0
Total	2,88,000	60,000
Operations	Switch	Special OMO
Total	10,538	10,000
Operations	Devolvement	
Total	18,362	

INDIAN DEBT MARKET

AUCTION OF CENTRAL GOVERNMENT SECURITIES (G-Sec)

- May 07th: RBI accepted Rs 32,000cr same as the offered amount while awarding the cut off yields for 2035 and 2026 in line with the market expectation whereas for security maturing in 2050 and FRB cut off yield came marginally higher. This is the first auction in the current financial year where RBI has not exercised green shoe or have cancelled or devolved.
- May 14th: In auction of the central government securities RBI accepted Rs 12,205 crore against the offered amount of Rs 26,000 crore as RBI did not accept any amount in the 10 year while accepting additional amount in other two securities. RBI has set the coupon for New GS 2023 as 4.26%, lower than the market pole. The cut off yield for 6.76% GS 2061 came much higher than the market expectation.
- May 21st: RBI accepted Rs 37,810 crore in auction of the central government securities (G-Sec) while awarding the cut off yields in line with the market expectation. RBI exercised green shoe option accepting additional amount in all the four securities. The notified amount for the auction was Rs 32,000 crore. Cut off yield for longer maturity (2050) came marginally higher than the market expectation.
- May 28th: In auction of the central government securities RBI accepted Rs 26,550 crore including the devolvement of Rs 7,436 crore in 10 year benchmark on the primary dealers. This is against the offered amount of Rs 26,000 crore as RBI accepted additional amount in 2023 maturity paper. The cut off yield for the 10 year G-Sec benchmark, 5.85% SG 2030 came better than the market expectation whereas cut off yield for longer tenure (2061) came higher.

AUCTION of STATE DEVELOPMENT LOANS (SDL)

- May 04th: RBI accepted Rs 15,900cr more than the offered amount of Rs 14,900cr in SDL auction as Maharashtra accepted additional amount in both of its securities. RBI awarded the cut off yields higher than the market expectation for longer tenure whereas cut off for 10 year came in line. Cut off for 10 year securities were in range of 6.77% to 6.79%, that is 77 to 79bps above 10 year G-Sec benchmark, 5.85% GS 2030.
- May 11th: RBI accepted Rs 12,150cr same as the offered amount while awarding the cut off yields around the market expectation. Cut off for 10 year securities came in range of 6.77% to 6.83%, 75bps to 81bps above 10 year G-Sec benchmark, 5.85% GS 2030. RBI accepted single bids in both the securities (2050 and 2055 maturity) issued by Tamil Nadu.
- May 18th: RBI accepted Rs 11,000 crore in auction of the state government securities while awarding the cut off yields for most of the securities marginally higher than the market expectation. Maharashtra accepted additional amount of Rs 500 crore in its 11 year security. Cut off yields for Tamil Nadu securities with maturities of 30 and 35 year came better than the market expectations.
- May 24th: RBI accepted Rs 11,500 crore in auction of the state government securities while awarding the cut off yields in line with the market expectation. Maharashtra expected Rs 500 crore over the notified amount in its 10 year security. Cut off yields for 10 year SDLs came in range of 6.76% to 6.78%, 78 to 80 bps above 10 year G-Sec benchmark, 5.85% GS 2030.

OPEN MARKET OPERATIONS (OMOs)

- Mar 06th: RBI in simultaneous OMO purchase and sell operation, bought Rs 10,000 crore worth of 5.85% GS 2030 while rejecting all the bids in the other two securities while allotting Rs 10,000cr worth of two Treasury Bills (T-Bills) with 182 day maturity. The cut off yields for the 10 year benchmark, 5.85% GS 2030 came in line with the market expectation.
- May 20th: RBI accepted Rs 35,000 crore worth of government securities under second tranche of the GSAP 1.0 operation including Rs 8,345 crore worth of 10 year G-Sec benchmark, 5.85% GS 2030. The central bank awarded the cut off yields for most of the securities in line with the market expectation. RBI did not accept any bid in 7.95% GS 2032.

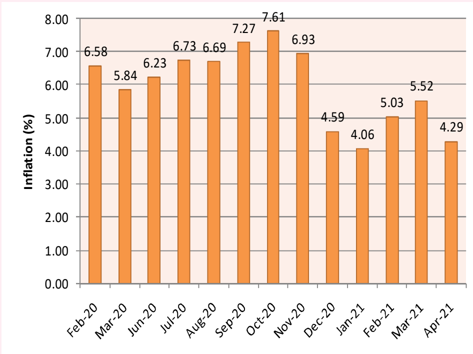
SWITCH/CONVERSION AUCTION

- May 17th: In Switch/Conversion auction of the central government securities RBI accepted Rs 3,300 crore of the short maturity papers maturing in 2022 and 2024 while issuing Rs 3,445 crore worth of FRB 2033. This is against the notified amount of Rs 20,000 crore. RBI rejected all the bids in other eight securities. Only the above two conversions received favourable response with amount exceeding more than the offered amount. The tepid response by the market in the switch/conversion auction is mainly because of the papers maturing in 2022 to 2024 contains higher coupon than the securities of longer maturity to be switched to.

T-BILL AUCTION

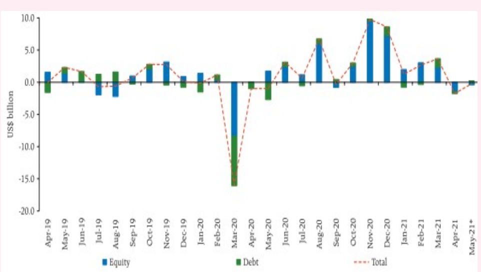
- May 05th: RBI accepted Rs 36,000cr in the auction of the Treasury Bills while awarding the cut off yields in line with the market expectation. RBI awarded the cut off for 91 day T-Bill at 3.33%, 3.55% for 182 day Treasury Bill and 3.72% for 364 day T-Bill.
- May 12th: In weekly auction of Treasury Bills (T-Bills) 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. Cut off yield for 91 day T-Bill was set as 3.37%, 3.57% for 182 day T-Bill and 3.72% for 364 day T-Bill.
- May 19th: RBI accepted Rs 36,000 crore same as the offered amount in auction of the three treasury bills (T-Bills) while awarding the cut off yields for the securities in line with the market expectation. Cut off yield for 91 day T-Bill was set at 3.38%, 3.58% for 182 day T-Bill and 3.73% for 364 day T-Bill.
- May 25th: RBI accepted Rs 36,000 crore in auction of the Treasury Bills while awarding the cut off yields for all the three securities in line with the market expectation. Cut off yield for 91 days T-Bill was set as 3.40% by the RBI, 3.60% for 182 days T-Bill and 3.72% for 364 day T-Bill.

INDIA CPI INFLATION (%)



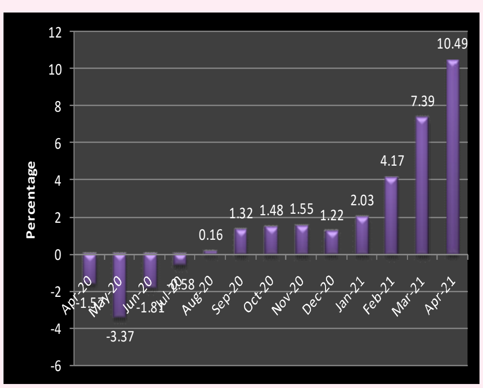
INDIA IIP DATA (%)

FPI INVESTMENT IN INDIA ($billion)



*upto 10th May
Source: RBI

INDIA WPI INFLATION (%)

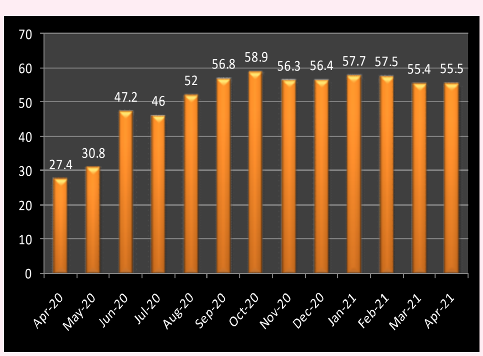


ECONOMIC NUMBERS

- 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'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.
- The official data released by the government showed India's headline inflation for the month of April eased to 4.29%, sharp drop from the inflation of 5.52% in March. This is the fifth straight month when inflation has been within the RBI upper limit of 6.0%. Fall in the inflation is mainly on decline in the food inflation that has fallen to 2.02% in April, down from 4.87% in March. Core inflation that is the consumer price inflation (CPI) excluding the prices of energy and food declined to eight month low of 5.20% compared to the reading of 5.96% a month ago.
- Consistently remaining above Rs 1 lakh crore and surpassing its previous high India's goods and service tax (GST) collection for the month of April is recorded as Rs 1.41 lakh crore, 14% higher than the collection of Rs 1.24 lakh crore said the finance ministry. A statement by the ministry said that the revenues from the domestic transactions have grown by 21.0% compared to the revenues from the same sources in the previous month. Of the Rs. 1.41 lakh crore collection, CGST is Rs. 27,837 crore, SGST is Rs. 35,621, IGST is Rs 68,481 crore (including Rs. 29,599 crore collected on import of goods) and Cess is Rs. 9,445 crore (including Rs. 981 crore collected on import of goods). This is the highest revenue collected by the government through GST since it was implemented.

- India's services sector activities eased to a three month low in April, as the rise in business activity was constrained by the pandemic and sentiment towards growth prospects faded a monthly survey by a private firm IHS MARKET reported. The seasonally adjusted India Services Business Activity Index or service PMI (purchasing managers' index) fell to 54 in April from 54.6 in March, the slowest increase in output in three months. However, the form said that the PMI results for April showed a more resilient economic performance for the service sector than expected given the escalation of the COVID-19 crisis in India. The firm also pointed out the inflation concern in amid the firms.
- Data Released by the National Statistic office (NSO) showed that the India's index of industrial production (IIP) expanded by 22.4% in March mainly because of the low base effect. The industrial output contracted by 18.7% in March 2020 on nationwide lowdown being implemented for containing the spread of the coronavirus. Among the major segments, manufacturing production rose by 25.8% from a fall of 22.8% reported for the corresponding month of 2020. Cumulatively, the industrial output recorded a contraction of 8.6 % in 2020-21 as against a contraction of 0.8% in 2019-20. IIP contracted by 3.4% in February 2021.
- Data released by the Ministry of Commerce and Industry showed India's inflation based on the wholesale price index (WPI) increased to its all time high witnessing fourth straight month of uptick. As per the data this is the first time in over a decade that the WPI inflation has touched the double digit mainly because of the favourable base effect. The country registered the inflation (WPI) of 10.49% in April led by rising prices of crude oil and manufactured goods. This is against the reading of 7.39% in March 2021 and -1.57% in April last year. The food inflation accelerated by 4.92% while inflation for fuel and manufacturing items quickened to 20.94% and 9.01%, respectively. Core inflation that is inflation excluding food and fuel prices shot up to a record 8.4% in April.
- Manufacturing activity growth in India remained flat in April being supported by the demand despite strict restrictions imposed by the states to counter the spread of the coronavirus. Data released by the IHS MARKIT showed that the India's Manufacturing Purchasing Index (PMI) expanded by 55.5 in April slightly higher than the 55.4 reading in March. IHS MARKIT in the report said that the fresh domestic orders and the output fell to eight month low in April which were nullified pushing the PMI data slightly higher on new export orders. New export orders increase at the fastest rate since October. Exports grew at a record 197% to $30.21 billion in April due to a low base of last year. Earlier commerce ministry also showed increase in the merchandise export signalling strong external demand of Indian goods.
- India's overall exports (Merchandise and Services combined) in April 2021 grew 93.21% over April 2020 to $51.79 billion while overall imports grew 122.24% to $58.72 billion taking the overall trade deficit for April 2021 is at $6.93 billion as compared to the surplus of $0.38 billion in April 2020 as per the data released by the Union Ministry of Commerce & Industry. The sharp rise in exports and imports seen in April was due to a low base in trade volumes in the same period last year as the country was put under a national lockdown to contain the spread of coronavirus. Merchandise exports rose to $30.63 billion in April from $10.36 billion a year earlier, while imports rose to $45.72 billion from $17.12 billion, the data showed.

INDIA MANUFCTURING PMI



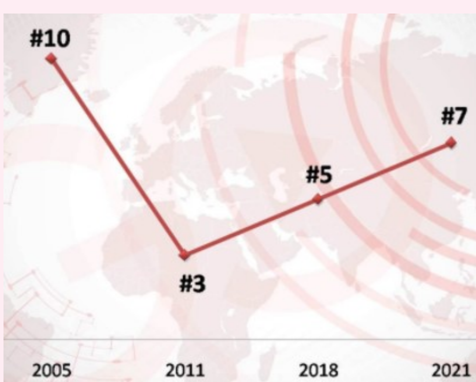
Source: IHS MARKIT

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 the 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. He also emphasised on the vaccination to stop another wave of infection.

- In the annual report published by the RBI it said that the country's economic growth majorly depends on how fast India tackles the second wave of infection. It said that the private demand and investment will be the key in the revival of the economy as it accounts for around 85% of the GDP. However, it also pointed out that the post pandemic recoveries are mainly driven by the consumption but stated that the recovery led by the investment will be more sustainable. The central bank reported net gains of 506.29 billion rupees from its foreign exchange transactions in FY:2020-21 as against 29.99 billion rupees previous financial year, a key contributor to the surplus transfer of 991.22 billion rupee to the government last week apart from its higher interest income.
- RBI showed pessimism on the India's near term growth pointing at the global spillovers in a recent report. The report also said that the health crises can be more pervasive, persistent and debilitating in its impact on the real economy compared to the financial crises and the only solution to the pandemic is the rapid vaccination. With the widening of the gap between the soaring equity market and faltering economy the report has also posed a question that is the bubble in the stock market is rational implying that the central bank is concerned on the rising equities.
- RBI has revised the rate of interest on Government of India Floating Rate Bond, 2024 (FRB 2024) applicable for the half year May 7, 2021 to November 6, 2021. It was set as 3.51% per annum for the above period against the earlier 3.36%. The rate of interest on the FRB, 2024 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 held up to period preceding the coupon reset date, which is May 07.
- RBI governor held a meeting with the held a meeting with the Managing Directors (MD) and Chief Executive Officers (CEO) of selected NBFC-MFIs where he discussed mainly on the four core issues; assessment of current economic situation, credit flows to borrowers of MFIs, outlook on potential stress on balance sheets of NBFC-MFIs and liquidity scenario. In his opening statement, Shaktikanta Das emphasised on the significance of NBFC-MFIs in making credit accessible at the grassroots level and asked them on managing risk cautiously while maintaining business resilience.
- RBI in its monthly report showed optimism on the economic recovery stating that the loss of momentum in the second wave in not as severe as realised during the first wave. The report said "The resurgence of COVID-19 has dented but not debilitated economic activity in the first half of Q1: 2021-22." The reports argued that the biggest loss will be on the demand side (loss of mobility, discretionary spending and employment) whereas supply side will be less impacted. The report said that the impact of the second wave on the economy will be U shaped largely supported by the agricultural and the IT sector.

INDIA's RANK IN GLOBAL GDP

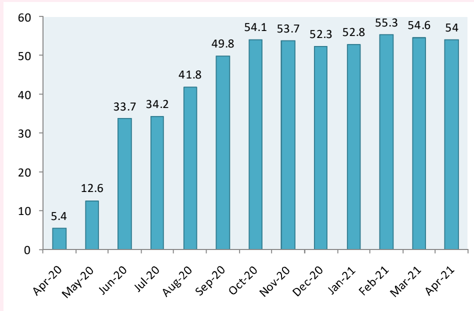


SOURCE: gonewsindia

RATING AGENCIES/ BROKERAGE FIRMS/MEDIA REPORTS

- Swiss brokerage UBS in a note said that the second wave of the pandemic and the resultant lockdown restriction at the localised levels has pulled down the economic activity in the month of April and are threatening the quarter one growth of the country. As per the note the UBS India activity indicator, which is a measure of a complex set of real time economic activity numbers, fell 7 percentage points to 95 last month. However, it acknowledged that the fallout in the growth momentum is much lower than it was last year. Last year the same index had plunged 12% in March 2020 and 25.5% in April 2020. It stressed on the vaccination and shoed concern that from the current scenario India may be able to inoculate only the 43.0% of the population by the end of December.

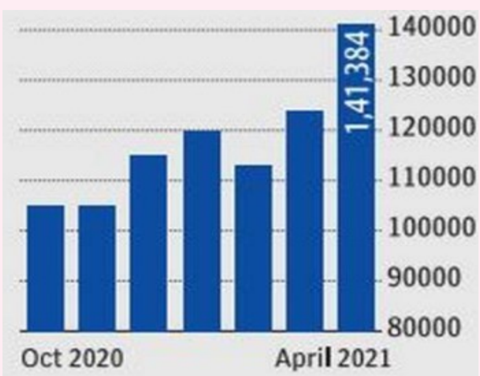
INDIA SERVICE PMI DATA



INDIA GDP FORECAST (%)

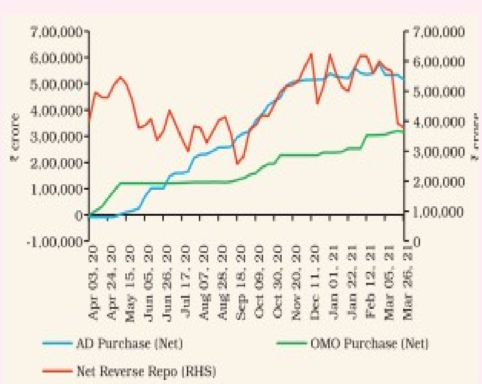
Source: MINT

INDIA GST COLLECTION TREND



SOURCE: BUSINESS LINE

RBI LIQUIDITY INJECTION IN FY:2020-21



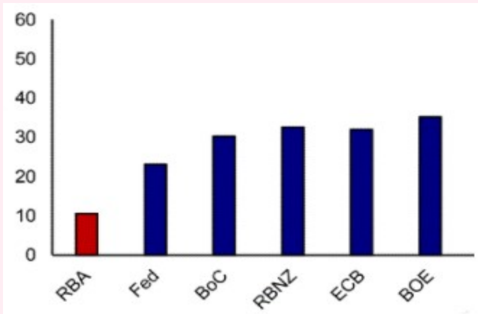
***AD: AGGREGATE DEPOSITS**
SOURCE: RBI

- British Brokerage firm Barclay has reduced the India's GDP growth sharply downward to 9.2% in the FY:2021-22 citing the second wave of the infection and its impact. This is 0.80 percent below its earlier forecast made two month ago. It said that the impact of the second wave on the economy in deeper and also showed concern on the slow vaccination. The firm estimated that India may be losing around $74 billion in the first quarter of the current financial year with the conditions that the lockdowns may not extend beyond June. Barclay's chief India economists also warned that the in case of the third wave of the coronavirus the GDP growth will further slip down to 7.7% with the estimation of eight weeks lockdown in such case.
- Brokerage firm Goldman Sachs has lowered its estimate for India's economic growth to 11.1% in fiscal year ending on March 31, 2022, as a number of cities and states announced lockdowns of varying intensities to check spread of coronavirus infections. It said though the intensity of the lockdown measures remained lower than the last year, teh impact is clearly visible on the high frequency mobility data indicators. It said "“While activity is likely to rebound back quite sharply from Q3 (July-September) onwards assuming restrictions can ease somewhat over that timeframe, the net result is to lower our FY22 real GDP growth forecast". It has also lowered the forecast for the calendar year to 9.7% from 10.5% earlier.
- A report on the Global Trade update by the United Nations Conference on Trade and Development (UNCTAD) showed that India, South Africa and China have fared relatively better compared to other major economies in import and exports in the first quarter of 2021. The data released showed that the import of goods increased 45% in the first quarter of this year compared to average of last year. Similarly, Export of goods also climbed to 26% and services exports rose 2% in the period under review. Globally, trade in goods and services grew by almost 4% quarter-over-quarter or 10% year-over-year. UNCTAD expects the trade growth to remain stronger for East Asia and developed countries, while still lagging for many other countries. The value of global trade in goods and services is expected to touch $6.6 trillion in the second quarter of 2021.
- After lagging sharply in returns in April India's bond become the best performing in Asia with return of 0.8% in May. The Average yield on top rated rupee corporate bonds maturing in two years has dropped 98 basis points in current month to 4.52%, Bloomberg compiled data showed. This is the biggest slide in this section of the security since 2009. The fall in yields came after India's central bank earlier this month assured the markets of its support to the economy and pledged to inject 500 billion rupees of liquidity, reported mint. Meanwhile, dollar bonds from metals and mining, chemicals and transportation services sectors are among the best performing this month while those from the retail sector are among the worst, according to an index of Indian bonds.

- S&P Global Ratings said on Friday it expects India's economic growth to fall to 9.8% for the year under its moderate scenario and to 8.2% under the severe scenario based on when the current COVID-19 infection wave peaks reported reuters. The agency said the second wave should not hit the economy as hard as the first one did in April-June 2020. Its outlook on India's sovereign debt remained stable, even though surging COVID-19 cases could threaten the strong economic recovery it has seen so far. The rating agency has a 'BBB-' rating on India, its lowest investment grade, with a steady outlook. The US-based rating agency in March had forecast 11% GDP growth for India for the April 2021-March 2022 fiscal, on account of a fast economic reopening.
- In a report Fitch Ratings has said that India is expected to be breaching its budgeted fiscal deficit target of 6.8% in the FY:2021-22 on shortfall in the revenue because of the measures taken for containing the spread of the virus. It said that it estimated India’s fiscal deficit to be increasing to 8.3%, 30bps above its earlier projection. However, it maintained the stance that the second wave of the pandemic may not be as severe on the Indian economy as the first wave in 2020. The global rating agency said there are growing indications that the latest wave of COVID-19 infections will add to risks among financial institutions (FIs).
- Rating agency Moody’s has sharply downgraded the India’s GDP growth for the FY:2021-22 from its earlier estimate of 13.7% to 9.3% citing the second wave of the infection that is weighing on the India’s healthcare system. However, the agency remained optimistic and has sharply raised the GDP growth of the country from 6.2% to 7.9% for the next financial year. It said that as per its estimation the impact of the second wave in the April-June quarter will be limited with strong rebound in the second half. It has also raised India’s real GDP contraction in the current financial year to 7.2% from its earlier estimation of 7%.
- For the fourth time since March 2021, CARE Ratings has revised down its GDP forecast for India for the current financial year to 9.2% from the earlier projections of 10.2%. It said there is double impact of the second wave one because of the lockdowns and other related to the health of the work force affecting more than 100 lakh families. It pointed out that this will affect the purchasing power of the families and unlike last year this year pent up demand theory will be insignificant. The agency said on increasing spending and fall in the revenues the fiscal deficit for the FY:2021-22 would be 15.66 lakh crore or 7.15% of the GDP.
- Japanese Brokerage firm Nomura has lowered the India’s growth estimate for the current financial year cutting its down by 180bps to 10.8%. It said that as per the proprietary index country’s activity levels have fallen down to the pre pandemic levels which further declined to the June 2020 levels. The Nomura India Business Resumption Index (NIBRI) fell to 64.5 for the week ended May 9th from 69.7 in the prior week. It said that with more than 20 states in lockdown activity will remain muted in the first quarter. It pointed out that the estimations are based on the assumptions that the medium term tailwinds like vaccinations. Global recovery and easy financial conditions remains intact.
- The World Economic Situation and Prospects report published by the United Nations (UN) has raised the growth forecast for India by 0.2% to 7.5% in the calendar year 2021 but warned that the outlook for the country is highly fragile because of the second wave of infection in the country that is overwhelming the country's healthcare system. It also projected India's GDP to grow by 10.1% in 2022. The global economy is now projected to expand by 5.4% in 2021 following a sharp contraction of 3.6% in 2020, buoyed by the recovery in the world's two largest economies, China and US on rapid vaccination and fiscal and monetary support.
- Mint reported that as per the its emerging market tracker India outperformed for the second straight month compared to its other larger emerging markets followed closely by China. However, the report said that the outlook remains highly uncertain pointing out that the second wave of infection in the country might hit the consumer sentiments and demand sharply whereas at the same time arguing that the country’s gradual return to the normalcy on expectation of pickup in the vaccination.
- The data released by the International Monetary Fund (IMF) showed that India continued to slip in its Global GDP Ranking, now hovering at the seventh position because of the sharp contraction in 2020 as the pandemic forced the country into lockdown shrinking its GDP by 7.0%. In 2005 India entered the list of the world’s top ten economies at number 10 as the GDP growth hit over 8% in two successive years. By 2011 it was the third largest global economy as per the World Bank data. But it has been a downward journey in the last ten years, in 2018 it slipped to 5th rank.

CENTRAL BANKS HOLDING OF GOVT. SECURITIES (%)

(CENTRAL BABKS GOVERNMNET HOLDINGS AS PERCENT OF OUTSATNDING GOVERNMENT SECURITIES)



SOURCE: MACROBUSINESS

UK GDP GROWTH RATE (%)

UK INFLATION RATE (%)

SOURCE: BBC

REAL GDP GROWTH FORECAST (%)

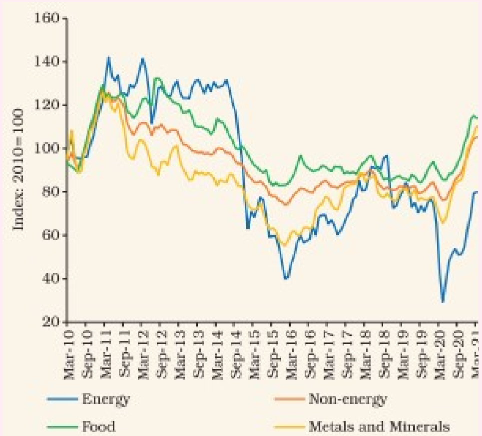
SOURCE: IHS MARKIT

GLOBAL ECONOMY

EUROPE/EUROZONE

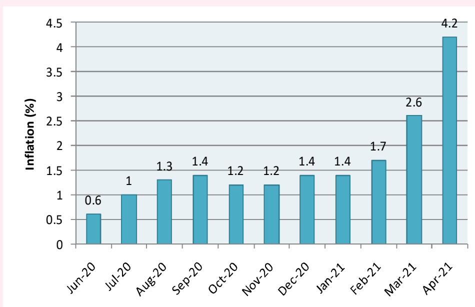
- The Bank of England's Monetary Policy Committee has voted unanimously to hold its key interest rate at 0.1%. The bank also voted unanimously to maintain its stock of sterling non financial investment grade corporate bond purchases at £20bn and maintaining the target for government bond purchases at £875bn. However, the MPC said there is now room for a tapering of government bond purchases. BoE has also revised the GDP growth upward expecting strong recovery in the economy. GDP growth is now expected to reach 7.3% in 2021, while the inflation rate expected to jump from 0.7% closer to the bank's 2% target in Q2 and Q3, according to the May MPC report.
- The gross domestic product (GDP) of UK is estimated to have contracted by 1.5% in Quarter one of 2021, the Office for National Statistics (ONS) said in its first quarterly estimate. This is against the reading of 6.1% contraction a year ago when the pandemic begin. The level of GDP in the UK is now 8.7% below where it was prior to the pandemic at the end of 2019, the ONS said in its estimate containing current and constant price data. The economy grew 2.1% month-on-month in March. Both services and production output contracted over the first quarter, but construction output grew.
- European Central Bank (ECB) in its latest financial stability report has warned the nations particularly countries with higher pre existing vulnerabilities of the uneven and elevated financial risk and asked for the more targeted stimulus packages as the region recovers from the COVID-19 pandemic related crises. The report showed concern of increase in the insolvency rates than before the pandemic as governments will roll out their pandemic related stimulus packages. It also pointed out that the rising US Treasury yields might increase the borrowing costs of the governments derailing the economic recovery in 2021 after the sharp contraction in the previous year. The report was positive on the vaccination programme.
- In the monthly survey in the nineteen countries published by the European Commission on the Eurozone Economic sentiments, it has sharply revised the growth forecast in the area from its earlier projection of 3.8% to 4.3%. The survey showed that the countries in the area will regain the pre pandemic levels by the end of the next year. The upward revision in the economic sentiments is mainly because of the increasing vaccination in the region, increasing export with the recovery in the global demand and on ease in the lockdown measures in the area. The report also expects the GDP growth of 4.4% in 2022 from the 3.8% estimation earlier. However, it projected fiscal deficit to be rising to 8.0% of the GDP in the current year.

GLOBAL COMMODITY PRICES MOVEMENT

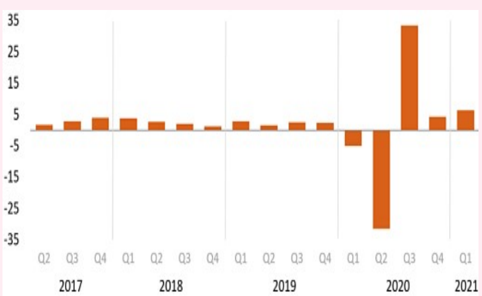


SOURCE: WORLD BANK AND RBI

US CPI INFLATION TREND (%)



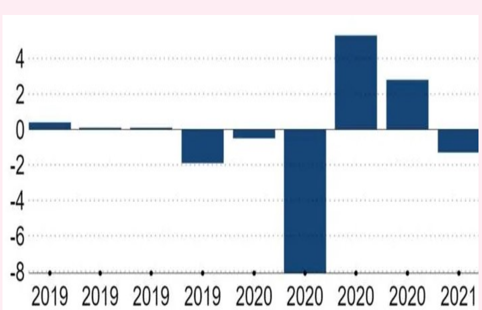
US GDP GROWTH (%)



SOURCE: BEA.GOV

JAPAN'S GDP GROWTH RATE (%)

(QUTERLY GROWTH)



SOURCE: Financial TImes

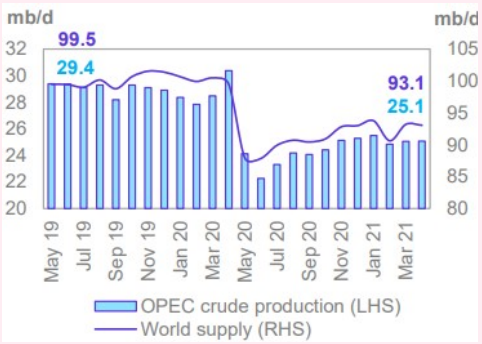
U.S

- The U.S. economy grew at an annual rate of 6.4% in the first quarter of 2021, the U.S. Commerce Department reported. The recovery from last year's deep recession gained steam at the beginning of this year, helped by vaccines to combat the virus and the fiscal measures and monetary measures. Upward revisions to consumer spending and non-residential fixed investment were offset by downward revisions to exports and private inventory investment, according to the latest estimate released by department's Bureau of Economic Analysis. In a separate data released by the Labour department, the jobless claims in the US dropped for the fourth straight month marking a new low since the pandemic began.
- Combination of fiscal and monetary support amid increase in the government spending with more money supply to the market in the pacing up economic activity has pushed the inflation in the US to twelve month high of 4.2% in April, higher than the economists' expectation indicating overheating of the economy. This is the biggest jump in the headline inflation since 2008. The government officials said that the rise is in the anticipation of strong demand meeting the recovering supply. Fed's vice chairman said, if demand remains relatively high for persistent future Fed will not hesitate to use tools to bring the inflation down.
- The minutes of the April Federal Open Market Committee (FOMC) showed that the members are highly optimistic on the economic recovery in the US with few suggesting to start discussing on the rollback of the huge asset purchase programme in the upcoming meetings if the economy continue to make rapid progress towards the goals set by the committee. In the April meeting board held interest rates near zero and pledged to continue buying $80 billion in Treasuries and $40 billion in mortgage backed securities until substantial progress had been made on the employment and inflation. Few officials also showed concern on the rising inflation and advocated proper policy response before it hits unwelcoming levels.

JAPAN

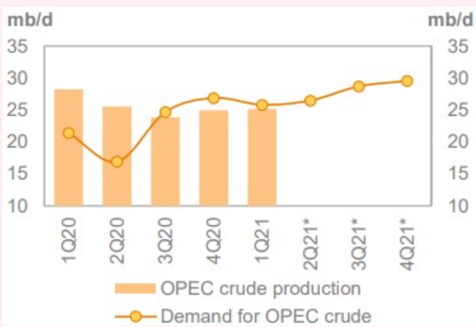
- Bank of Japan policymakers have agreed on the need to focus on keeping interest rates stably low while the economy remains under the strain caused by the COVID-19 pandemic, minutes of the central bank's March meeting showed. With state-of-emergency curbs to contain the pandemic hurting consumption and keeping deflation risks alive, the nine board members agreed there was "extremely high uncertainty" over the outlook, according to the minutes. At the March review, the BOJ kept policy steady and unveiled steps to make its tools sustainable enough to weather a prolonged battle to hit its 2% inflation target.

OPEC & WORLD OIL SUPPLY (mbpd)



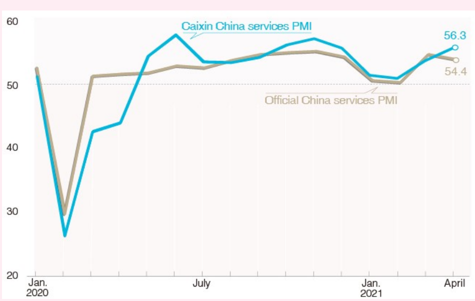
SOURCE: OPEC

BALANCE OF SUPPLY AND DEMAND



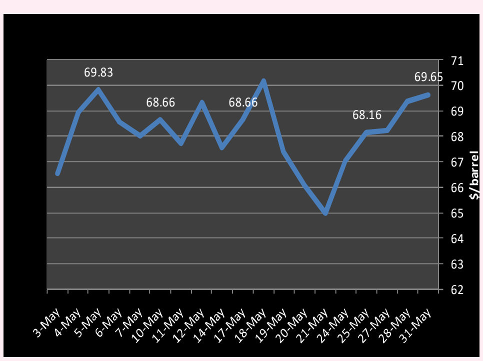
SOURCE: OPEC

CHINA PMI DATA



SOURCE: CAIXIN

BRENT OIL PRICE MOVEMENT ($/barrel)



OTHER COUNTRIES & INTERNATIONAL BODIES

- Reserve Bank of Australia in its May policy meeting decided to continue with the current policy rates and indicated no change in the policy before the July meeting. It said that at its July meeting, RBA may consider whether to retain the April 2024 bond as the target bond for the 3 year yield target or to shift to the next maturity, the November 2024 bond and also future bond purchases following the completion of the second $100 billion of quantitative easing (QE) purchases. The board said that the global economic recovery is uneven and the bank is committed in maintaining the highly supportive monetary conditions despite its strong view of better than expected recovery in Australia. RBA indicated that it will not increase the cash rate until the inflation is sustainably within 2% to 3% target.
- The Organization for Economic Co-operation and Development (OECD) countries' economic growth slowed in the first quarter of 2021. The real gross domestic product (GDP) of the OECD area grew 0.3% in this Jan-Mar quarter down from 1.0% in the last quarter of 2020. This slowdown is partly related to the strengthening of COVID-19 containment measures in some countries. The GDP in the OECD contracted by 1.9% in the same quarter of last year. Among the major seven economies, Germany, the UK, and Japan registered a sharp decline of 1.7%, 1.5%, and 1.3%, respectively.
- In the monthly report published by the Organization of the Petroleum Exporting Countries (OPEC), it has maintained its earlier oil demand projection reiterating 6.6% or 5.95% million barrel per day (bpd) increase in the current year. The report remained optimistic on the recovery on the oil demand led by the increasing growth prospect in the US and China countering the current rising cases of infection in India. The OPEC has also revised the world economic growth upward from 5.4% it projected last month to 5.5%. The report has lowered the oil demand forecast for the second quarter by 300,00 bpd raising the oil demand in the subsequent quarters. OPEC showed slightly increasing oil output by the OPEC+ nations.
- A survey conducted by the France based credit insurer COFACE said that despite strong recovery in the China's economy, the second biggest economic country will be bedevilled by the serious economic problem because of the increase in the building up of credit risk in particular sectors. The survey was conducted over 600 companies across 13 sectors in China. COFACE expects an increase in bond defaults and insolvencies in 2021, especially among sectors that accumulated higher cash flow risks in 2020 amid a slowdown in credit growth. With China being the only major economy to see GDP growth in 2020, and recent economic data pointing to a steady expansion in the first quarter of 2021, firms are overall optimistic about economic conditions, according to the survey.

OUTLOOK

Gilts:

- Government bond prices are expected to trade with a marginal fall in the first week following the increase in the borrowing by the central government. The volume in the market is expected to remain low as investors might look for fresh cues in the MPC meeting scheduled in the first week of Friday. Investors are betting that the MPC is likely to maintain the status quo in the policy while hoping that it may announce measures including the left GSAP 1.0 amount of Rs 40,000 crore to keep the yield of the 10 year benchmark below 6.0%.
- Market is expected to trade with 10 year benchmark yield close to 6.0% and limited market movement as investors are cautiously taking positions owing to the economic uncertainty following the second wave of COVID-19. Rising global yields because of fear of inflation rising sharply in major economies will keep the domestic yields at elevated levels. Result of the weekly (Friday) G-Sec auction will also govern the market movement. Elevated crude oil prices and increasing risk appetite of the investors will play against the RBI's will of keeping the yields of the securities under check.

Rupee:

- Outlook for the Indian currency remained highly uncertain following the sharp depreciation of the currency in April and then appreciating to become the best performing currency in May. As per the economists currency may depreciate in coming months owing to increase in crude oil prices that may lead to increase in current account deficit. However, investors are keenly watching for the RBI intervention in the forex market after it did not limit the sharp appreciation. Dollar index is expected to remain subdued supporting the Rupee.

Equity Indices:

- Indian equity benchmark indices are expected to remain in green for most of the days following the unlocking of the economies and also domestically states are rolling back the restrictions as the second wave of infection subsided. Globally, equity traders are positive on optimism over the government and central bank support to the market amid vaccination. Upcoming inflation numbers from the major economies will be important as they will give insight on the policy change frequency and will govern the market movement.

Inflation:

- Inflation in the country is expected to remain within the RBI upper limit of 6.0% in coming months mainly because of the base effect and possible ease in the food inflation because of the normal monsoon. Increase in the commodity prices globally will keep the inflation high. The inflation will further get support from the increasing demand with the shortfall in the inventories after the economy reopens. High liquidity into the system and government spending will keep the inflation close to the targeted levels.

Domestic Growth:

- Domestic growth in the current quarter will largely be impacted by the restrictions imposed across the states for countering the second wave of infection. Many of the global firms have already revised down the growth estimate for the current financial year to single digit. There is huge uncertainty regarding the domestic growth and it will substantially depend on the vaccination pace and the infection statistics over the coming months.

US Treasury Yields:

- US Treasury Yields are likely to remain at elevated levels led by the increasing fear of surging inflation numbers and on increasing risk appetite of the investors with the reopening of the economies. Investors are likely speculating that the Federal Reserve may tapper its asset purchase programme sooner than expected to protect the economy from overheating because of the inflation numbers to be picking up in recent months. The yields may find some resistant from the Fed official reiterating terming high inflation as transitory.

Global Growth:

- Global growth is expected to pick up the pace as the economies in the US and Europe started to loosen restrictions with the increasing vaccination. There is heavy demand seen in the commodity market in recent days that is likely to get transfer to the other sectors as the situation normalizes supporting the growth. Government and central banks are also likely to remain tilted towards the growth despite inflation numbers to be soaring across the globe.

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