

Thiagu's Blog- Indian Debt Market Outlook-24 Nov 20

Markets continue to stay concerned about elevated inflation and the large borrowing programme in this financial year besides the evolving dynamics in US treasuries. There is hardly any buying interest despite the liquidity but with RBI clamping upside, the markets remain stuck in narrow range. However, into year end, the yields can once again make an attempt at 6.20 %

There is indeed a section of market opinion that RBI MPC could take note of the changing dynamics in the global front in the upcoming meeting and may even have a rethink on the current strategy- given the fact that their main goal is to safe land borrowing programme, such a course change even in the firm inflation backdrop is highly unlikely

State loan Auction:

States selling Rs.176.78 billion of five-to-30-year bonds today- market pegs eight-year to 10-year cutoffs in 6.47%-6.57% band against 6.49%-6.60% last week's cutoffs.

(10-year benchmark bond yield at 5.90% against 5.88% at the time of last week's state bond sale)

State bond cutoff yields are expected to remain relatively firmer as compared to previous week, as the markets remain worried about excessive supply.

State debt yields should have ideally edged lower, given re-alignment with the new 10-year bond yield, but given the muted reaction in the secondary market and the fact that the RBI has abruptly stopped state debt OMOs, yields may not react.

New 10-year bond:

Markets expect cutoff yield on the new 10-year note to be set in 5.80%-5.84% band, the new 10-year should come six to eight basis points below the prevailing benchmark bond yield, and with yields trading in a flattish manner, the cutoff should be over 5.82 % - 5.84%

RBI to issue Rs. 80 billion of new 10-year bond on Friday, that will replace the existing benchmark note soon. Even though quantum of the new paper is lower and it will have a larger shelf life as compared to the previous two benchmark papers. However, markets may not choose to go very aggressive.