

## **Thiagu's Blog- Indian Debt Market Outlook-02 Dec 20**

Benchmark 5.77% bond maturing in 2030 is at Rs. 98.87, yielding 5.92%, against 98.82 rupees and 5.93%, yesterday. Earlier today, the yield rose to 5.95%, the highest since Oct. 9, tracking overnight gains in U.S. Treasury rates.

The market has priced in a rate pause, and a neutral tone along with a very long pause is likely unless there is a durable decline in inflation and a consistent economic recovery.

Banking system liquidity surplus - that averaged at record high in November - is set to surpass Rs. 6 trillion this week on government's month-end spending, Surplus is constantly receiving a boost and the government's inflows in various schemes are helping. We may see the six-trillion-rupees mark being crossed by Friday.

Since late October, several money market rates, including the weighted average call rate, yields on 91-day and 182-day Treasury bills and rates on short-term debt securities have dropped below the RBI's reverse repo rate.

The commentary at the upcoming MPC is going to be very crucial—what they say about growth and inflation and more importantly liquidity and support for Borrowing programme.

Markets expect RBI to address this fall in money market rates in the upcoming monetary policy meeting which will conclude on Friday.