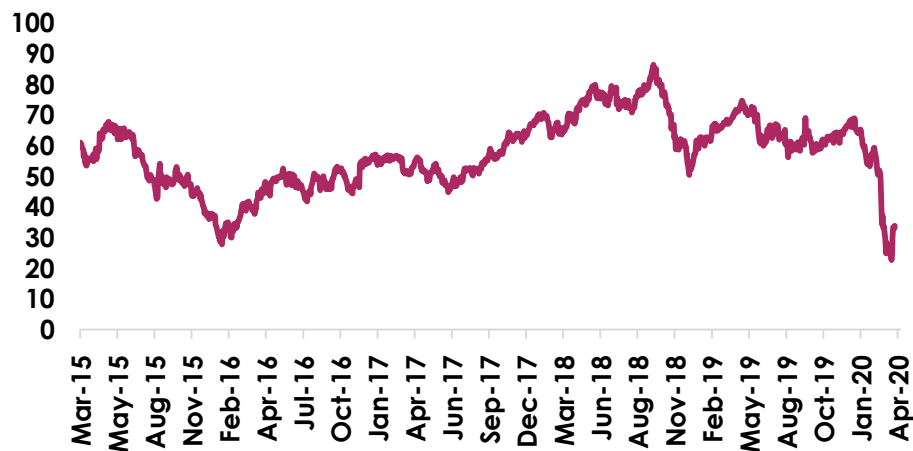


Debt Market Outlook – 7 APR 2020

Crude oil prices witnessed a sharp rally following the news of a deal being worked out amongst the largest producers of crude oil viz., Saudi Arabia and Russia. OPEC plus nations agreed to have a virtual meeting to discuss the possibilities of production cuts and modalities for the same. Chatter of around 10% cut in crude oil production by biggies contingent upon certain conditions like US participation in the overall production cuts is doing rounds. If OPEC plus do arrive at some production cuts, it would augur well for the crude oil prices in the short term though in medium term the prices would be driven by the demand supply mismatch. The pandemic has taken a toll of crude oil demand due to lockdown of countries, travel restrictions and curtailment of air transport. There are estimates of demand destruction to the tune of 20-25 mn bpd; the proposed production cut would delay the time for which the global inventories would overflow, but as long as the pandemic continues to keep a few billion people on lockdown, the oil surplus would prevail. Hence all eyes would be on how the pandemic is tamed and in the process, how long does the lockdown continue for various countries esp. the US, European and Asian nations. In the near term, we expect the 10 year GSec yields to trend between 6.4-6.55% if the OPEC plus nations meet and arrive at production cuts; if they fail to arrive at production cuts, the yields are likely to dive down towards 6.3%.

Exhibit 1: Brent Crude (USD/bbl)



In an important development, RBI notified opening up of five government securities that would be eligible for investment under fully automatic route (FAR) for non residents without any investment limit. Removal of limits in the above securities might bring in more than USD 20 bn of index tracking FPI inflows. The fully automatic route announcement is the first step to inclusion in global EM bond indices, such as the GBI EM and the Bloomberg Barclays local currency EM government bond index. RBI also increased FPI investment limit in corporate bonds to 15% of the outstanding stock for FY21 from the 9% limit earlier. Opening up of limits for FPIs would enable higher inflows in long term.

Source: Reuters

- ☞ India's GST collections for the month of Mar.'20 were reported at Rs 97597 cr compared to Rs 1.05 lakh cr in Feb.'20. Drop in GST collection along with measures to fight the economic dislocation due to the lockdown viz., increased WMA limit by 30% for all states and union territories until September 30, and increased the time for realization and repatriation of export proceeds (for exports made up to or on 31 July, 2020) to 15 months from the existing 9 months are likely to incur pressure on the fisc in days ahead, which would push the 10 year GSec yields.
- ☞ Govt also notified fresh supply of 10 year GSec viz., 6.45% GS2029 for Rs 10,000 cr along with supply of paper worth Rs 3000 cr for New GS 2022 and worth Rs 6000 cr for New GS 2060, all totaling into issue of Rs 19000 cr worth of new paper scheduled on Apr. 9, 2020 and a greenshoe option of Rs 2000 cr each against any one or more of the above security. Issuance of fresh paper for 10 year GSec would also slightly push the yields ahead of the issuance.

Name/ Type of Securities	Amount (Rs. Cr.)	Auction Date
Auction of State Govt. Securities	37,500	Apr. 07, 2020
91 day T Bill	10,000	Apr. 08, 2020
182 day T Bill	8,000	Apr. 08, 2020
364 day T Bill	7,000	Apr. 08, 2020

Source: RBI

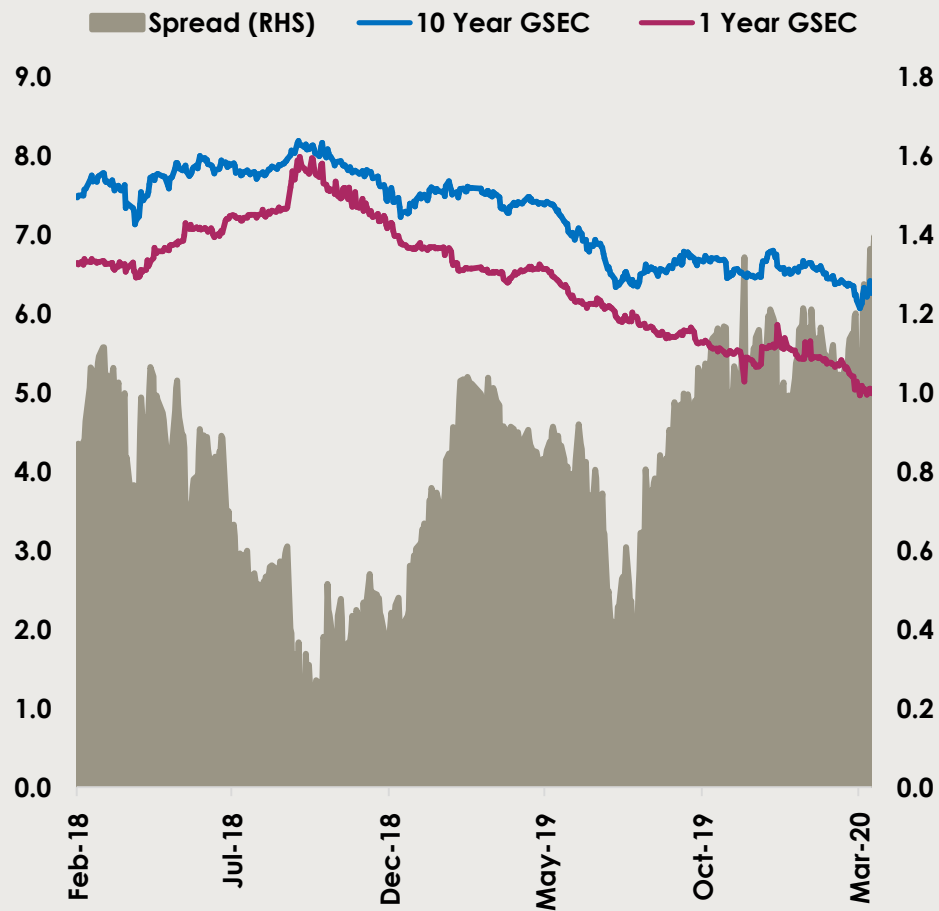
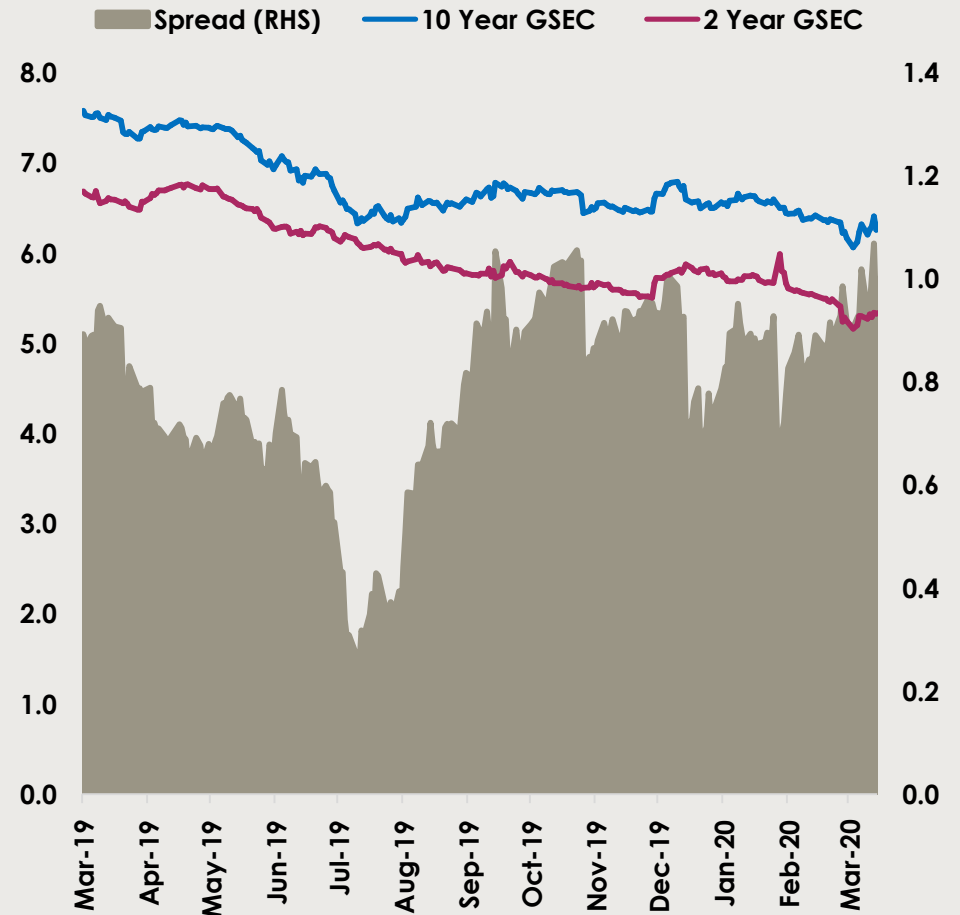
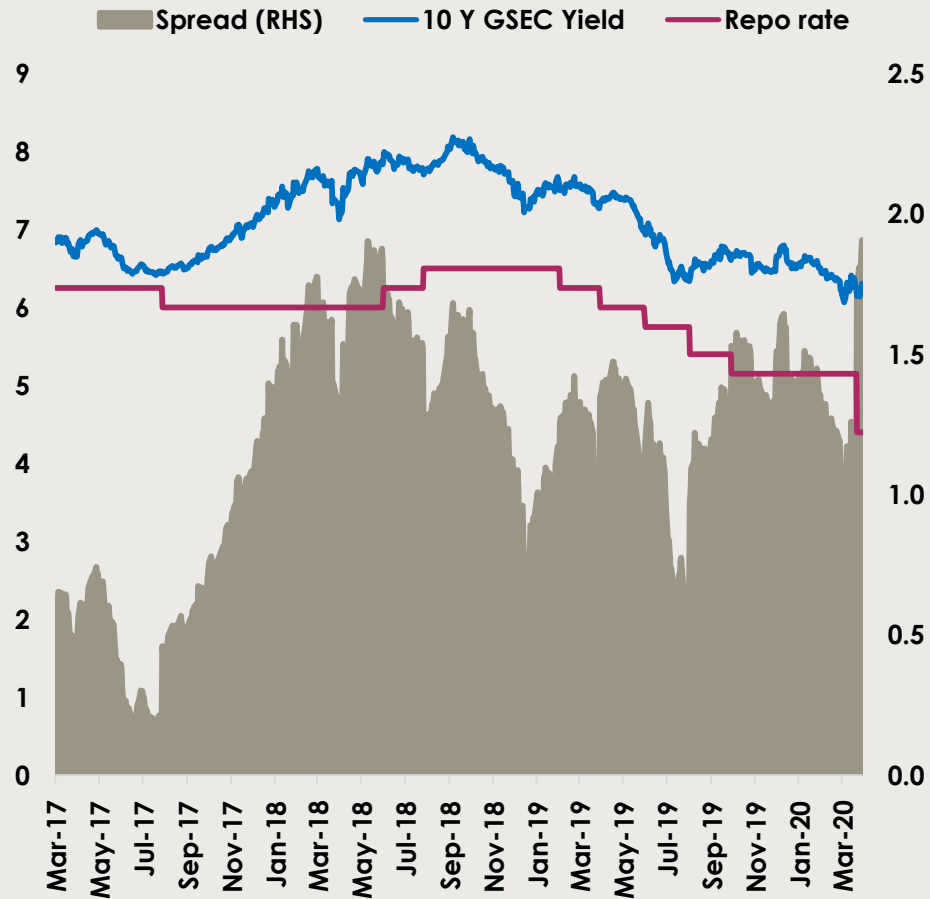
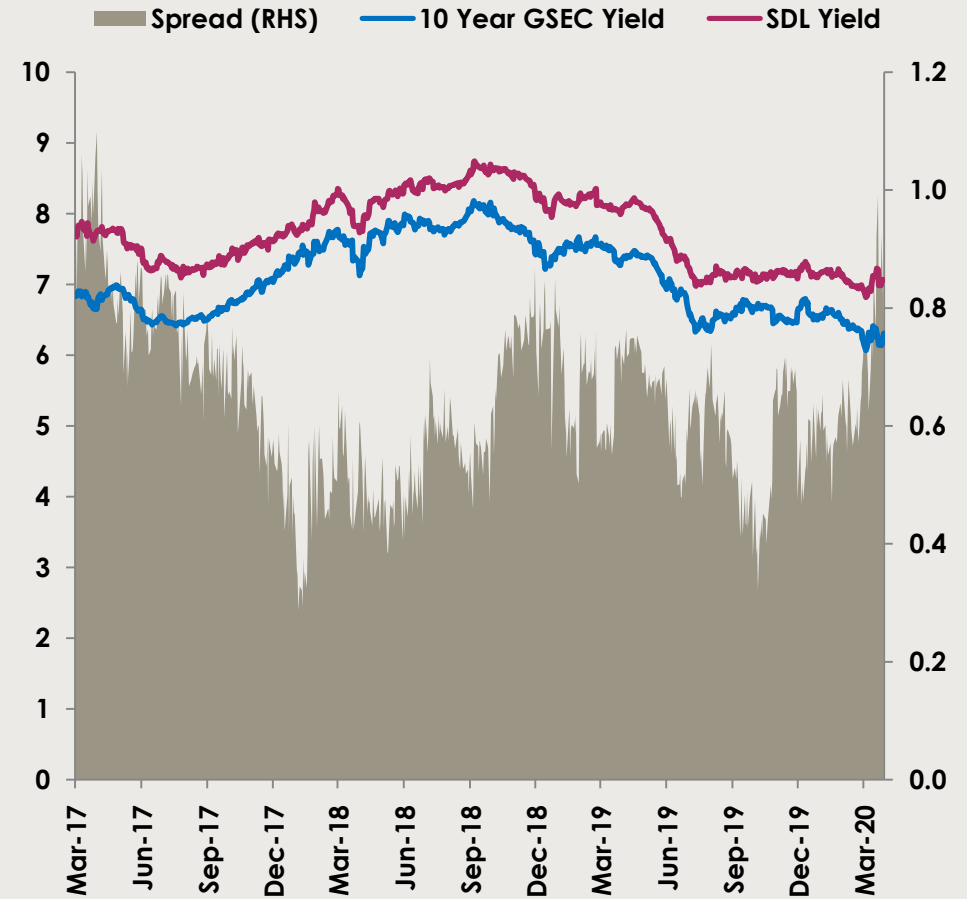
Exhibit 1: Term spreads (10/1 Year GSEC)

Exhibit 2: Term spreads (10/2 Year GSEC)


Exhibit 3: G-Sec & Repo rate spread

Exhibit 4: SDL -10 Y GSec


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