

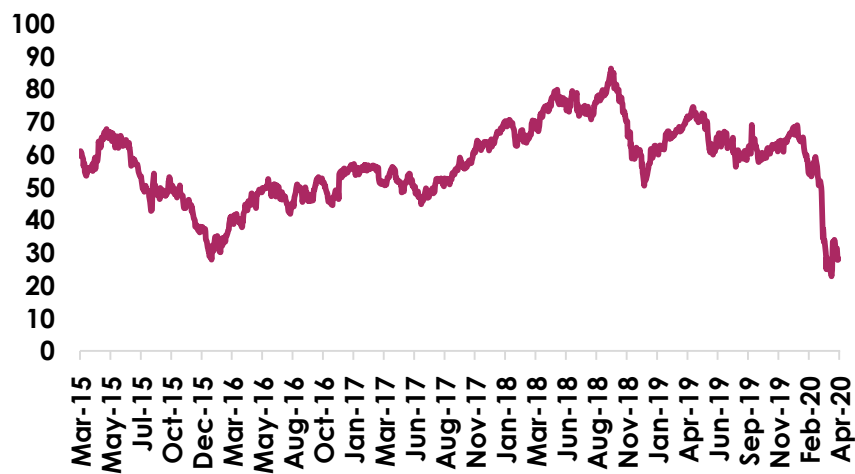
# Debt Market Outlook – 20 APR 2020

## RBI delivers a stealth rate cut...

In an emergency move to support the economy from the deleterious impact of unprecedented lockdown taken to protect the spread of COVID-19, the RBI announced a reverse repo cut of 25 bps last Friday Apr. 17 taking the reverse repo rate to 3.75%. In its endeavour to ensure transmission of policy rate cuts, the reverse repo rate has now been made as operative rate, thereby effecting a stealth rate cut following the sharp 75 bps repo rate cut taken in late March 2020. The move increases the spread between the repo rate (4.40%) and reverse repo to 65 bps thereby disincentivizing the banks to park the extra liquidity with the central bank and supporting the corporate sector's borrowing needs at lower cost. Further, the RBI has enhanced state governments' WMA limit by 60% to provide additional liquidity to states to meet increased expenditures to fight the pandemic crisis thereby pacifying the concerns related to likely increase in bond supply issues from the state government. All these measures weighed down on the 10 year GSec yields. Another development that pushed the yields down are the unexpected surge in bids for weekly GSec primary auction (Apr. 17) along with intervention in secondary markets (in week ended Apr. 10) corroborating chatter of central bank's participation in primary auctions for GSec market, thus weighing in on the yields.

Oil prices have witnessed a sharp correction despite the agreement for production cuts reached amongst the OPEC plus nations. The production cuts (taken to backstop oil prices) have not been able to offset the demand destruction caused due to the pandemic and its spread; the oil storage facilities across the globe is full till brim and extension of lockdowns in various economies due to continuous overhang of the epidemic spread is keeping the demand dry. In our report last week, we had mentioned that the 10 year GSec yields would be moving in the direction of the oil prices, lower oil prices would push the yields low in the short term- 20% correction in oil prices has led to drop of 10 year GSec by around 15 bps today Monday Apr. 20, 2020. Fears of epidemic spread are gathering grounds as the US tops the list of deaths due to coronavirus and the curve refuses to flatten out which raises the probability of continuation of lockdown at least in the short term. Low oil prices are likely to push the oil exporting nations into cheating to meet their budget requirement thereby flooding the surplus oil market. We expect the 10 year GSec yields to follow the direction of oil prices in the very short run.

**Exhibit 1: Brent Crude (USD/bbl)**



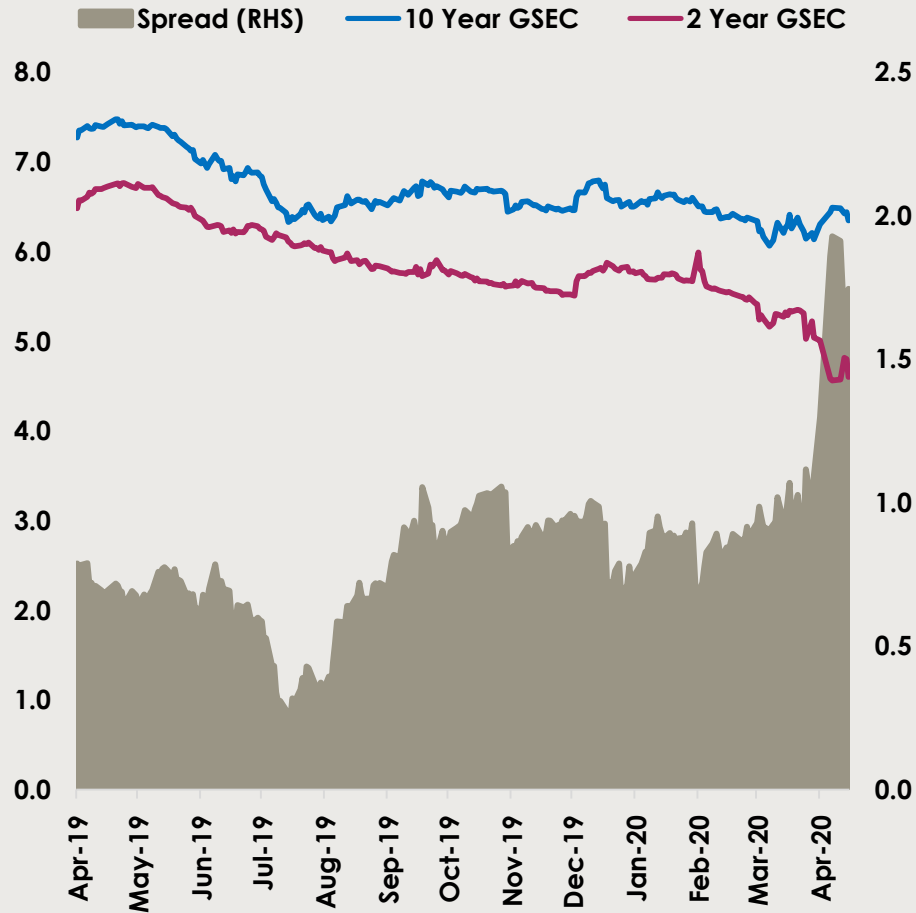
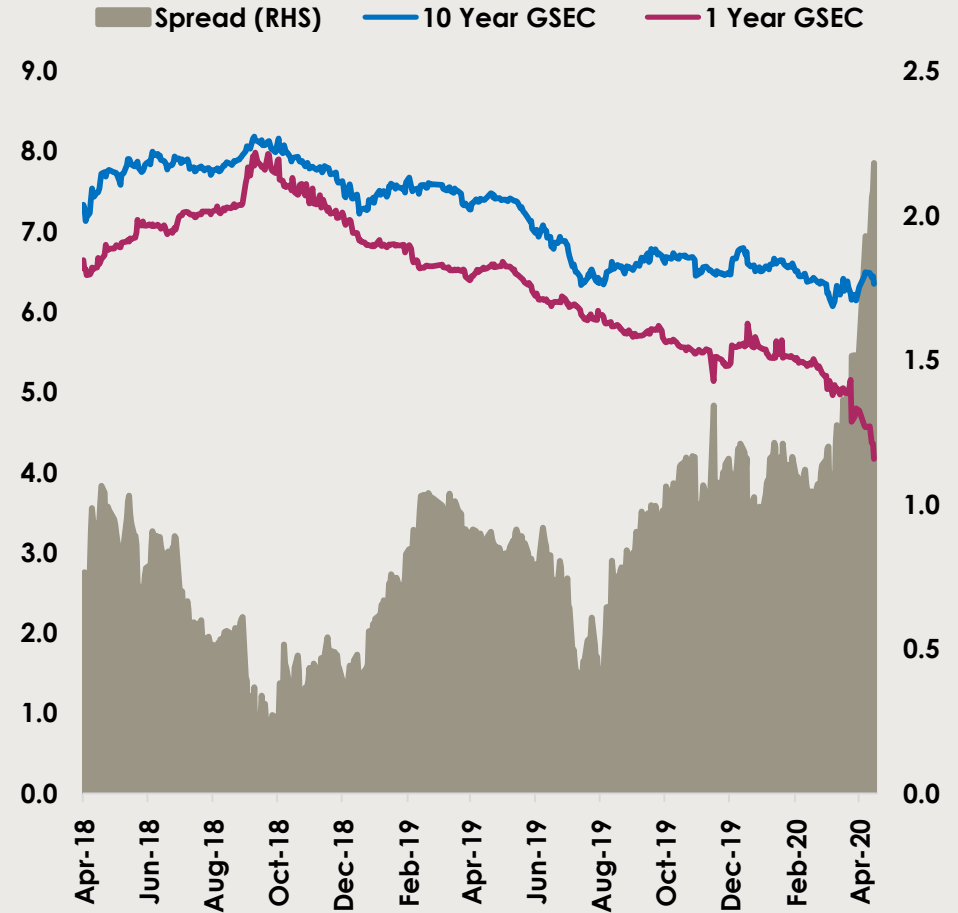
Source: Reuters



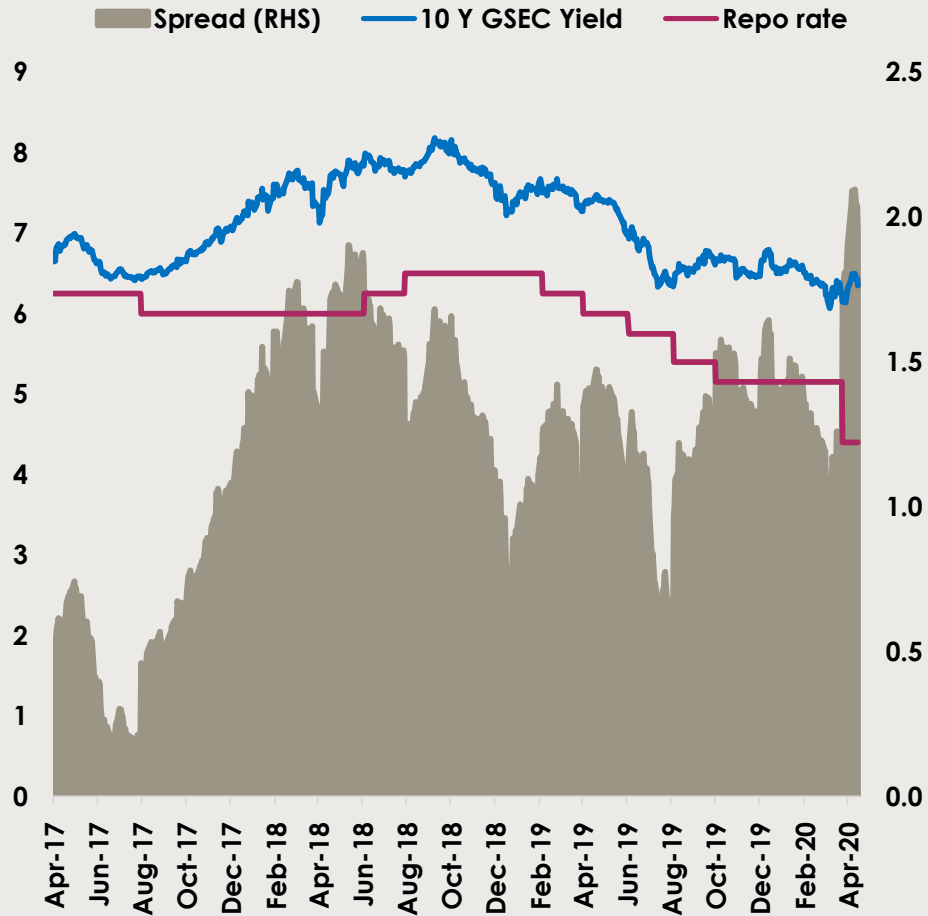
Debt market participants have been jittery about a potential second round of fiscal stimulus as it might lead to extra market borrowing although the weekly auction cut-offs were better than expected for 5-yr paper while other securities were on expected lines. We expect the 10 year GSec to be range bound (between 6.1-6.25%) in the short run given the counteracting forces acting but eventually are likely to move northwards towards 6.5%.

<b>Name/ Type of Securities</b>	<b>Amount (Rs. Cr.)</b>	<b>Auction Date</b>
<b>Auction of State Govt. Securities</b>	7,567	Apr. 21, 2020
<b>91 day T Bill</b>	15,000	Apr. 21, 2020
<b>182 day T Bill</b>	16,000	Apr. 21, 2020
<b>364 day T Bill</b>	14,000	Apr. 21, 2020

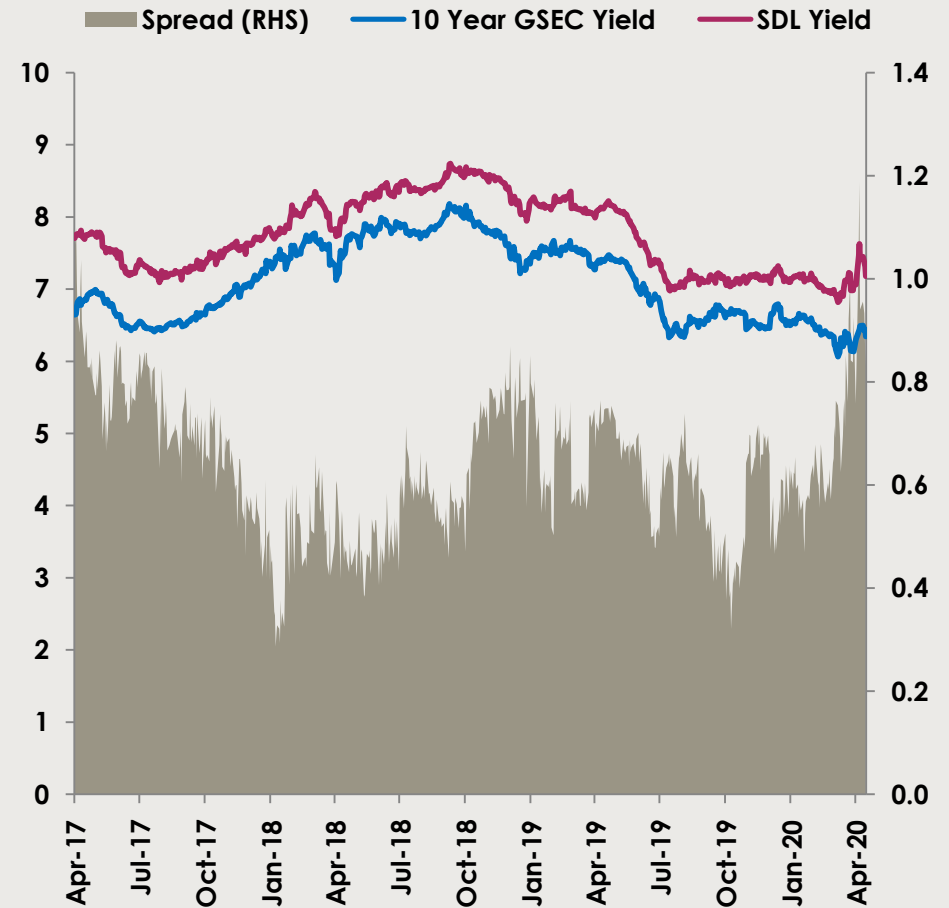
Source: RBI

**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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