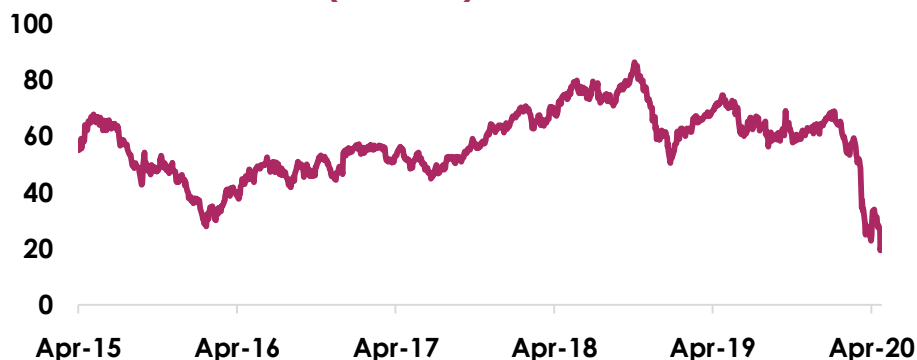


Debt Market Outlook – 27 APR 2020

👉 RBI announced another round of operation twist, last Thursday April 23, 2020 to be conducted on Apr. 27, 2020 which would involve selling short term securities viz., T Bills and Cash Management Bills (CMBs) and buying of long dated securities with no notified amount for either of the securities took the market by surprise leading to sharp rally in the 10 year GSec paper. RBI offered to accept 7.59% 2026, 7.17% 2028, 7.26% 2029 and 7.61% 2030 papers totaling Rs 10000 cr (without any security wise allotment), and put 182-day and 364-day dated T-bills and 77-day and 84-day CMBs worth Rs 100000 cr. for sale. The swap of short term paper with long duration securities pushed the yields down to near 6.06% last week and recovered thereafter. In addition, RBI (on behalf of Gol) would auctions securities worth Rs 19,000 cr by sale (re-issue) of three dated securities viz., 6.18% 2024 (Rs 9000 cr.), 7.57% 2033 (Rs 4000 cr.) and 7.16% 2050 (Rs. 6000 cr.); the auction would be conducted on Apr. 30, 2020. We expect the 10 year GSec yield to move northwards as the revenue side of the Government's P&L for FY21 is challenged in wake of lockdown for the first month of the year and no signs of opening up of the economy till now. If the lockdown gets extended till the later part of month of May 2020, it would have further pressure on the tax collections for the month of May. Moreover, all eyes would be on the stimulus package to ensure continuity of businesses, and prevent job losses. Though a part of the stimulus would be funded through the savings due to crude oil corrections, it would have a sizable dent on the balance sheet of the country, thereby pushing the yields northwards. In the short term, we expect the yields to be trending towards 6.3%.

Exhibit 1: Brent Crude (USD/bbl)



Source: Reuters

👉 Crude oil prices are expected to trade weak given the supply demand mismatch and near full storage capacity. Crude oil Producer nations may not be slashing output quickly or deeply enough to buoy prices, especially when global economic output is expected to contract by 2% this year, worse than the financial crisis. Rig counts in the United States are down to the lowest since July 2016, while the total number of oil and gas rigs in Canada has fallen to the lowest since at least 2000, according to Baker Hughes data.

👉 Last week witnessed winding up of 6 credit risk funds by one of the prominent fund houses leading to volatility driven risk aversion in the domestic debt market. RBI has extended a special liquidity facility to the tune of Rs 50,000 cr to the MF industry to ensure smooth redemption if they occur thereby preventing contagion effects therefrom. So far the stress remains limited to the high risk debt MF segment, and the MF industry at large remains liquid. Under the SLF-MF, the RBI shall conduct repo operations of 90 days tenor at the fixed repo rate. The scheme is available from April 27, 2020 till May 11, 2020 or up to utilization of the allocated amount, whichever is earlier. The Reserve Bank will review the timeline and amount, depending upon market conditions.

Name/ Type of Securities	Amount (Rs. Cr.)	Auction Date
Auction of State Govt. Securities	7,000	Apr. 28, 2020
91 day T Bill	15,000	Apr. 29, 2020
182 day T Bill	16,000	Apr. 29, 2020
364 day T Bill	14,000	Apr. 29, 2020

Source: RBI

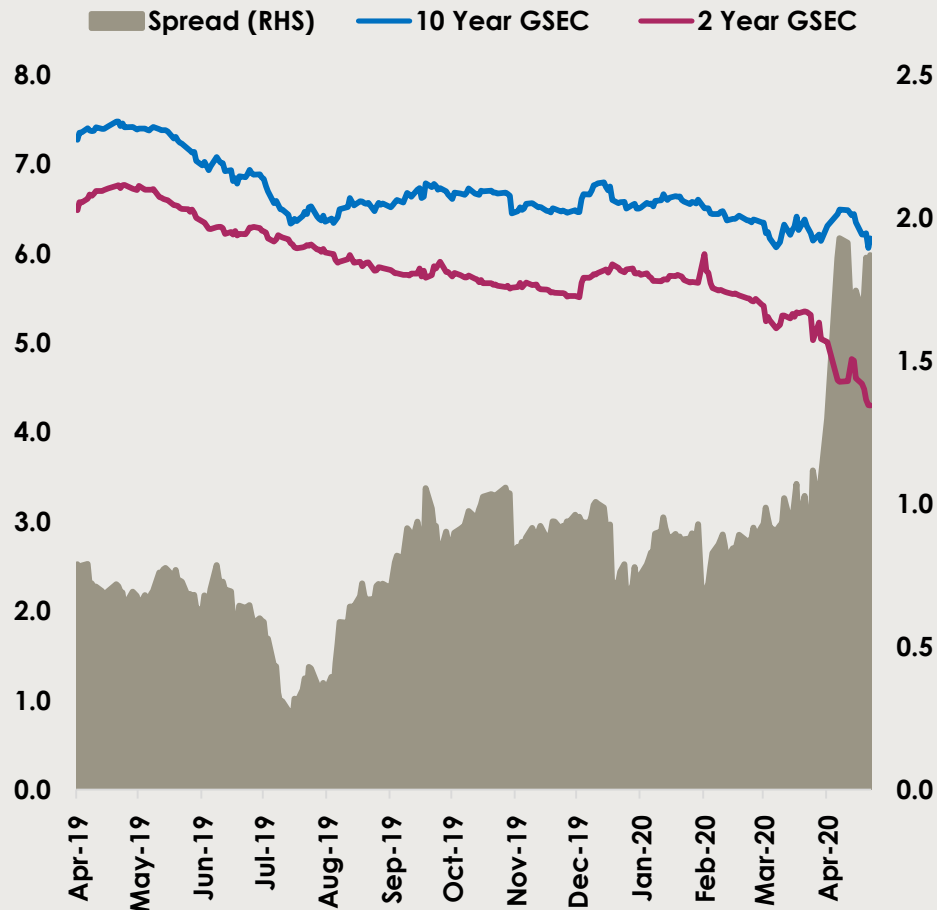
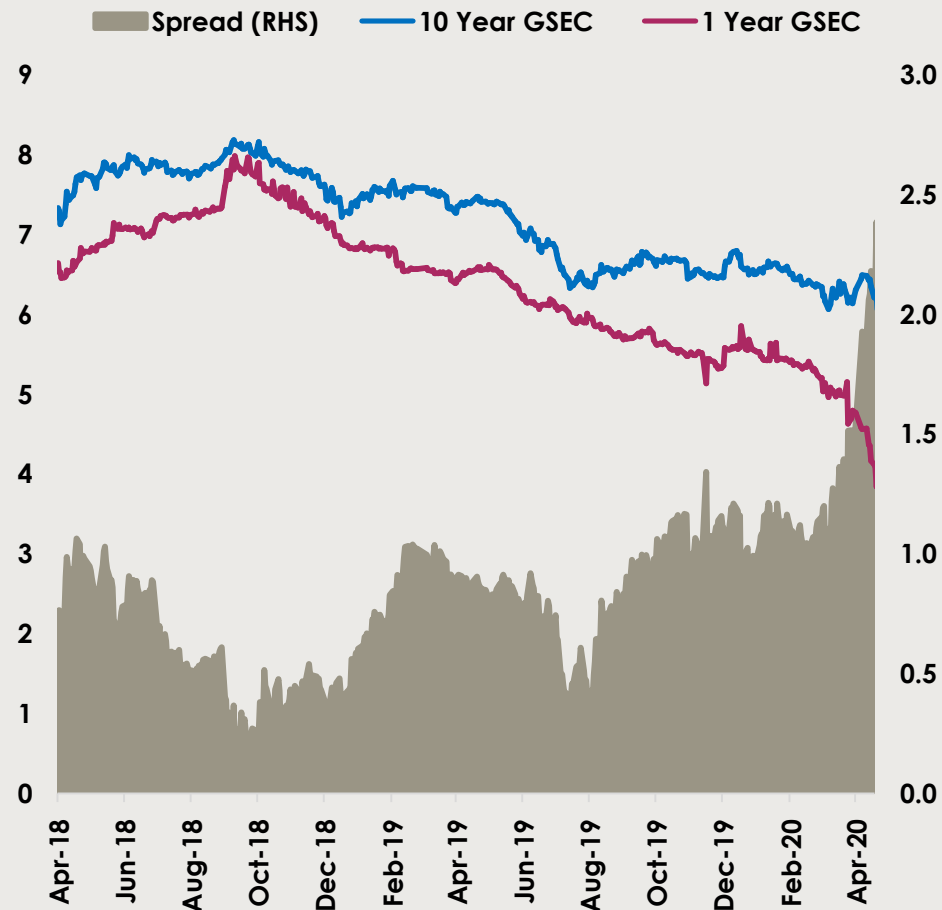
Exhibit 1: Term spreads (10/1 Year GSEC)

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


Exhibit 3: G-Sec & Repo rate spread

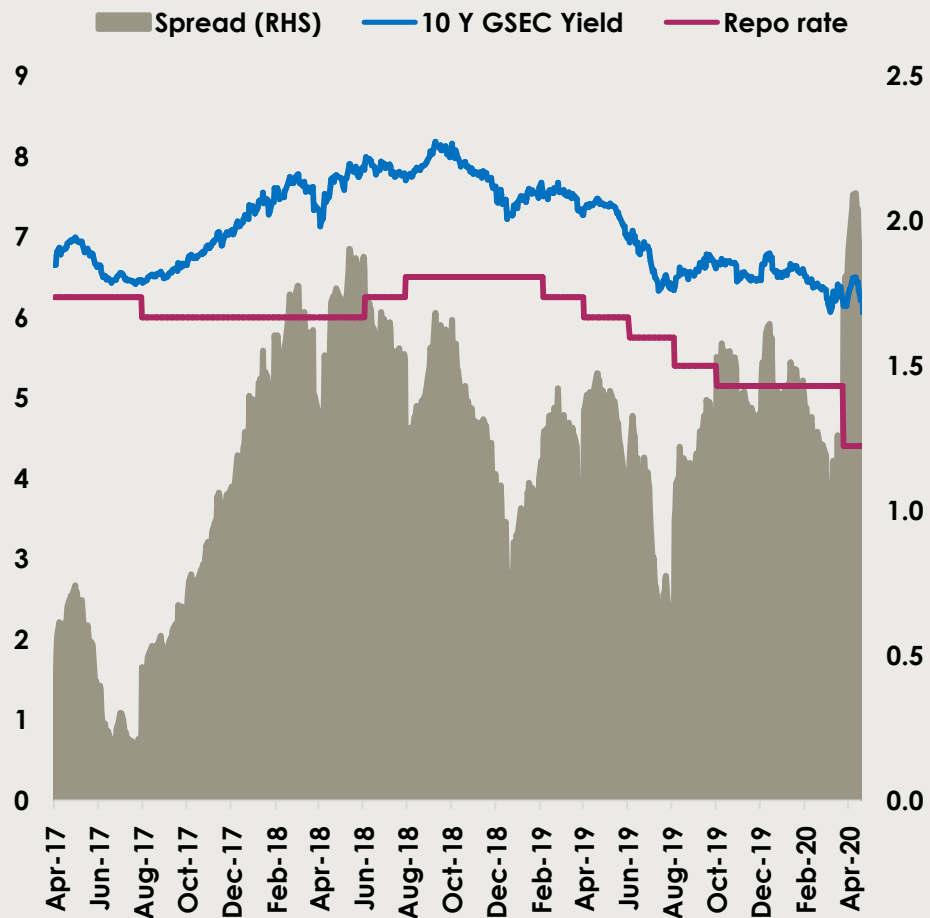
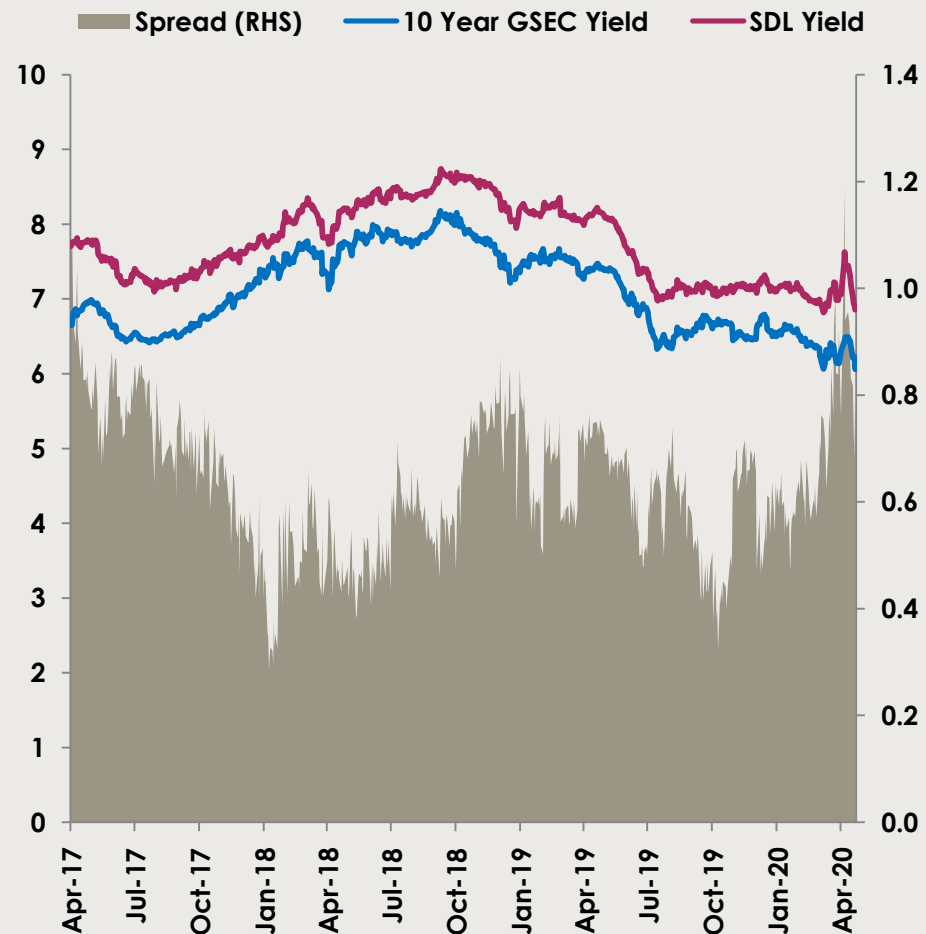


Exhibit 4: SDL - 10 Y GSec



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