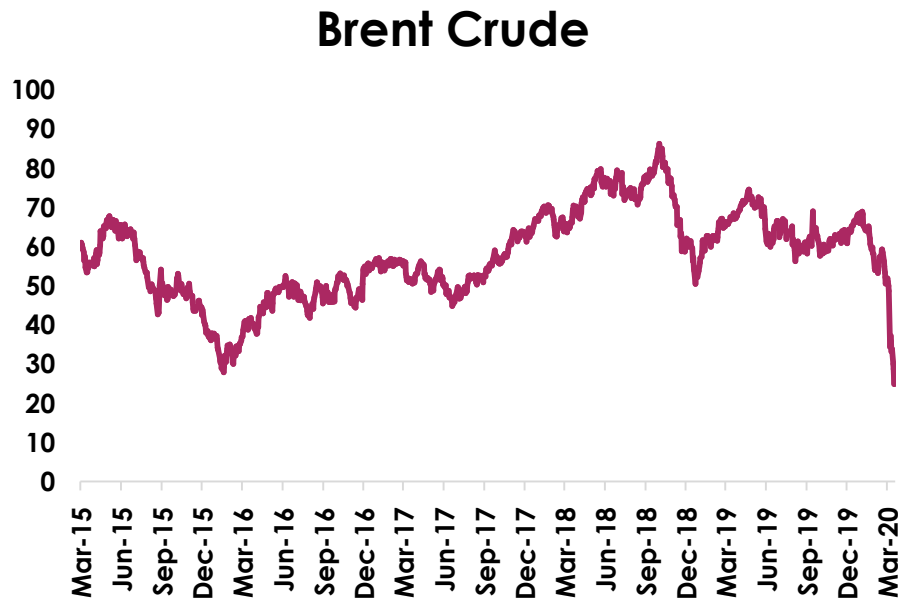


Debt Market Outlook – 30 MAR 2019

In its endeavour to contain the stress originating from the lockdown taken to prevent the spread of COVID-19 epidemic on the economy, RBI MPC slashed the policy rates, repo rate has been sharply reduced by 75 bps to 4.40% and reverse repo rate to 4% (90 bps cut). Policy rate cuts by domestic central bank along with a slew of measures to support liquidity in the markets and the risk aversion globally following rise in COVID cases have been driving down the flight to safety towards sovereigns. The 10 year GSec yields closed at 6.14% on Friday Mar. 27, 2020 closing.

Exhibit 1: Brent Crude (USD/bbl)



Source: Reuters

The standoff between Saudi Arabia and Russia continues amid the drop in crude oil prices as countries go into lockdown and air traffic is suspended thus hitting economic activities and fuel demand. Crude prices are trading below \$30/bbl, thus impacting US Shale producers who were largest oil producers couple of months back. Breakeven prices for U.S. shale basins range between \$39 and \$48 a barrel; the bigger the size of firm, more room it has to cut costs. Efficiency gains aside, the breakeven prices have fallen due to cut in operating costs; there is certainly more room for efficiency improvement thanks to technological advances. One needs to keep a close eye on how long the shale gas producers keep on pumping crude oil in the wake of sharp drop in prices; large scale closure in shale oil producers would cause a rebound in oil prices which would restrict the gains India has on its import bills due to low oil prices and further support the rise in 10 year GSec yields.

Earlier the Finance Minister Ms Sitharaman announced Rs 1.7 lakh cr. (0.8% of GDP) package under Garib Kalyan Yojana intended to benefit unorganized sector workers, especially daily wage workers. These measures are focused broadly on cash transfers and food security to alleviate the stress on the poor and those whose livelihood is at immediate risk in the current 21-day national lockdown. The relief package is expected to have an additional burden of approx. Rs 77,000 cr on the fisc as not all the spending are new. Further the government is not expected to limit itself to the relief package but some measures to stimulate the economy are also expected in the near future thereby intending to reduce the disruptions due to measures taken for restricting the pandemic. Additional measures, if any, along with the current burden is likely to weigh on the fiscal deficit planned for FY21 thereby leading to increase in borrowings for the government, though a part of the same can be funded through the savings on account of sharp drop in crude oil prices if the latter remains at low levels for long in the rest of the financial year. Taking cues from the expected bloating up of the fiscal deficit, we expect the 10 year GSec yields to climb towards 6.5% in the near term.

Name/ Type of Securities	Amount (Rs. Cr.)	Auction Date
Auction of State Govt. Securities	25,757.97	Mar. 30, 2020
91 day T Bill	5,000	Mar. 30, 2020
182 day T Bill	10,000	Mar. 30, 2020
364 day T Bill	10,000	Mar. 30, 2020

Source: RBI

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

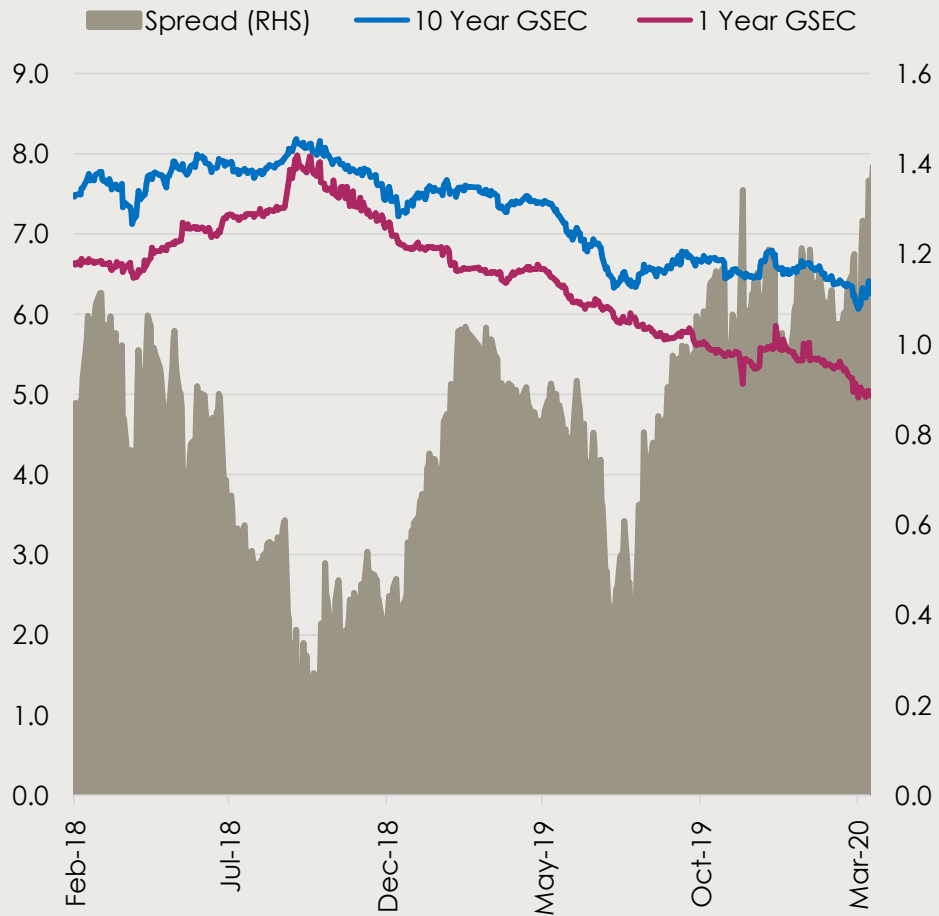


Exhibit 2: Term spreads (10/2 Year GSEC)

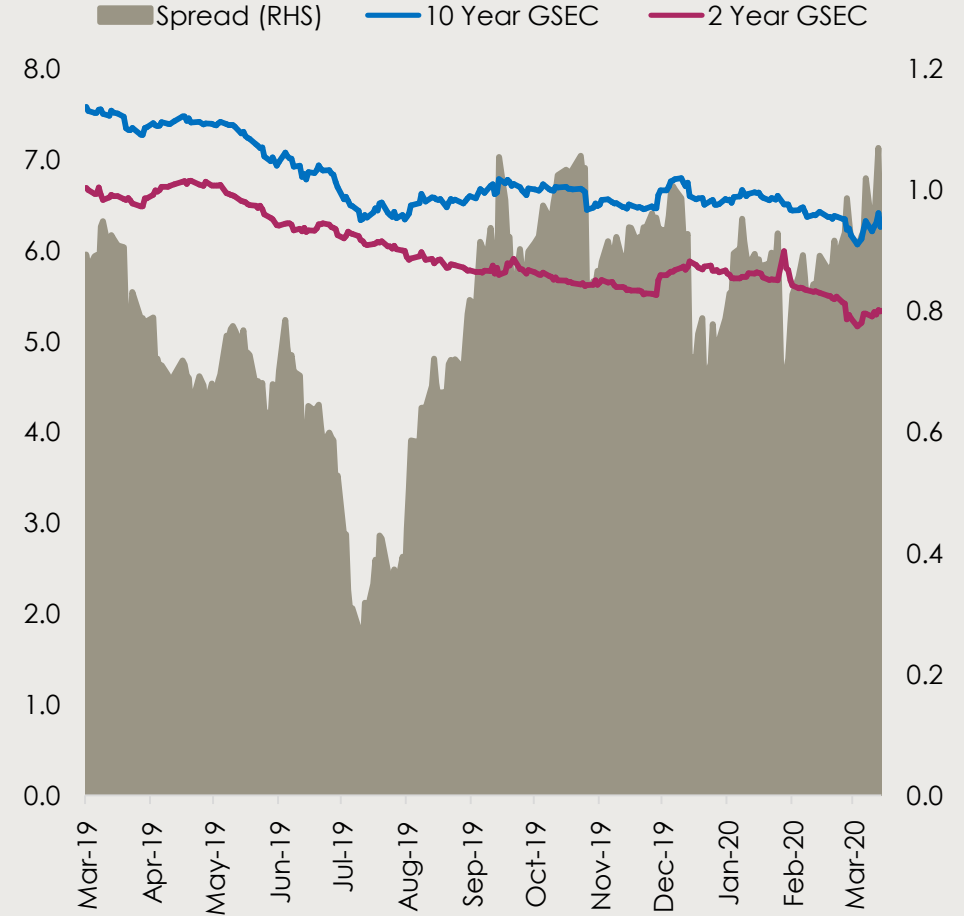


Exhibit 3: G-Sec & Repo rate spread

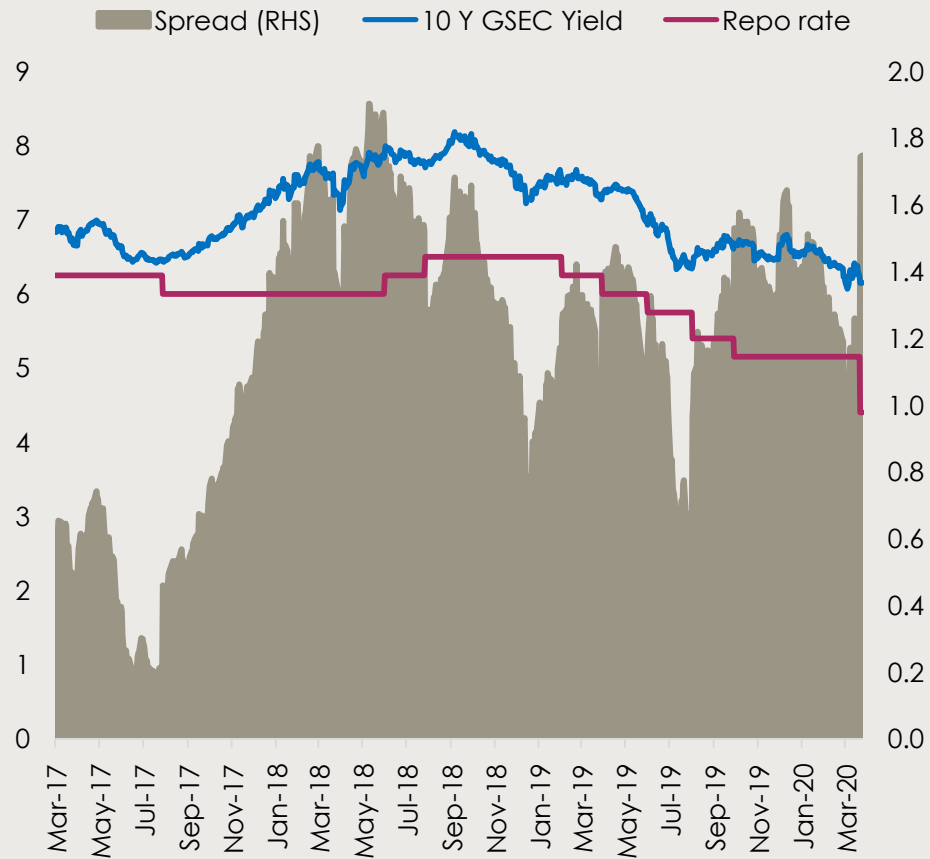
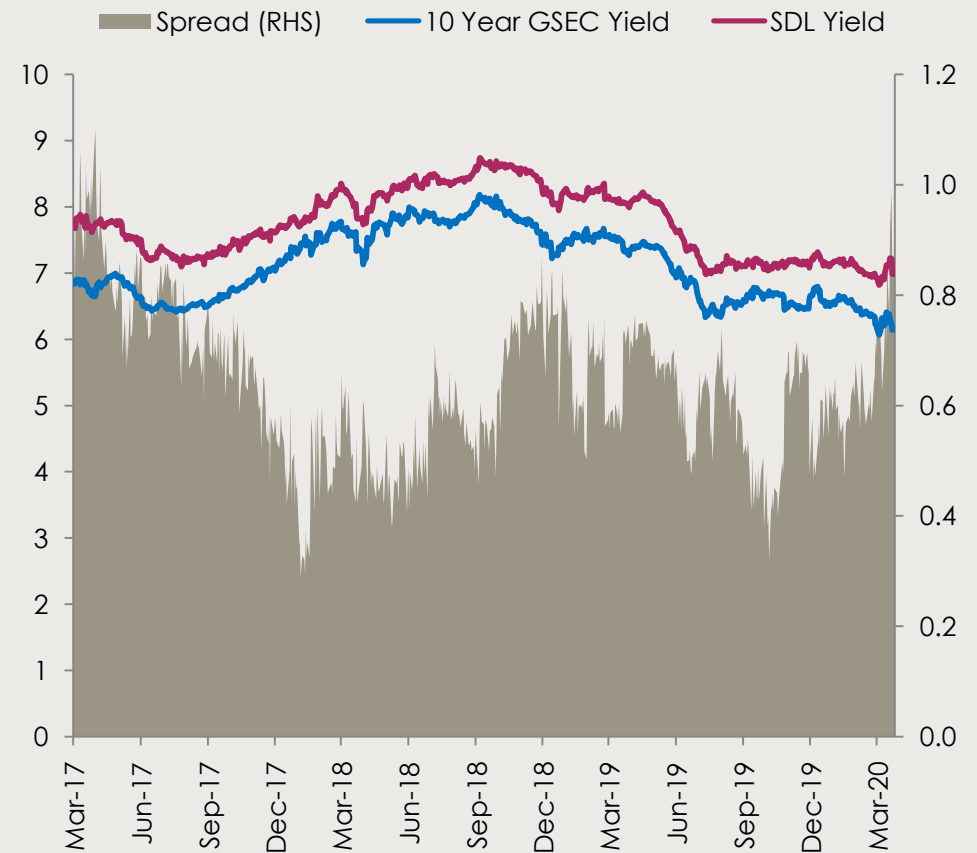


Exhibit 4: SDL - 10 Y GSec



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