

Debt Market Review



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Market Review

- The month of April was marked by slew of measures from the Government to fight the pandemic. However the month was challenging especially for Mutual fund industry with a rather bold step taken by one of the fund house to close down six of its debt schemes and its repercussions on the entire industry thereafter. This resulted in sharp redemption and outflow of funds especially in the credit funds across MF industry. Meanwhile RBI came with yet another strong step to ensure liquidity.
- The RBI opened a special 90-day liquidity facility for mutual funds (SLF-MF) to ease any liquidity stress. Banks meeting the liquidity requirements of MFs by (1) extending loans, and (2) undertaking outright purchase of and/or repos against the collateral of investment grade corporate bonds, CPs, debentures and CDs held by MFs will be eligible to claim all the regulatory benefits available under SLF-MF scheme even without availing back to back funding from the Reserve Bank under the SLF-MF. Liquidity support provided would be eligible to be classified as HTM even in excess of 25% of total investment permitted to be included in the HTM portfolio.
- Prior to the LTRO for mutual funds, RBI announced another 50000 crs of targeted LTRO for investment grade papers. 50 percent of this amount must go to Mid-sized NBFCs and MFIs and the Investment has to be made within one month. There was also a special refinancing facility for NABARD, SIDBI and NHB for 50000 crores and WMA (overdraft facility for banks) of states increased to 60 percent from 30 percent. RBI also reduced Reverse Repo rate from 4% to 3.75% to ensure banks buy securities from the market or lend to corporates instead of parking in Reverse Repos.
- On the pandemic front, cases continue to rise but so does the recovery rate. Indian governments, both central and state, have been proactive in addressing the crisis and remains cautious. Thus government went for yet another extension of the lock down further by 2 weeks till 17th May. As per WHO website, 30,90,445 cases were confirmed globally as on April 30, including over 1 million cases in US alone. Death toll as on date stands at 217769 globally including 52438 in US alone.
- The pandemic continues to have a dent of economic growth and government finances worldwide. The month long shutdown of most economic activity in India has created new roadblocks, causing severe disruptive impact on both demand and supply side elements across sectors. As per a study conducted by Confederation of India Industries, Indian Inc could take over one year to recover from the crisis.
- In other major developments across the markets, the month of April marked an historic moment when Oil prices for May futures turned negative. It is first time in the history that oil prices went below zero. Oil spot prices continues to feel the pressure and trade around \$25 per barrel poised by poor demand, uninterrupted production and lack of storage capacity resulting in glut of the decades. March CPI inflation moderated to 5.91% as against 6.58% in February amid favourable base effects and falling momentum.
- The softening was led by lower food inflation of 8.8%. Even though economic activity remains weak, core inflation rose marginally to 4% (3.9% in February) primarily due to higher inflation in the personal care segment (8.8% from 6.9%) probably led by higher gold prices. March CPI inflation moderated to the lowest level in four months owing to softer food prices, but remains above the RBI's comfort zone of 4%.

Outlook

- RBI and the Government continues to assure the public as well as market participants that it would take all possible steps necessary to revive the economy that has taken a huge hit due to the ongoing crises. The slew of measures taken by RBI is an indication of the same and we believe in future also RBI and Government will come out with some other measures to avoid disruption in the financial markets.
- The Indian Meteorological Department (IMD) forecasts the southwest monsoon at 100% of Long Period Average (LPA) with a model error of (+/-)5%. Probability of a normal monsoon are skewed on the upside, the IMD has ascribed 9% probability of excess rainfall, 21% probability of above-normal monsoon, 41% probability of normal monsoon, 20% probability of below-normal monsoon, and 9% probability of deficient monsoon in Fy2021.
- The Fed kept the rates unchanged while it pledged to continue to purchase Treasury securities and agency residential and commercial mortgage-backed securities. It believes that the ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.

Statutory Details Sponsor: Life Insurance Corporation of India.

Investment manager: LIC Mutual Fund Asset Management Ltd. CIN: U67190MH1994PLC077858

For further details, please refer to the Scheme Information Document, Statement of Additional Information & Key Information Memorandum cum Application forms, available on our website www.licmf.com and at the official points of acceptance of LIC Mutual Fund Asset Management Ltd.

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