

## Debt Market Review



**Mr. Marzban Irani, CIO - Fixed Income**

### Market Review

- Right from the time lockdown was imposed across the country, it was evident that the actual impact would be reflected in the 1st quarter and our fears came true when the GDP growth rate numbers were announced for Q1. Real GVA growth in 1QFY21 was (-)22.8% while real GDP growth was at (-)23.9% (much lower than our estimate of consensus at (-)18.8% and (-)18%). GVA contraction was mostly driven by (1) manufacturing, (2) construction, (3) trade, hotel, transport, and communication segments which grew by (-)39.3%, (-)50.3%, and (-)47% respectively.

- As expected, the positive growths were registered by agriculture and allied sector at 3.4%. However, public administration, defense, and other services segment growth at (-)10.3% was a surprise. The sector specific credit growth trend in Jul'20 presents a mixed bag. In line with the emphasis of the government, credit conditions have improved for agriculture and infrastructure (particularly power and roads). Some of the most pandemic-impacted sectors such as auto and hospitality also registered improvements.

- In contrast, YTD incremental credit remains negative and credit growth is negative for MSME. While credit to NBFCs was high in FY20 (leading to high y/y growth), in YTD incremental terms, the flows have turned negative in FY21. Risk aversion continues to be the focus of credit extension by banks. Activity levels have been improving post June 2020, on an aggregate basis they remain well below pre-Covid levels. India's services PMI jumped to 41.8 in Aug'20, from 34.2 in Jul'20. After the four-month pandemic-induced plunge, in Aug'20 India's manufacturing PMI returned to the expansionary zone. Globally, India recorded the best turnaround in manufacturing activities during Aug'20 vs. Jul'20. Manufacturing PMI (IHS Markit, seasonally adjusted (SA)) for India rose from 46 in Jul'20 to 52 in Aug'20. This ends four successive months of a below-50 PMI (manufacturing) score (during Apr-Jul'20).

- Post the last bi monthly monetary policy, where RBI kept status quo highlighting inflationary pressures, financial markets saw yields hardening and in the longer duration levels went as high as were seen in march. So In order to ease the financial market disruptions, RBI has announced measures attempting to diffuse the hawkishness. RBI comes to rescue with Operation Twist, LTRO, HTM limit relaxation. The RBI announced simultaneous purchase and sale of government securities under Open Market Operation (OMO) for an aggregate amount of Rs200 bn in two tranches of Rs100 bn each. In the first tranche, the RBI sold 182-day T-bills and bought securities maturing in 2024, 2027, 2030 and 2032. Further in the last week of August, RBI once again announced 2 more Operation Twist for 10th and 17th September aggregating INR 200 Bn. It also announced a term Repo of 56 days of INR 1 trillion to take care possible liquidity squeeze due to Advance tax and festival season in the coming 2 months. This was a booster for the debt markets as RBI gave an indirect message that they aren't comfortable with any kind of hawkishness and hardening of yields, at least as long as the Covid scare exist.

- CPI inflation continued its upward trend in the month of July. July CPI inflation was at 6.93% against 6.23% in June. The increase was led by higher food inflation of 9.6% (8.7% in June) fueled mostly by vegetables (11.3% yoy and 14% mom). Core inflation increased to 5.4% (5.1% in June) owing to higher inflation in personal care segment (13.6%) and transport and communication segment (10%). In another development, spatial distribution of monsoon has been normal across most parts of India though parts of North and West India have been deficient. Till August 26, cumulative rainfall was 7.8% above long-term average (LTA).

### Outlook

- MPC members turned more hawkish than expected owing to concerns about inflation, despite acknowledging the need to support growth. With MPC highlighting the risk of inflation becoming further generalized and persistent, the probability of additional rate easing in the December policy has diminished. The RBI MPC minutes highlighted that concerns on inflation prompted the MPC to keep the repo rate unchanged even as growth remained considerably weak. However recent actions of the RBI with respect to OT and OMOs indicate RBI is not comfortable with yields hardening and would come out with measures to ease off the same, as and when required.

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](http://www.licmf.com) and at the official points of acceptance of LIC Mutual Fund Asset Management Ltd.

**Disclaimer:** The views expressed herein are based on internal data, publicly available information and other sources believed to be reliable. Any calculations made are approximations, meant as guidelines only, which you must confirm before relying on them. The information contained in this document is for general purposes only. The document is given in summary form and does not purport to be complete. The document does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. The information / data herein alone are not sufficient and should not be used for the development or implementation of an investment strategy. The statements contained herein are based on our current views and involve known and unknown risk and uncertainties that could cause actual results, performance or event to differ materially from those expressed or implied in such statements. Past performance may or may not be sustained in the future. LIC Mutual Fund Asset Management Ltd. / LIC Mutual Fund is not guaranteeing / offering / communicating any indicative yield on investment made in the scheme(s). Neither LIC Mutual Fund Asset Management Ltd. and LIC Mutual Fund (the Fund) nor any person connected with them, accepts any liability arising from the use of this document. The recipients(s) before acting on any information herein should make his/her/their own investigation and seek appropriate professional advice and shall alone be fully responsible / liable for any decision taken on the basis of information contained herein.