

## Debt Market Review



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### Market Review

- In August Monetary policy, MPC members expectedly kept key rates and stance unchanged. Prof. Jayant Verma dissented from continuation of accommodative stance, but all other members reiterated the stance in order to support growth. GDP growth projection is retained at 9.5% for FY 2021-22, however CPI projection is increased by 60 bps to 5.70% for the same period. 5:1 majority on accommodative stance, upward revision in inflation forecast and gradual increase in VRR (variable reverse repo) amount to INR 4 lakh crore by September end was considered as hawkish in nature. 10-year Gsec benchmark traded in a narrow range of 6.20%-6.26% throughout the month with volume dominated in 5- and 14-year paper.
- Surge in daily system liquidity seen with average surplus liquidity in August increased to Rs. 7.43 lakh crores vs Rs. 5.78 lakh crores in the month of July. RBI increased fortnightly VRR amount from Rs 2 lakh crore to Rs 3 lakh crore in order to absorb extra liquidity from the system, the average cut-off for the auction was around 3.42%. Currency in Circulation (CIC) marginally reduced to Rs. 29.43 lakh crore (end August) vs Rs. 29.46 lakh crore (end July).
- CPI inflation moderated below RBI's upper tolerance band to 5.59% in July as against 6.26% in June and slightly better than market expectation of around 5.72% majorly on back of favourable base effect and lower food prices. Core inflation also softened to 5.9% vs 6.2% in June.

	30-Aug-21	02-Aug-21	Change
USD/INR	73.01	74.35	-1.80%
Brent Crude Oil (\$/bbl)	72.99	72.89	0.14%
Gold (\$/oz)	1,813.62	1,813.47	0.01%
T-Repo	3.10%	3.21%	-0.10%
10-year G-Sec	6.22%	6.20%	0.02%
10-year AAA PSU	6.89%	6.90%	-0.01%
US 10-year Gilt	1.31%	1.18%	0.13%

Source: Bloomberg

- Foreign portfolio investors invested Rs. 14,376 crore (Net) in debt market in August viz a viz Rs. 4,035 crore (Net) inflow in July 2021. Rupee also strengthened during the month as both Debt and Equity got positive flows.
- Sharp spike in first quarter GDP data seen at 20.10% vs 1.65% in previous quarter due to favorable base effect. It was negative 24.4% in same period last year. Robust GST collection was seen for consecutive month at 1.12 lakh crore vs 1.164 lakh crore in June.
- The FED kept the policy rate unchanged and continued its monthly asset purchase program. However, officials pointed out that interest rates could be hiked twice by the end of 2023. Bank of England kept also its policy rate and monetary policy stance unchanged in its latest policy meeting. The BoE in its August MPC meeting kept its key lending rate unchanged at 0.1% while voting 7-1 to maintain the quantitative easing programme at GBP 895 bn.

### Outlook

- Both domestically and globally its clear that normalization of liquidity will start, but timing of the same is very uncertain. Few MPC members also highlighted concern on inflation as it's closer to RBI's upper tolerance band. However robust GST collection and lower government spending is providing comfort to the market as far as fiscal deficit is concerned. In October policy, we believe RBI will be watchful on inflation and status quo on policy rate and stance, although split in voting pattern can increase further.

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.

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