

Debt Market Review



Mr. Marzban Irani, CIO - Fixed Income

Market Review

- MPC Policy was a non event as policy rates remain unchanged with Repo Rate at 4% and Reverse Repo rate at 3.35%. Though some expected CRR to reverse to 4% considering overnight rates going below 3% due to excess liquidity, RBI maintained CRR also at 3% for the time being. Governor maintained that rural demand continues to show improvement with urban demand catching up, however he revised its expectation of real GDP contraction from 9.5% to 7.5% in FY21. Governor stated that it expects GDP growth for Q3 & Q4 to move into positive territory.
- In light of rising CPI print, Policy was expected to be pro inflation, however the policy was pro liquidity and pro growth. Except for upward revision of CPI estimates for FY21, there was not enough communication with respect to how RBI plans to tackle it. Rather there were a number of Pro liquidity announcements. The central bank plans to conduct special and outright bond purchases and announced on-tap TLTRO for ₹ 1 lakh crore at 4 percent till March 2021, besides, OMO worth ₹ 20,000 crore.
- Beyond the usual growth, inflation and policy rationale, the December RBI policy minutes shed light on increasing complexities arising out of (1) low short-term rates and sustained negative real interest rates, (2) macro-financial stability given liquidity, credit, and money supply, and (3) unequal pricing power among firms. A much-needed case was made for flexible inflation targeting framework and the gains seen out of it.
- Second round of Coronavirus infections has led to ultra-accommodative global monetary policy to persist in 2021 as the recovery remains policy dependent. ECB expanded policy accommodation to limit the downside risk to growth with renewed lockdowns in European countries. The PEPP was increased by €500bn and net purchases were extended to at least the end of March 2022.
- Meanwhile, BoJ extended asset purchase program till Sept 2021. The US Fed assured markets of continued accommodation and provided enhanced guidance on its asset purchase program, which will continue until substantial progress has been made toward maximum employment and price stability goals.
- Global steel prices have risen to multi-year highs, as demand outstrips supply, led by strong rebound in China and iron ore supply disruptions. Meanwhile, Brent crude oil prices rise to US\$51pb, on the back of recovery hopes as well as supply side management by OPEC+, which has helped reduce the inventory build-up.

Outlook

- MPC members' outlook on inflation has become much more uncertain, with cost push pressures such as elevated retail margins likely to persist. The supply side disruptions come at a time when output gap remains negative. However, once the recovery takes hold there is a risk that the cost push inflation could get generalized.
- Hence, the window to address the supply-side disruptions is small and RBI's ability to look through inflation pressures has narrowed considerably. We expect RBI to remain on hold and maintain accommodative stance into FY22. CY2021 will be marked with hopes for (1) early roll-out of the Covid-19 vaccine, (2) normalization of activities, and (3) unperturbed growth recovery.
- India will see a slow cyclical recovery along with inflation gradually easing though not enough to sustain the accommodative stance. Interest rates will likely harden with no rate cuts and persistent fiscal pressure. Key risks will be steering through any financial sector stress, reviving the weak investment cycle, and any adverse global liquidity issues.

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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