LIC MUTUAL FUND

Debt Market Review

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Market Review

- Since the start of the COVID-19 pandemic, RBI flushed the financial system with abundant liquidity in order to ease the pressure on the credit cycle due to the nation wide lockdown. However past few months surplus banking liquidity was consistently hovering in the range of 5 -7 lack crores, thereby pushing the overnight rates below the reverse repo rate. Hence RBI decided that it plans to restore normal liquidity management operations in a phased manner by conducting a variable reverse repo for a 14-day tenor to the tune of INR 2000 bn. The cut-off for the auction was set at 3.55%, 20 bps higher than RBI's reverse repo rate of 3.35%, and weighted average rate was at 3.46%.
- The Economic Survey expects the Indian economy to grow at a rapid pace in FY2022 supported by a mega vaccination drive, and a recovery in the major drivers. The Economic Survey expects India's real GDP growth at 11% in FY2022 (nominal GDP growth of 15.4%) after a fall of 7.7%. Given the negative demand shock, it advocates counter-cyclical fiscal policy. CPI inflation moderated to 4.59% in December as against 6.93% in November. Food inflation moderated to 3.4% (9.5% in November) led by vegetables ((-)10.4%). Core inflation came in at 5.2% (5.4% in November) and was led by inflation in the personal care segment (11.7%) and transport and communication segment (9.3%). On a sequential basis, core inflation grew 0.2%, owing to a 0.8% increase in the recreation and amusement segment and 0.9% increase in the transport and communication segment. November IIP fell 1.9% (October: +4.2%) and by 2.2% on a sequential basis, pointing towards the uneven pace of economic recovery.
- The FOMC kept its monetary policy unchanged as it pointed out that economic activity recovery and employment has moderated in the recent months. The FOMC reiterated that it would maintain its bond-buying program at the current pace of US$120 bn per month until substantial progress toward its employment and inflation goals has been made. The US President-elect Joe Biden announced a new US$1.9 tn economic rescue plan setting it up as his top legislative priority. The plan includes new direct payments to individuals, aid for state and local governments, and additional funding for the pandemic response.
- OPEC+ reached an agreement to curb supply over the next two months, with Saudi Arabia carrying a greater burden of oil-output cuts while others hold steady or make small increases. Saudi Arabia will make an extra reduction of more than 400,000 barrels a day in February and March that will more than offset a combined 75,000 barrels a day increase that is being proposed by Russia and Kazakhstan. The net result will be that the overall supply of crude will not increase subsequently ensuring that demand-supply balances remain unchanged for the time being. Global crude prices have risen sharply reflecting expectations of improving demand conditions as supply is likely to remain unchanged.

Outlook

- Going ahead, we expect growth to normalize at a gradual pace as the impact of inventory build-up ahead of festive season and pent-up demand wanes. On the policy front, even as inflation surprised on the downside, we do not see scope for incremental easing. The sharper-than-expected correction in food prices may however push the MPC to revise down its inflation projections for 4QFY21 (MPC: 5.8%), even though it may remain watchful of demand-side pressures and the recent surge in commodity prices.
- Next Month will be crucial for the market considering we have budget and MPC policy. The theme of the budget is likely to center around pushing the government's long-term growth agenda. The budget will seek to promote the two key growth engines, viz. social and physical infrastructure, while being mindful of the limited fiscal space.
- We expect the government to focus on (1) health: expenditure on vaccination along with expansion of infrastructure in semi-urban/rural areas, (2) infrastructure: any additional fiscal room should get channelled into capital expenditure, specifically, roads, railways, housing, and rural/urban infrastructure, and (3) financial sector: government could explore setting up a 'bad' bank, creating a DFI for infrastructure financing, and pencilling in proceeds from privatization of PSBs.
- As far as Policy is concerned, it would be driven by how the budget is presented by the government. But considering the excess supply that we might see in the next financial year, it is expected that liquidity will remain in surplus and RBI would be supporting yields in the Long 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.