

Debt Market Review



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Market Review

- In order to bring long-term bond yields lower without a cut in key interest rate, RBI in December announced its 'Operation Twist' a move entailing simultaneous purchase and sale of government bonds/securities through special open market operations (OMOs) to flatten the yield curve. So far 4 rounds of the monetary twist have been conducted, wherein RBI purchased 10 year G-sec worth 40000cr by selling ~28276cr of short term securities.
- In its fourth and latest round of twist, the Reserve Bank of India on Thursday bought ₹ 10,000 crore worth of long-term securities and sold ₹ 2,950 crore worth of short-term government bonds. While that brought down bond yields initially, a surge in inflation to its highest since 2014 has put the central bank's accommodative stance at risk. India's headline CPI came in at 7.35% in December compared to a year ago, up from 5.54% in November.
- Food inflation jumped to 12.2% from 8.7% in November, driven by a sharp jump in vegetables inflation to 61%, up from 36% in November. India's consumer price inflation breached the upper range of the 2%-6% target range in December, lifted by a supply shock driven surge in onions price, low year earlier base for food prices and an increase in telecom subscription charges.
- Fed holds rates steady after 3 cuts in 2019 pointing to continued moderate U.S. economic growth and a strong job market. the Fed said it would leave its benchmark federal funds rate at a historically low range of 1.5% to 1.75% after cutting it by a quarter percentage point three times last year amid trade tensions and sluggish global growth that increased the risk of recession. Job gains have been solid and the unemployment rate has remained low

Outlook

- Though global growth has further taken a hit due to coronavirus impacting Chinese economy, MPC decision during Feb 2020 review may be guided by rising inflationary pressures and pick up in factory output. Inflation is likely to take a few months before sliding back below the 6% upper end of RBI's target band.
- Hence it rules out any rate cut probability at least till next two MPC. Though market participants has factored in higher Fiscal deficit as compared to budgeted numbers, it would be interesting to see in Budget next year's estimates of Fiscal deficit and any other major announcements with regards to divestment.

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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