MUTUAL FUNDS Sahi Hai

LIC MUTUAL FUND

Debt Market Review

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Market Review

Market Review

- Month commenced with a positive note by RBI announcing lower SDL calendar of Rs. 1.69 Lakh crore for current quarter as against market expectation of 2-2.2 lakh crore and Rs. 1.78 Lakh crore announced in previous quarter, however same was again revised to Rs. 1.92 Lakh crore. Government also released Rs. 75,000 crore to states and union territories as a part of compensation to meet estimated GST revenue shortfall of Rs.1.59 Lakh crore. Hence market was relieved with possibility of any immediate additional borrowing. RBI announced to introduce a new 10-year GSec at the auction held on July 9, 2021. As per the auction results, an amount of Rs. 14000 Cr. has been accepted under the new GS 2031, at a cut-off yield of 6.1%. Going ahead, the yield is expected to be determined by OMOs, fiscal situation, trajectory of crude oil prices, inflation and domestic monetary policy outlook, and US treasury yields. Lower intervention by RBI seen in second half of July 2021.
- The headline CPI inflation softened marginally to 6.26% on a year-on-year (YoY) basis in June 2021 However, it remained above the upper threshold of the Monetary Policy Committee's (MPC's) 2-6% medium term target for the second month in a row. inflation rose between these months in the case of food and beverages, clothing and footwear, and fuel and light, whereas that for miscellaneous items was largely steady. Higher input prices and pent -up demand kept the levels elevated. With two consecutive high numbers above 6%, RBI governor had to mention that these numbers are transitory in nature and headline number is expected to come below 6% going ahead. Monsoon will play a key role in food inflation since July is the month when one third of sowing takes place normally. July PMI numbers at 55.3, up from the 11-month low of 48.1 in June indicate a sharp improvement in production growth, as Covid cases recede and restrictions ease. Output, new orders, exports, purchase quantity and input stocks, all returned to expansionary zone during July. Order books rose rapidly, with over a third of companies reporting a growth in production compared to June, as demand conditions improved. July GST collection recorded at 1.16 lack cr. which is the second highest this fiscal. With the easing of Covid restrictions, GST collection for July again crossed Rs 1 lakh crore, which clearly indicates that economy is recovering at a faster pace.
- FED kept the target range for its benchmark policy rate unchanged at zero to 0.25% and has signalled of moving closer to tapering on 28th July 2021 since progress has been made on employment and inflation front. Although it emphasized that any tapering action would require additional improvement in the economy and would be data dependent. FED to remain vigilant on persistency of inflation rise which seems to be transitory in nature currently. The committee has given remote hints of moving towards normalizing policy since the uncertainties still prevail regarding delta variant and inflation overshoot. The markets have remained rangebound since no clarity on timeline of tapering was provided by Central Bank, but it still gives a sense that normalizing is not out of question. The European Central Bank also kept the rates unchanged in its held monetary policy steady, but upgraded its inflation target to a symmetric 2% over the medium term. ECB also maintained a “persistently accommodative monetary policy stance” in order to meet its inflation target. The spread of delta Variant seems to put threat to US economic recovery since the seven-day average of new cases are above 50000, and the number of hospitalizations has jumped by more than 50% in two weeks. This variant being more infectious and more resistant to vaccines than previous versions of the virus, has become the dominant strain in the US thereby putting a question mark on the sustainability of economic recovery.
- OPEC+ agreed to gradually withdraw Covid-related production cuts by September 2022. OPEC+ has decided to increase overall production by 4,00,000 barrels per day every month till the remaining portion of the group's 10 million barrel per day production cut, announced in April 2020, is completely phased out. This led to crude oil prices falling to about \$72 per barrel but subsequently rising to \$75 a barrel on increasing demand and tight supplies due to lower inventory in the US. The oil prices were supported by a rapid increase in vaccination but the upside expected to remain capped due to Delta variant uncertainties.

Outlook

- The tone and guidance that was provided by FOMC would suggest that it is still waiting for more confirmation on the durability of the recovery before it moves forward towards normalizing policy. There also appeared to be considerable divergence in opinion among the members of the FOMC. Hence, the timing of future outcomes will remain data dependent. We believe, the guidance provided in this policy meeting would suggest that the FOMC will be as patient as possible in moving towards tapering purchases subsequently implying that it might want to give itself more time to assess the progress being made and whether the delta variant is working to weaken the economy. In the upcoming MPC, Policy focus would continue to be on increasing the efficacy and more focused intervention in certain segments of the yield curve. The rise in G-sec yields is expected to remain contained with continued support from RBI; growth weakness and low vaccination coverage make policy normalization unlikely anytime soon. We expect 10-yr g-sec yield to gradually rise to 6.25 to 6.50% over the next 6-months.