

Debt Market Review



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Market Review

- India's GDP for the March-ending quarter (Q4FY21) rose to 1.6% YoY. The pick-up was broad-based as investment demand rose, consumption expenditure improved, and govt. spending saw a significant jump. Growth on the GVA metric continues to remain much stronger at 3.7% in Q4 v/s 1.0% in Q3, led by strong growth in construction and manufacturing. Core GVA which captures underlying growth momentum without policy support was higher at 4.1% in Q4 v/s 0.7% in Q3. The widening gap between GVA and GDP is due to substantial rise in subsidy payments, specifically food subsidy payments in a bid for greater transparency in government fiscal accounts.
- The govt. announced the Emergency Credit Line Guarantee Scheme (ECLGS), under the ECLGS 4.0, a 100% guarantee cover will be extended to loans of up to INR 2 crore given to hospitals, nursing homes, clinics, medical colleges for setting up on-site oxygen generation plants. The interest rate has been capped at 7.5%. The govt. has also extended the timelines on its previous ECLGS schemes. RBI on 7-May, had already announced a SLTRO for the healthcare sector, however since the activity was subdued, this scheme might kick-start lending under that window.
- RBI will transfer INR991bn as surplus to the Centre, significantly higher than what was budgeted in the FY22 Union Budget (INR535bn dividend from RBI and PSBs). The surplus exceeds budget estimate by 0.2% of GDP, providing the government some comfort on the revenue side. The large surplus transfer is likely due to recognition of foreign currency valuation gains. RBI's Contingency Risk Buffer remains unchanged at 5.5% of total assets, which is the minimum threshold.
- As expected, the April CPI inflation eased to 4.29% vs 5.52% in March partly driven by base effect as well as softer food inflation. Food prices dropped to 2% (4.9% in March). The fuel and light inflation hardened to 7.9% YoY. Core inflation (CPI excl. food, fuel and pan, tobacco) softened to 5.2% (5.7% in March). The key drivers of core-CPI were transport and communication (+11%), health (+7.8%), personal care (+5.4%) and recreation and amusement (+4.6%). On a sequential basis, core inflation grew 0.6%, owing to a 1% increase in the personal care segment and 0.9% in the housing segment. The headline inflation reading should support the MPC's policy stance of focusing on growth. Even as the RBI has been proactive and has already announced liquidity/credit measures to mitigate the fallout from the Covid infections led by delayed vaccinations and localized lockdowns. March IIP rose by 22.4% as against a fall of 3.4% in February 2020. On a sectoral basis, mining, manufacturing, and electricity production went up by 6.1%, 25.8% and 22.5%, respectively.
- The Key takeaway from FOMC Minutes has been that Various participants acknowledged that it would take some time until the economy had made substantial further progress toward the committee's maximum-employment and price-stability goals. However, the key highlight of the minutes was the 'taper talk' as a few participants suggested that, if the economy continued to make rapid progress toward the committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases.

Outlook

- Going forward, even as the lead indicators are reflecting an improvement, the activity levels have certainly dipped during mid-Apr to mid-May. In fact, the rolling lockdowns by many large States (by economic size) are posing downside risks to the pace and sustenance of economic recovery. On the positive side, the daily virus case load has dropped from the recent peaks of approximately 400, 000 cases to approximately 153,000 along with the governments' vaccination drive mitigate the risks of prolonged lockdowns. However, despite the deceleration in growth momentum in Q1FY22, the second wave has only delayed the recovery not derailed it. Growth momentum in H2FY22 is expected to be stronger, supported by rising pace of vaccinations and pent-up demand.
- While inflation risks linger, particularly due to higher commodity prices, the headline CPI inflation reading should support the MPC's policy stance of focusing on growth. Even as the RBI has been proactive and has already announced liquidity/credit measures to mitigate the fallout from the Covid infections led by delayed vaccinations and localized lockdowns. Against this backdrop, we think the RBI will maintain a status-quo on policy rates and stance whilst actively managing liquidity and keeping interest rates anchored via its monetary policy instruments.

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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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