LIC MUTUAL FUND

Debt Market Review

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Market Review

- The month of October started with the Bi-monthly MPC meeting wherein they left the policy repo rate unchanged at 4 per cent and continued with the accommodative stance. RBI Governor reiterated that it would continue with this stance as long as necessary to revive growth, mitigate the impact of COVID-19, while ensuring that inflation remains within the target going forward. . RBI expects real GDP contraction of 9.5% in FY21 with downside risks and sees a growth only in 4QFY21 whereas Inflation is forecasted to remain >4% till Q1FY22 with balanced risks.

- In other major decisions taken by RBI, On tap Targeted LTROs up to INR 1trn up to Mar'21 to be deployed in corporate bonds, CPs, NCDs or to extend bank loans and advances issued by the entities in specific sectors. HTM limits earlier increased from 19.5% to 22% of NDTL is decided to be extended from Mar'21 to Mar'22. Maximum threshold on *retail exposure* (individuals and small businesses with turnover up to INR500m) increased from INR50m to INR75m. RBI has suggested Linking risk weights only with LTV ratio (not the size of the loan) for all new housing loans sanctioned up to Mar'22. Risk weight of 35% with LTV of <=80% and 50% with 90%>=LTV>80%.

- Considering the growth of housing sector to overall growth of the economy, this is an important step in reviving the real estate sector. In another major announcement RBI announced OMOs in SDL to boost liquidity.

- The central government, in an attempt to resolve the issues surrounding GST compensation, has decided to borrow Rs1.1 tn itself (rather than states) under Option 1. The amount borrowed would be passed on to the states under a special window as a 'back-to-back loan in lieu of GST compensation cess. . This borrowing would not reflect in the center's fiscal deficit or debt. Central government will now borrow Rs5.44 trillion (as against Rs4.34 trillion earlier) in 2HFY21.

- In October, the central borrowed and transferred Rs60 bn as loan to 16 states and 2 UTs under the special borrowing window to address the shortfall in GST compensation. The borrowing was at an interest rate of 5.19%. Five states did not have any shortfall on account of GST compensation.

- September CPI inflation rose to 7.34% as against 6.69% in August led by higher food inflation of 10.7% (9.1% in August) on the back of vegetables (20.7%), meat and fish (17.6%), egg (15.5%), pulses and products (14.7%), oils and fats (13.4%), and spices (11.7%). Core inflation remained unchanged at 5.3%. September WPI inflation rose to 1.3% (0.2% in August) on the back of higher food WPI of 8.2% led by vegetables and pulses. Core WPI inflation rose to 1% (0.6% in August). : Infrastructure output, comprising eight core sectors of the IIP (wt. 40.3% in IIP), fell by 0.8% in September as against a fall of 7.3% in August and a fall of 5.1% in September last year. Steel production rose 0.9%, coal production rose 21.2%, and electricity production rose 3.7%.

- The ECB decided to keep its rates and wider monetary policy unchanged but suggested that additional policy action in the bloc could come as soon as December. It pointed out that incoming information signaled that the Euro area recovery is losing momentum more rapidly than expected after a strong, yet partial and uneven, rebound. The rise in Covid cases and intensification of containment measures constituted a clear deterioration in the near-term outlook.

Outlook

- U.S election results are expected to come in the month of November. We feel in case of either of the candidates winning with a clear majority, 10 year UST yields will move up. However in case of a broken verdict, a risk off sentiment will bring the yields down.