



Benchmark 10-year yield closed at 6.33%, down by 6 bps from its previous close of 6.39%. The Reserve Bank of India's monetary policy committee (MPC) on December 8, 2021 maintained key interest rates for a ninth straight meeting, retaining an accommodative stance amid the threat surrounding Omicron coronavirus variant.

Repo and reverse repo rates remain unchanged at 4% and 3.35%, respectively. The central bank maintained its FY22 GDP forecast at 9.5 per cent and projected retail inflation to be at 5.3%.

### Some of the key announcements are as follows:

- The MPC members unanimously voted for keeping the policy rates unchanged
- The MPC decided with a 5 to 1 majority to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remained within the target going forward
- Growth projections for FY2022 have been retained, with real GDP growth for FY2022 expected to be 9.5%. The growth numbers for Q3 FY2022 and Q4 FY2022 have been marginally revised downwards to 6.6% and 6.0% respectively, while Q1 FY2023 and Q2 FY2023 growth numbers projected at 17.2% and 7.8%
- The projection for CPI inflation for FY022 has been retained at 5.3%, with an estimate of 5.1% for Q3 FY2022 and 5.7% for Q4 FY2022. Inflation is expected to be at 5.0% during H1 FY2023

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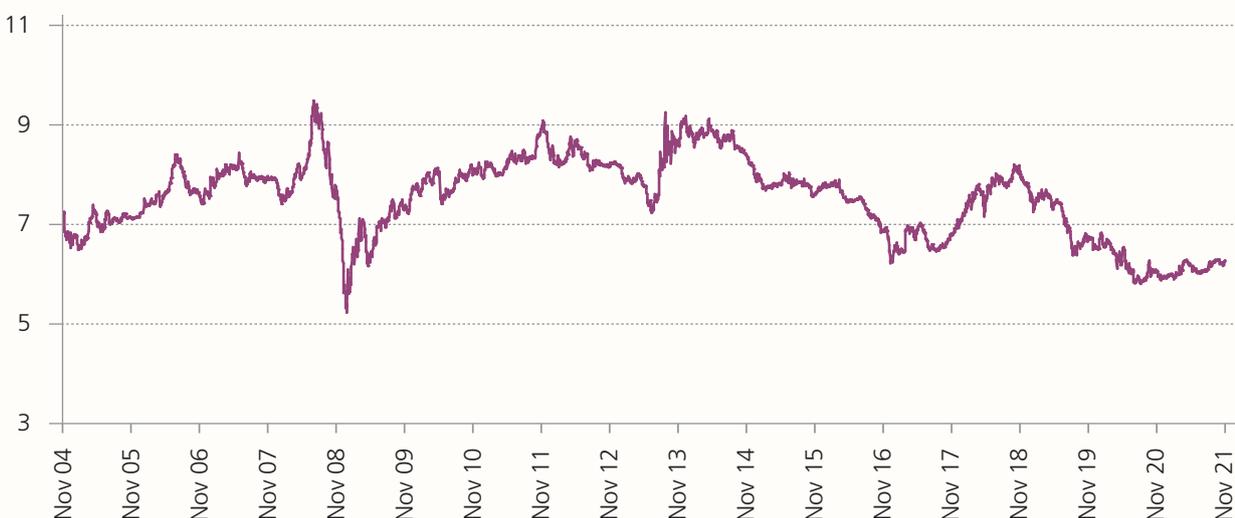
## MARKET PERFORMANCE

The 10-year benchmark G-Sec yield closed at 6.33%, down by 6 bps from its previous close of 6.39% while that on the short-term 1-year bond ended 5 bps higher at 4.20%.

In the corporate bond segment, yields rose across the yield curve over the month. The 10-year AAA bond yield ended 01 bp higher at 6.87%, while the short-term 1-year AAA bond yield ended 10 bps up at 4.5%.

The spread between 1-year and 10-year AAA bond narrowed. Within the short-term segment, the yield on 3-month commercial paper (CP) was down 15 bps to 3.75% while 1-year CP yield was up 10 bps at 4.5%.

### 10-Year G-Sec



Past performance may or may not be sustained in the future.

## OUTLOOK

As widely expected by markets, the Federal Open Market Committee (FOMC) in its November meeting commenced tapering of asset purchases by USD 15 billion per month. Concerns around inflation being more permanent than earlier considered is gaining ground and few members hinted that policy rates could be hiked earlier than expected. Subsequently, the Fed Chair indicated the possibility of increasing the pace of tapering if inflation remained above expectations and unlike previous communications, dropped the term “transitory” while referring to inflation. Inflation has remained the dominant theme globally, with several advanced economies witnessing inflation prints at multi-year highs, pushing Central Banks towards the withdrawal of accommodative policies. However, fresh COVID outbreaks in certain economies and the emergence of ‘Omicron’ as a new COVID-19 variant have renewed uncertainties on growth. The eventual impact, if any and the magnitude will have to be seen over the next few months.

US Treasury yields remained volatile through the month, with 10-year UST trading in the 1.40%-1.60% band while hitting a high of 1.67% intra-month. Crude prices traded above USD 80 per barrel for most of the month before falling to USD 70 per barrel. Several large oil-consuming nations agreed to release strategic crude reserves to stem the sharp rise in Crude prices. OPEC members, for now, have agreed to continue with their earlier plan of increasing monthly supply but will remain vigilant if demand gets adversely impacted.

On the domestic front, CPI inflation for October 2021 came in at 4.48% (vs 4.35% in September), slightly higher than expectations, due to the rise in vegetable prices and fuel inflation. Core CPI also inched higher to 6.10% due to pass through of higher Crude prices. WPI inflation for October 2021 rose to 12.54% (vs 10.66% in September) due to fuel and manufactured product inflation. IIP for September 2021 rose by a modest 3.1% (vs 12.0% in August) owing to a fading base effect. GDP growth for Q2 FY2022 printed at 8.4% (higher than RBI estimates of 7.9%) with GVA growth at 8.5%. Exports continue to remain robust, however, imports have also been steady with a pick-up in domestic demand and rising oil prices, pushing estimates of Current Account Deficit higher than previously estimated. Recent PMI prints have also been encouraging. Fiscal deficit for Apr-Oct 2021 is at 36.3% of Budget estimates on the back of robust tax collections. However, Government spending is expected to pick up in the remaining months. The Centre reduced the excise duty on petrol and diesel by INR 5 per litre and INR 10 litre respectively in November. Although this is marginally negative from a fiscal perspective, buoyant tax collections would render the impact redundant. Excise cut augurs well from an inflation perspective, though the increase in telecom tariffs would offset the positive impact.



### CPI Combined (YoY)



***As outlined by the Governor earlier, Variable Rate Reverse Repo (VRRR) auctions have been used as a tool to manage high surplus liquidity, and markets have witnessed 7-day, 14-day and 28-day VRRR auctions, the cut-offs of which are coming closer to the Repo rate, with some auctions not being able to garner the full size. With some pick up in Bank CD issuances, money market instruments beyond March maturity have inched higher. G-Sec and longer tenor corporate bonds have remained range-bound with demand from long only investors being very robust. SDL cut-offs continue to be good with spreads compressing further.***

Source: MOSPI, Internal, Bloomberg

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