

# Monthly Debt Assessment

Wealth is only a means to an end...

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# Debt Market Overview

## Overview

India's 10-year benchmark yield registered another month of marginal decline in August to close at 6.86%. A decline in US treasury yield led by signals of policy pivot and softer economic data influenced the direction of sovereign yield movement across major economies. A sharp correction in domestic inflation numbers, pullback in crude prices, progress in fiscal consolidation and steady FPI demand for government securities also supported the bond prices during the month.

## Domestic Economic Update

India's domestic economic activity expanded 6.7% during the first quarter of the financial year. Gross value addition during the quarter stood at 6.8% supported by industries and services sector growth at 8.3% and 7.2%, respectively. Output from agriculture and allied activities recorded a marginal rise amidst the challenges posed by low reservoir levels and the impact of heat waves. A look at the expenditure component reveals a healthy rebound in private consumption and steady investment activity cushioning the impact of a marginal contraction in government spending during the election-impacted quarter. The outlook for GDP growth remains bright with steady urban demand, signs of revival in the rural economy and a higher capex push by the government during the second half of the year.

The monetary policy committee maintained the status quo on policy rates and stance during its August review meeting. The committee also left the full-year growth and inflation projections unchanged at 7.2% and 4.5%, respectively. The central banker observed that the domestic economic momentum remained strong despite the moderation in the global growth outlook. The committee remains vigilant regarding the inflationary pressures at play and reiterated the need to maintain disinflationary policies to avoid any spillover risk.

Headline CPI inflation recorded a 59-month low of 3.5% in July. A sharp decline in inflationary pressure in the food & beverages basket, sustained contraction in fuel inflation and a favourable base from last year supported the fall in inflation numbers. Rural and urban inflation during the month stood at 4.1% & 3%, respectively. Core inflation registered a marginal uptick during the month to 3.5% led by the recent rise in telecom tariffs. The recent correction in commodity prices, predictions of an above-normal southwest monsoon, higher reservoir level and an increase in area under cultivation bodes well for the near-term inflation outlook.

## Key Indicators as on August 31, 2024

Policy Rates		
Policy Repo Rate		6.50%
Reverse Repo Rate		3.35%
SDF		6.25%
Marginal Standing Facility Rate		6.75%
Bank Rate		6.75%
Reserve Ratios		
Cash Reserve Ratio		4.50%
Statutory Liquidity Ratio		18.00%
Exchange Rates		
	Aug 24	Jul 24
INR / 1 USD	83.87	83.73
INR / 1 EUR	92.95	90.65
INR / 100 YEN	57.39	55.90
INR / 1 GBP	110.58	107.44
Lending / Deposit Rates		
Base Rate	9.10% - 10.40%	
MCLR (Overnight)	8.15% - 8.45%	
Savings Deposit Rate	2.70% - 3.00%	
Term Deposit Rate > 1 Year	6.00% - 7.25%	
Market Trends		
T BILL		
91 Days	6.66%	
364 Days	6.72%	
Government Securities		
IND 10 Year	6.86%	
10 year - 1 year T-Bill spread (bps)	0.14%	
Capital Market		
S&P BSE Sensex	82365	
Nifty 50	25235	



# Debt Market Overview

The government of India's fiscal deficit during the first four months of the fiscal stood at Rs. 2.76 trillion or 17.2% of the budgeted estimates compared to Rs. 6.05 trillion during the corresponding period last year. Strong growth in total receipts supported by robust direct tax collection, higher-than-expected non-tax revenue, and lower capital expenditure resulted in superior deficit management during the quarter. Crude oil prices declined 2.4% during the month following a sharp correction of 6.6% in July. Reports of possible supply increases by OPEC members during the last quarter of the calendar year amidst ongoing demand concerns from key markets resulted in a price decline. Indian Rupee depreciated 0.2% during the month to close at 83.87 against the US Dollar, despite the weakness in the dollar index. We expect the Indian Rupee to derive strength from improving external position, strong FPI inflows, lower crude prices and expected policy pivot by the US Fed.

## Global Central Bank Policy Updates

The US 10-year benchmark yield declined 13 bps during the month to close at 3.90%. The correction in yields was supported by the remarks from the US Fed Chair during the Jackson Hole Symposium & latest US Fed policy minutes which hinted at a possible rate cut during the September policy review meeting. A series of softer data releases during the month about US Inflation and job market activity further fueled the correction in yields. Following the 25-bps reduction in borrowing rates by the European Central Bank in June, the Bank of England also reduced its key policy rates in July. The key benchmark rates in England were trimmed by 25 bps to 5%. The People's Bank of China left the key policy rates for its one-year & five-year prime loan rates unchanged at a record low of 3.45% & 3.85%, respectively during its latest review meeting in August.

## CA Stance

Based on constructive global cues indicating a pivot in the interest rate cycle and sustained improvement in domestic macro factors favoring lower interest rates we are updating our stance on debt markets to Positive from Neutral. A stable monetary policy guidance from RBI, prudent fiscal deficit management by Government of India, favourable supply-demand dynamics, benign inflation trajectory and attractive short-term bond valuations positively impact CA's debt assessment.

As bonds, fixed deposits, market-linked debentures, and debt mutual funds are now taxed at the slab rate, we advise investors to build a fixed-income portfolio by investing in performing credit AIFs, structured credit AIFs, and absolute return strategies. Investors can also take debt exposure through a portfolio of balanced advantage funds and CA approved multi-asset funds.

# Debt Market Overview

Macro Indicators	Comments	Outlook for Bond Price
GDP Growth	<ul style="list-style-type: none"> <li>Real GDP growth during Q1FY25 moderated to 6.7% vs 7.8% during the previous quarter &amp; 8.2% during Q1FY24. Gross value addition during the quarter expanded 6.8% supported by Industrial and services sector. Despite the challenging weather conditions Agri output also recorded a 2% rise. On the expenditure side a strong rebound in private consumption growth and steady investment activity cushioned the decline in government consumption during the quarter.</li> </ul>	⊕
Inflation	<ul style="list-style-type: none"> <li>Headline CPI inflation registered a 59-month low of 3.54% in July supported by favourable base effect. Rural and urban inflation during the month stood at 4.1% &amp; 3%, respectively. Prediction of normal monsoon and easing of commodity prices bodes well for inflation outlook. However, food inflation trajectory needs monitoring. Core inflation at 3.3% in July.</li> </ul>	⊕
RBI Policy Rate	<ul style="list-style-type: none"> <li>Status quo on policy rates &amp; stance. FY 25 GDP growth and inflation estimates unchanged at 7.2% and 4.5%, respectively.</li> </ul>	⊕
Crude prices	<ul style="list-style-type: none"> <li>Crude oil prices declined 2.4% during the month following a sharp correction of 6.6% in July. A possible increase in production amidst the ongoing slowdown in demand from key markets resulted in the correction in prices.</li> </ul>	⊕
Fiscal Deficit	<ul style="list-style-type: none"> <li>GOI Fiscal deficit target for FY25 at Rs 16.13 trillion or 4.9% of GDP. Total receipts during the April – July period stood at Rs. 10.23 trillion recording 32% growth &amp; total expenditure declined 5.8%.</li> </ul>	⊕
Global Policy, Liquidity & Yields	<ul style="list-style-type: none"> <li>Global central banks hint at current levels being restrictive enough for CPI inflation to revert to long term target. Amongst major developed economies the Bank of England &amp; European central bank initiate rate cut cycle. Latest US Fed policy meeting hints at possible rate cut during next policy review during September.</li> </ul>	⊕

Factors	Key variable	Comments	Assessment
Monetary Policy Guidance	Withdrawal of Accommodation	<ul style="list-style-type: none"> <li>MPC expects domestic economic growth to sustain momentum supported by investment activity, steady urban demand and rising rural consumption. To remain watchful of bottoming out of core inflation and volatility from food prices</li> </ul>	⊕
Demand & Supply	High Demand	<ul style="list-style-type: none"> <li>Low risk of fiscal deficit overrun. April – June revenue &amp; expenditure profile stronger than budgeted estimates &amp; previous years.</li> <li>Index inclusion &amp; strong FPI inflows support</li> </ul>	⊕
Debt Valuation	Absolute Valuation	<ul style="list-style-type: none"> <li>Flat yield curve</li> <li>Short term bonds attractive compared to long term bonds</li> </ul>	⊕

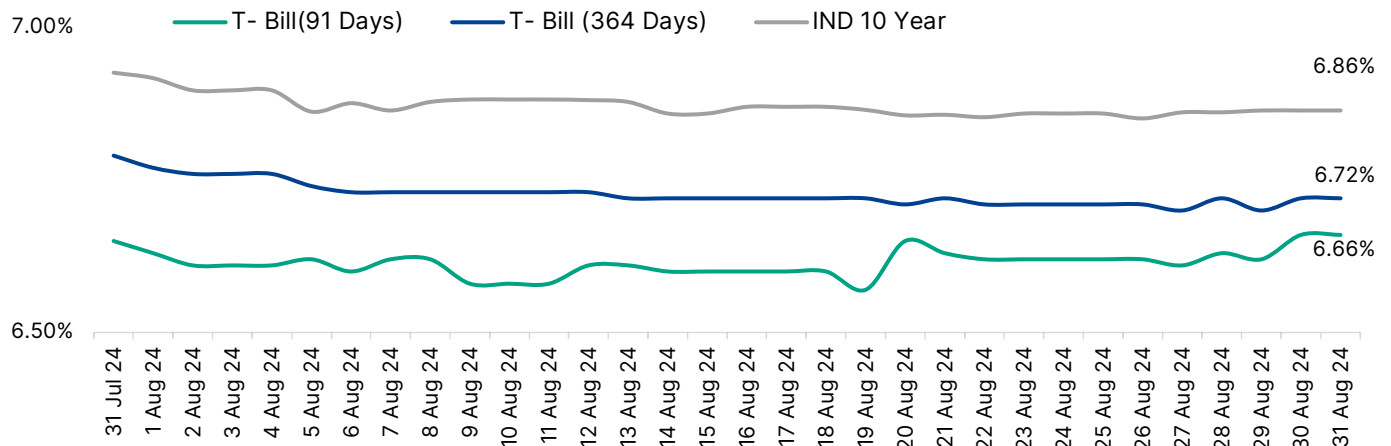
⊕ Positive  
 ⊕ Neutral  
 ⊖ Negative

Sources: RBI, Bloomberg, CA Research & Analysis

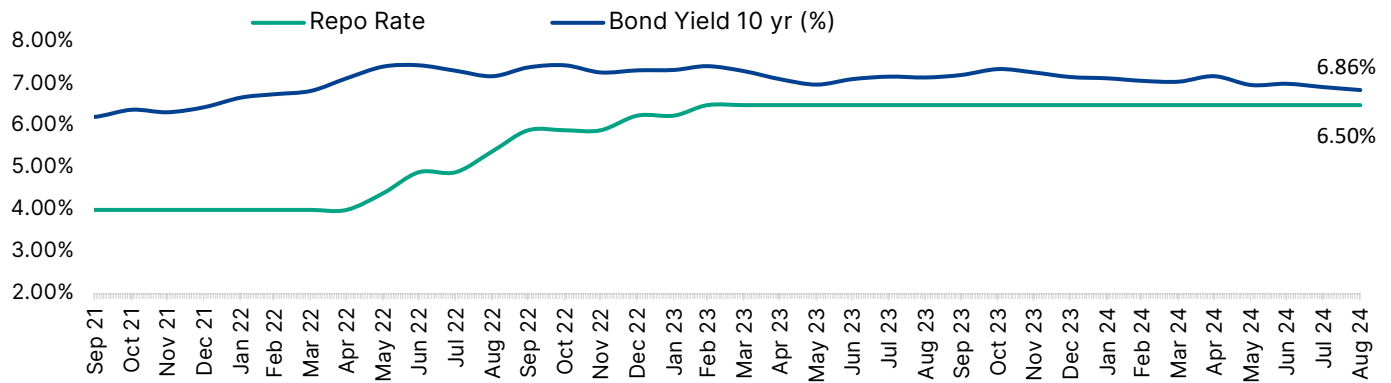
# Key Rates

(As on 31 Aug 2024)

## > Yield – 10 Year G-Sec / T Bill - 91 Days / T Bill - 364 Days (Monthly Movement)



## > Repo Vs 10 Year G-Sec



## > Key Indicators

BLOOMBERG FIMMDA PSU INDEX		BLOOMBERG FIMMDA NBFC INDEX		10 YR US Treasury	
1 Year	7.70%	1 Year	8.00%	US 10 Year Government Sec.	3.90%
3 Year	7.58%	3 Year	7.89%		
5 Year	7.51%	5 Year	7.96%		

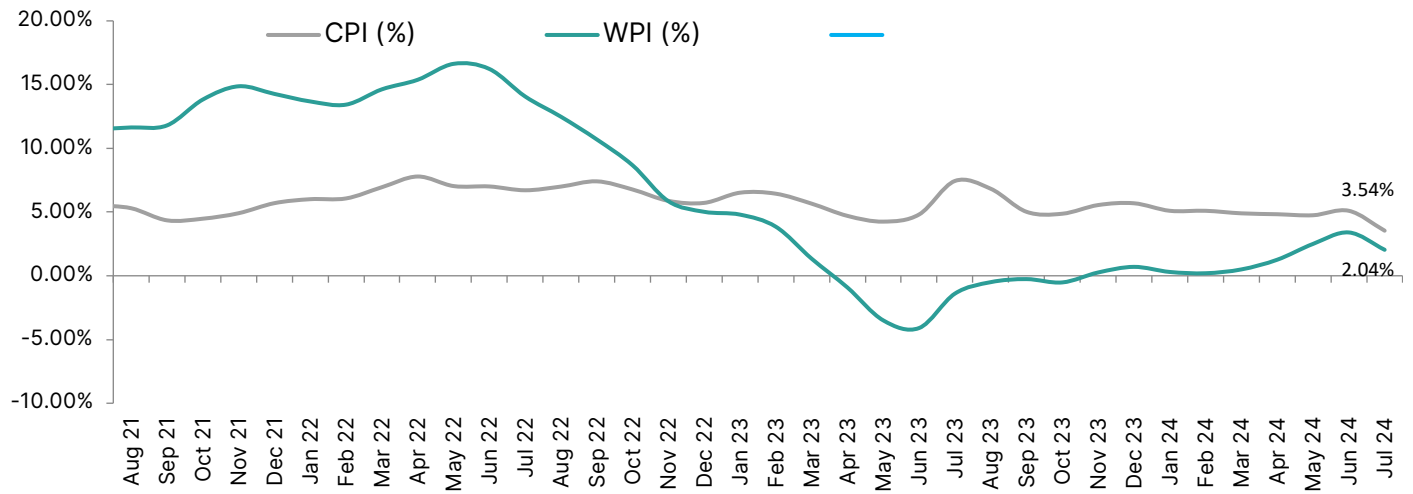
Certificate Of Deposit (CD)		TERM MIBOR		SBI Term Deposit Rate (3Cr & above)	
3 Months	7.23%	14 Days	6.96%	30 Days	5.25%
6 Months	7.48%	1 Month	7.10%	180 Days	6.60%
1 Year	7.63%	3 Months	7.29%	1 Year	7.00%

Source: FBIL, Bloomberg, CA Research & Analysis

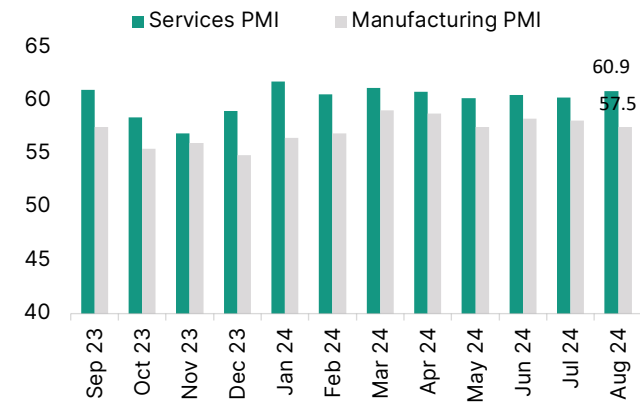
# Key Domestic Indicators

(As on 31 Aug 2024)

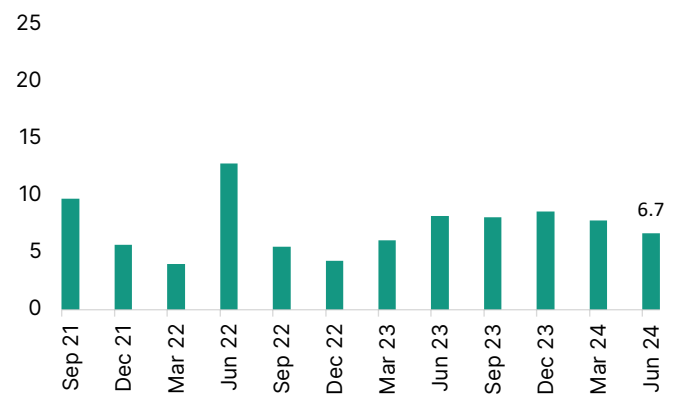
## > Inflation Rate



## > Services PMI Vs Manufacturing PMI



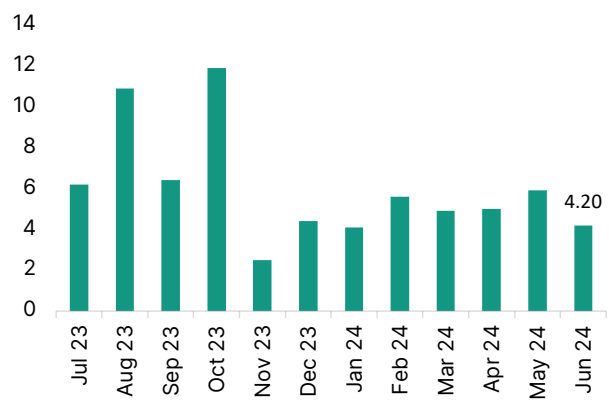
## > GDP Growth Rate (%)



## > CPI (%)



## > IIP (%)

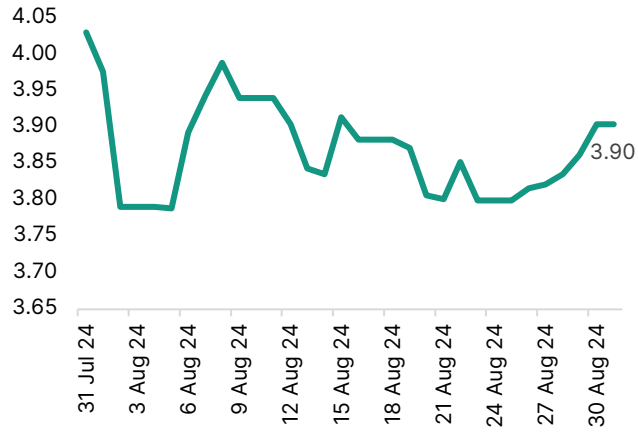


Source: Bloomberg, CA Research & Analysis

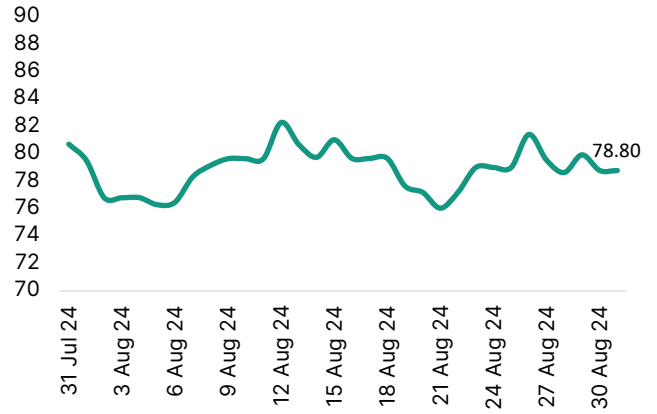
# Key Global Indicators

(As on 31 Aug 2024)

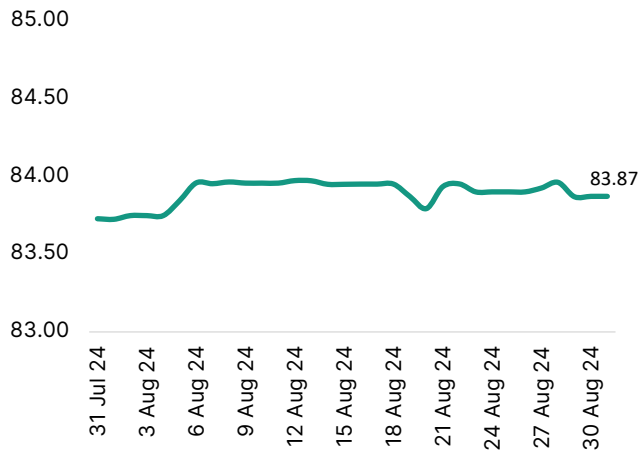
## > US 10 Year Treasury Yield (%)



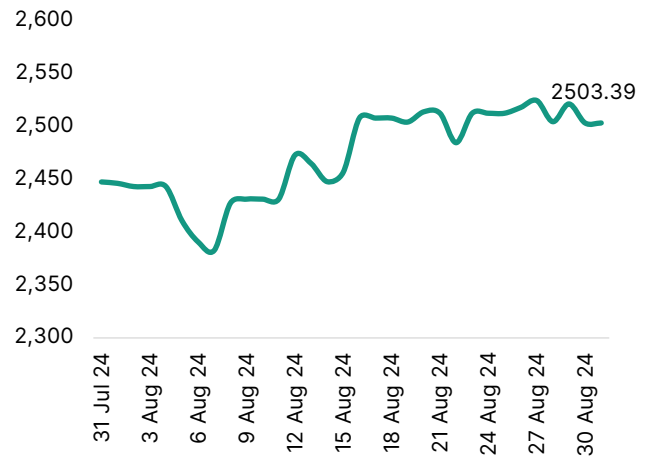
## > Brent Crude (\$)



## > INR/USD



## > Gold (\$)



Source: Bloomberg, CA Research & Analysis



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