Market Intelligence
& Analytics

RateView

CRISIL's outlook on near-term rates

December 2023

Research

Contents

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November nip

The yield on the new 10-year benchmark government security (G-sec; 7.18% GS 2033) opened at 7.36% in November and closed at 7.28%, down seven basis points (bps) from its October close of 7.35% and within CRISIL's forecast range of 7.26-7.36%.

The first week saw bonds trading largely with a positive bias, tracking the decline in the US Treasury yields, which edged down amid lower-than-the-expected federal borrowings programme. Government securities (G-secs) worth Rs ~1.1 lakh crore maturing in November led to a surplus in systemic liquidity. The domestic 10-year benchmark yield closed the first week at 7.31%.

In the second week, G-secs continued their positive bias supported by favourable global cues. Treasury yields declined due to weaker-than-expected payrolls data. Global crude oil prices ranged lower amid sluggish demand from China, headwinds for the global economy, and prospect of higher-for-longer interest rates in the US. The domestic 10-year benchmark yield closed at 7.28%.

During the third week, G-secs traded with a positive bias tracking the decline in Treasury yields amid softer-than-expected US inflation print. The Consumer Price Index (CPI) inflation for October 2023 printed at 4.9%, compared with 5.0% in September. Further, better-than-expected cut-off prices at the weekly auction supported market sentiment and the 10-year benchmark G-sec yield ended the week at 7.25%.

In the fourth week, G-sec yields rose tracking Treasurys. The possibility of an open market operation announcement also weighed on sentiment.

The expectation of liquidity-curtailing measures — given G-secs worth Rs ~79,000 crore are maturing in December — led to a slight selloff in G-secs, and the 10-year yield ended the month at 7.28%.

CRISIL's outlook

On interest rates

Benchmark	November 30, 2023 (A)	December 31, 2023 (P)	February 29, 2023 (P)
10-year G-sec yield*	7.28%	7.23%-7.33%	7.20%-7.30%
10-year SDL yield	7.71%	7.67%-7.77%	7.69%-7.79%
10-year corporate bond yield	7.73%	7.73%-7.83%	7.75%-7.85%

A: Actual; F: Forecast
Source: CRISIL MI&A Research

One-month view

The 10-year benchmark G-sec yield is expected to stay range-bound. An upside bias comes from risks to inflation from higher food prices and its impact on inflation expectations, despite softer core inflation. However, increased government spending and a resurgence of foreign capital inflow into India's debt markets could contain the upside pressure. Meanwhile, expectations on higher Treasury yields and firmer oil prices given the Middle East conflicts can weigh on yields.

Three-month view

The 10 year G-sec is expected to soften through February due to cooling inflation, fiscal consolidation, a possible downside to oil prices due to global growth slowdown and continued strong foreign capital flows into India's debt markets.

Framework for outlook

CRISIL provides its outlook on key benchmark rates for different debt classes — 10-year G-secs, state-development loans (SDLs), and corporate bonds (CBs) — based on statistical models and inputs from our in-house experts. We also incorporate our views on policy expectations, macroeconomic outlook, key events (local and global), and market factors (liquidity and demand/supply).

Note: All yields are volume-weighted averages during the last trading hour of that day

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Factors influencing the outlook

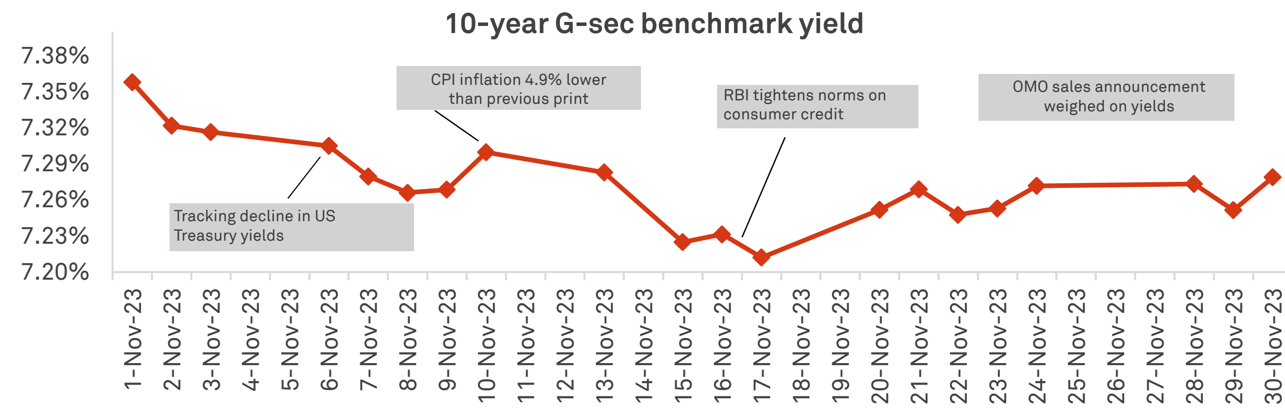
Economic parameter	Our view	Impact on yields
Gross domestic product (GDP) growth	• We expect India's real GDP growth at 6.4% on-year in fiscal 2024 from 7.2[1] % previous year. • Slowing global growth in the second half of this fiscal is expected to hit Indian economy through weaker exports. Domestic demand expected to be mildly impacted from lagged impact of RBI's past rate hikes. • Real GDP grew 7.6% in the second quarter of fiscal 2024 compared to 7.8% in the previous quarter. Growth in the second quarter was driven by strong government spending and a rise in manufacturing and construction growth	↓
Consumer price index (CPI) inflation	• We expect consumer price index (CPI)-linked inflation to moderate to 5.5% in fiscal 2024 from 6.7% previous year • Uneven distribution of rainfall during the monsoon season and tight global food supplies pose upside risks to inflation this fiscal. However, easing input cost pressures for manufacturers and moderating domestic demand are expected to ease core inflation. • CPI inflation eased marginally to a four-month low of 4.9% in October from 5.0% previous month	↓
RBI's monetary policy	• We expect the RBI to keep rates unchanged for the remainder of this fiscal. We expect a rate cut only in the first quarter of next fiscal • Food risks to headline inflation, and caution on impact of higher-for-longer global interest rates will prevent RBI from cutting rates this fiscal. • However, the RBI may use liquidity and regulatory tools this fiscal to speed transmission of past rate hikes. • The MPC kept policy rates unchanged in its December meeting, while maintaining stance of withdrawal of accommodation.	↔
Fiscal health	• The budget has targeted a reduction in centre's fiscal deficit to 5.9% of GDP this fiscal from 6.4% of GDP in the previous • In the first seven months of this fiscal, centre's fiscal deficit stood at 45% of the budget target, compared with 45.6% in same period last year.	↓

[1] Provisional estimate by National Statistics Office

Economic parameter	Our view	Impact on yields
Crude oil prices	• We expect crude prices to average $80-$85 per barrel in fiscal 2024 compared with $95 per barrel previous year • Brent crude oil prices decreased to $83.2 per barrel average in November, 8.7% lower on-month and 8.7% lower on-year.	↓
Current account balance	• We expect current account deficit (CAD) average 1.8% of GDP in fiscal 2024 compared with 2.0% of GDP in fiscal 2023. • Lower international commodity prices on-year and support from healthy services exports and remittances will help CAD narrow this fiscal. • CAD rose to 1.1% of GDP in the first quarter of fiscal 2024 from 0.2% of GDP previous quarter.	↓
US Federal Reserve's stance	• S&P Global sees the Fed policy rates remaining higher for longer and does not expect the first rate cut till June 2024 • The Fed kept its policy rate unchanged at 5.25-5.50% for the second consecutive time at its November meeting.	↔
Liquidity indicators **i) Demand and supply**	• Longer-duration G-secs have seen additional demand from long-term players as rates have stabilised • G-secs worth Rs 1.1 lakh crore matured in month of November, while those worth Rs ~79,000 crore are set to mature in December, which might bring down the liquidity deficit into the system • SDL issuance increased in November with 110% of the budgeted amount being issued	↑
ii) Call rates/ liquidity adjustment facility (LAF)	• In November 2023, interbank call money rates averaged at 6.56%, which is slightly higher than the RBI's repo rate of 6.50%. • This can be attributed to widening banking liquidity deficit — estimated at Rs 1.74 lakh crore as on November 21 — due to high Goods and Services Tax (GST) outflows. This is the highest liquidity deficit in five years	↑

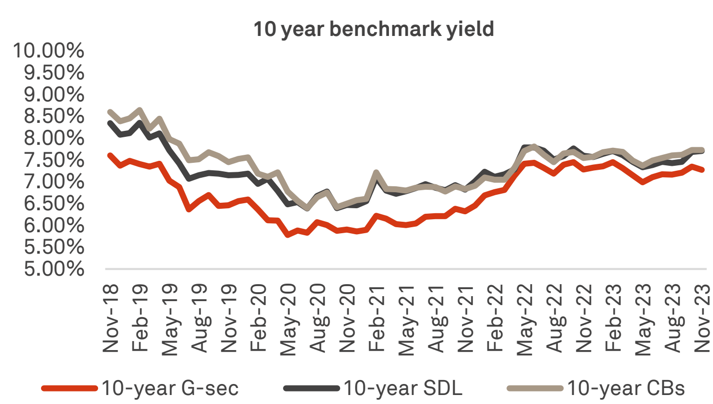
CRISIL's outlook on interest rates

November at a glance



Source: CRISIL MI&A Research

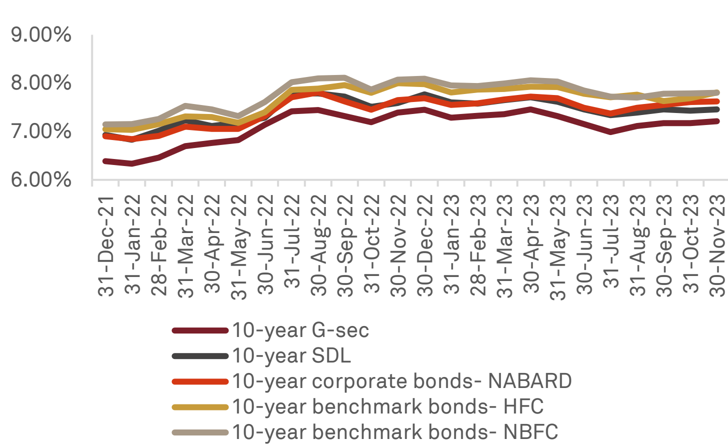
Benchmark yields



In November, the yield on the 10-year benchmark G-secs closed at 7.28%, seven bps from its October close, while that on the 10-year SDL hardened two bps to 7.71% from 7.69%. The yield on corporate bonds (10-year PSU FI) remained flat at 7.73%.

Source: CRISIL MI&A Research

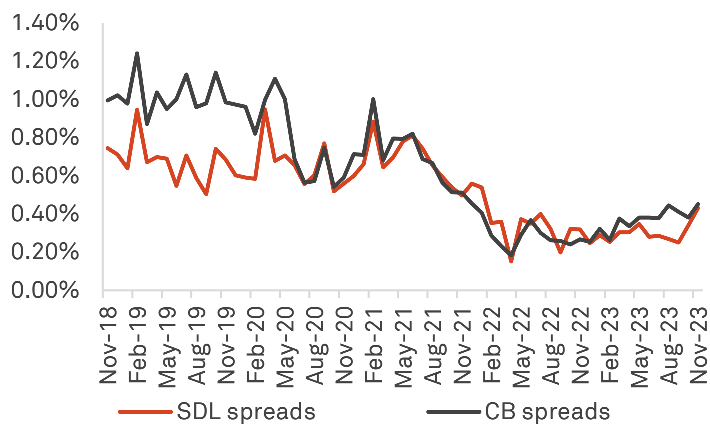
10-year G-sec/ SDL/ corporate bond benchmark yields



The yield on the 10-year benchmark bonds — housing finance company (HFC) — softened by two bps on-month to 7.83% in November. Yields on the 10-year benchmark bonds for AAA-rated NBFCs and AAA-rated PSU bonds closed at 7.93% and 7.73%, respectively, up from 7.96% and 7.73% in October.

Source: CRISIL MI&A Research]

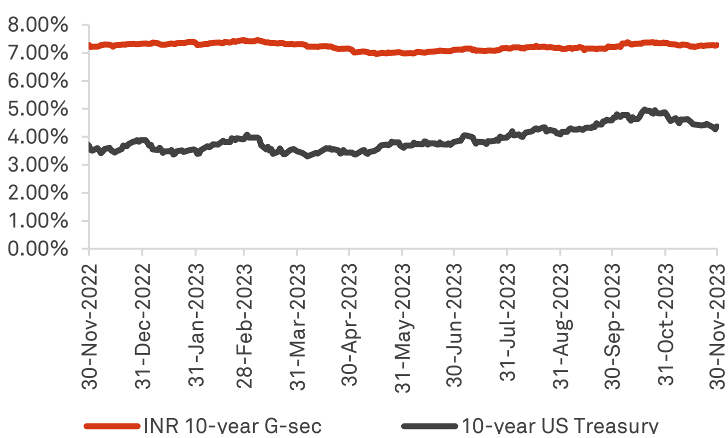
SDL spreads over 10-year benchmark G-sec hardens



Source: CRISIL MI&A Research

The spread on the 10-year benchmark SDL over the 10-year benchmark G-sec closed at 43 bps in November, up from 34 bps in October. The widening was due to higher cut-off yields at the primary auction. Meanwhile, the spread on the 10-year AAA-rated public sector corporate bond expanded from 38 bps to 45 bps. The 12-month average spreads for the 10-year benchmark SDL and corporate bond over the 10-year benchmark G-secs were ~30 bps and ~36 bps, respectively.

US Treasury yields softened

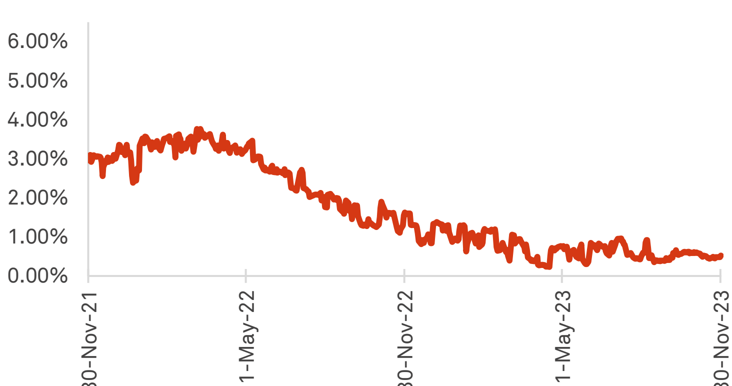


Source: CRISIL MI&A Research

The 10-year Treasury yields closed at 4.37% in November, 51 bps lower over the October close of 4.88%. The monthly average spread between the domestic 10-year benchmark G-sec yield and the 10-year Treasury yield hardened to 291 bps from 247 bps in October. The easing of Treasury yields was driven by softer inflation print, rising unemployment figures and steady economic growth, building hopes of rate cuts by the Fed.

Term premium between 10-year benchmark G-sec and TREPS narrowed.

Term premium (10-year G-sec benchmark and TREPS)

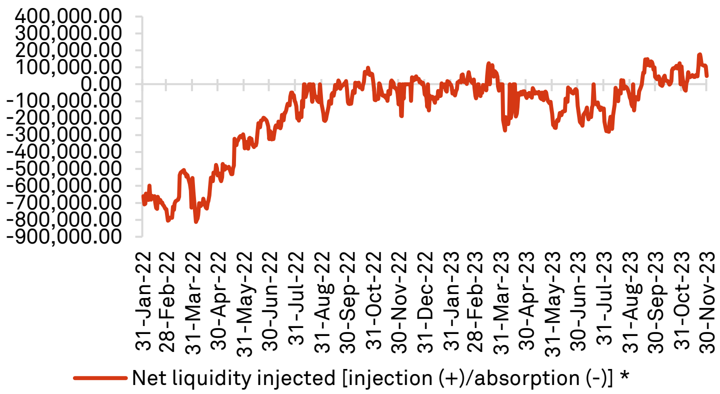


Source: CRISIL MI&A Research

The average spread between the 10-year benchmark G-secs yield and tri-party repos (TREPS) came down to ~51 bps in November from ~57 bps in October. The 12-month average spread was at ~73 bps.

Surplus systemic liquidity

Net liquidity injected in Rs crore [injection (+)/absorption (-)]*



** Net liquidity is calculated as repo + MSF + standing liquidity facility - reverse repo*
Source: CRISIL MI&A Research

In November, the average deficit in systemic liquidity was ~Rs 0.61 lakh crore, as against ~Rs 0.48 lakh crore in October. The average surplus over the past 12 months was ~Rs 0.42 lakh crore. Systemic liquidity remained in deficit for most of November. Banks tapped the RBI's marginal standing facility to borrow cash overnight, which led to a rise in overnight rates. The second half of December 2023 will again face tightening of liquidity owing to concurrent occurrence of GST outflows and advance tax flows.

Benchmark spreads over G-secs

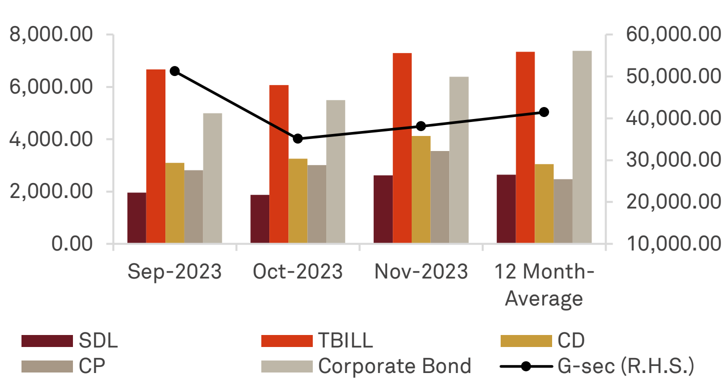
Spreads over G-sec*

Rating category	Date	PSUs/ corporates	NBFCs	Housing finance companies
AAA	31-Oct-23	0.39%	0.50%	0.44%
	30-Nov-23	0.39%	0.58%	0.55%
AA+	31-Oct-23	0.54%	1.07%	0.89%
	30-Nov-23	0.60%	1.11%	0.98%
AA	31-Oct-23	1.20%	1.74%	1.37%
	30-Nov-23	1.27%	1.74%	1.50%
AA-	31-Oct-23	1.89%	3.21%	2.32%
	30-Nov-23	1.94%	3.31%	2.36%

*Note: * Spreads are for five-year securities over annualised G-sec yield; selection of representative issuers has been re-evaluated as per periodic review*
Source: CRISIL MI&A Research

Trading volume across securities

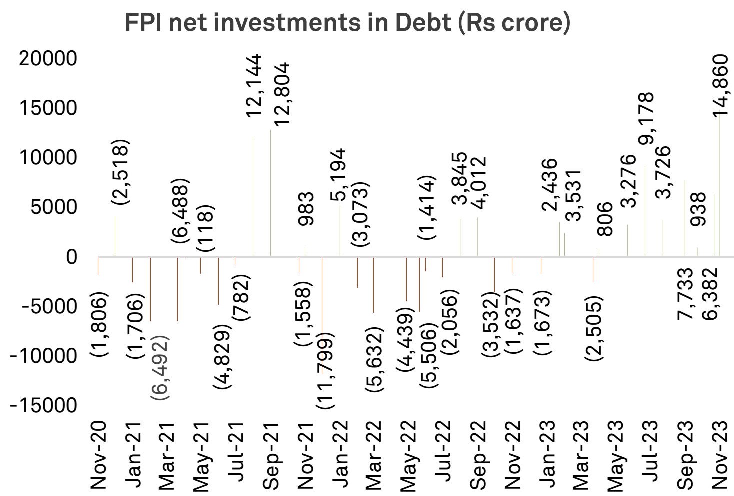
Monthly average trading volume (Rs crore)



Source: CRISIL MI&A Research

While the trading volume in G-secs increased 8.42%, that for SDLs surged 39.7%. Volume in T-bills rose 19.99%. Increase in primary issuances due to year-end demand led to higher trading volume in commercial papers (CPs) and certificates of deposit (CDs) by ~17.98% and ~26.86%, respectively.

FPIs continued to be net buyers in debt



Source: CRISIL M&IA Research

Net foreign portfolio investment (FPI) in debt was Rs 14,860 crore in November (the highest in 2023), compared with Rs 6,382 crore in October. Total inflows in calendar 2023 (till November-end) stood at Rs ~55,000 crore. The inclusion of Indian G-secs in the JP Morgan's Government Bond Index-Emerging Markets has spurred foreign fund participation in G-secs. We might see continued capital flows in the country ahead of index inclusion.

Key downgrades and upgrades

Upgrades

Issuer name	Old rating	New rating
Clean Max Enviro Energy Solutions Pvt. Ltd	CARE A-	CARE A+
Jindal Stainless Ltd	CRISIL AA-	CRISIL AA
BL Indigo	[ICRA]AA-(SO)	[ICRA]AAA(SO)
Heritage Max Realtech Pvt. Ltd	CARE B+	CARE BB
Punjab National Bank	[ICRA]AA	[ICRA]AA+
Union Bank Of India	[ICRA]AA+	[ICRA]AAA
Aviom India Housing Finance Pvt. Ltd	ACUITE BBB	ACUITE BBB+
Jorabat Shillong Expressway Ltd	IND D	IND AAA
Karur Vysya Bank Ltd	[ICRA]A+	[ICRA]AA-

Downgrades

Issuer name	Old rating	New rating
Guruvayoor Infrastructure Pvt. Ltd	[ICRA]B+	[ICRA]B-
Andhra Pradesh Capital Region Development Authority	CRISIL A-(CE)	CRISIL BBB+(CE)
Ashv Finance Ltd	ACUITE BBB+	ACUITE BBB
Vedanta Ltd	CRISIL AA	CRISIL AA-
UP Power Corporation Ltd	IND AA(CE)	IND A+(CE)
Dhani Loans and Services Ltd	IVR A	IVR BBB-
Quadrillion Finance Pvt Ltd	CARE BBB	CARE BBB-

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