

RateView

CRISIL's outlook on near-term rates

January 2024



Research

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December dash

The yield on the 10-year benchmark government security (G-sec; 7.18% GS 2033) opened December at 7.29% and closed at 7.18%, down 10 basis point (bps) from its November close of 7.28% and below CRISIL's forecast range of 7.23-7.33%.

The first week began with Indian bond yields easing, following a decline in US Treasury yields and crude oil prices. The 10-year domestic paper plummeted to a 7.24% low. Volumes remained subdued ahead of the Monetary Policy Committee's (MPC's) meeting outcome release on Friday. However, as the week progressed, bond yields strengthened, tracking higher US Treasury yields and crude prices, despite being weighed down by lower cut-offs in the weekly auction. The 10-year benchmark G-sec closed the week at 7.27%.

In the second week, yields eased, again, tracking a decline in US Treasury yields. The 10-year Treasury yield fell below 4% for the first time since August as the Federal Open Market Committee (FOMC) kept the federal fund rate unchanged at 5.25%-5.50% and indicated a cumulative 75 bps rate cut in 2024, followed by a 100 bps reduction in 2025. The yield eased 31 bps to close the week at 3.91%. The announcement of liquidity infusion through a seven-day variable rate repo (VRR) auction supported the bullish momentum. The Reserve Bank of India (RBI) conducted a VRR auction on December 15 (Friday) for a notified amount of Rs 1 lakh crore in view of likely outflows from the banking system on account of advance tax and Goods and Services Tax (GST) payments. The 10-year benchmark paper closed the week at 7.16%.

During the following weeks, bonds traded largely in a narrow price range, with market participants exercising caution ahead of the release of MPC's meeting minutes and US Personal Consumption Expenditures (PCE) price index data. Crude prices hovered below \$80/bbl amid Angola's decision to exit the Organization of the Petroleum Exporting Countries and higher crude output. RBI conducted a seven-day VRR auction on Friday for a notified amount of Rs 1.75 lakh crore at a weighted average rate of 6.70%. The 10-year benchmark G-sec closed the week at 7.19%.

In the week ended December 29, 2023, bonds traded in a narrow price range owing to lack of significant domestic and global cues. Crude prices declined as well, closing at \$77.07/bbl on lower disruptions in sea-borne transportation through the Red Sea. The 10-year benchmark paper closed the month at 7.18%.

CRISIL's outlook

On interest rates

Benchmark	December 31, 2023 (A)	January 31, 2024 (P)	March 31, 2024 (P)
10-year G-sec yield*	7.18%	7.16% - 7.26%	6.95% - 7.05%
10-year SDL yield	7.64%	7.66% - 7.76%	7.45% - 7.55%
10-year corporate bond yield	7.64%	7.66% - 7.76%	7.45% - 7.55%

A: Actual; P: Projected
Source: CRISIL MI&A Research

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

One-month view

In January, domestic G-sec yields are likely to remain stable. Low crude price and robust foreign portfolio investment (FPI) flows into the debt market will act supportive. An elevated December CPI inflation number could exert some upward pressure.

Three-month view

The 10-year Gsec is expected to soften through March supported by fiscal consolidation, downside to oil prices as global demand softens and continued foreign capital flows.

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).

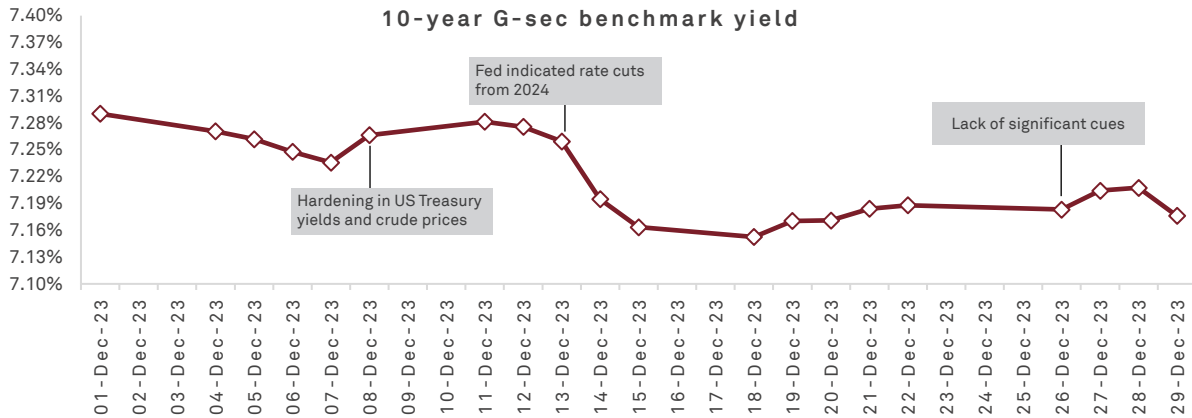
Factors influencing the outlook

Economic parameter	Our view	Impact on yields
Gross domestic product (GDP) growth	<ul style="list-style-type: none"> The National Statistical Office's (NSO) just-released first advance estimates project India's real gross domestic product (GDP) growth at 7.3% on-year for this fiscal, marginally higher than 7.2% in the previous. Stronger growth seen in the first half (H1) 7.7% is projected to moderate to 6.9% in H2. We expect this slowdown to continue as global growth slows and the lagged impact of RBI's rate hikes slows domestic demand. 	↓
Consumer price index (CPI) inflation	<ul style="list-style-type: none"> We expect consumer price index (CPI)-linked inflation to moderate to 5.5% in fiscal 2024 from 6.7% previous year Weak agricultural output and tight global food supplies pose upside risks to inflation this fiscal. However, easing input cost pressures for manufacturers and moderating domestic demand in the second half of this fiscal are expected to ease core inflation. CPI inflation accelerated to 5.6% in November from 4.9% previous month. 	↓
RBI's monetary policy	<ul style="list-style-type: none"> 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 global market volatility will prevent RBI from cutting rates this fiscal However, the RBI is using 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	<ul style="list-style-type: none"> 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 eight months of this fiscal, centre's fiscal deficit stood at 50.7% of the budget target, compared with 58.9% in same period last year. Capital and revenue expenditure as a proportion of budget target has been lower relative to the same period last year. 	↓
Crude oil prices	<ul style="list-style-type: none"> 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 \$77.9 per barrel average in December, 6.4% lower on-month and 3.7% lower on-year. 	↓

Economic parameter	Our view	Impact on yields
Current account balance	<ul style="list-style-type: none"> 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 trade surplus and remittances will keep CAD in check. CAD narrowed to 1% of GDP in the second quarter of fiscal 2024 from 1.1% of GDP previous quarter. 	↓
US Federal Reserve's stance	<ul style="list-style-type: none"> S&P Global expects the Fed to start cutting rates around mid-2024 The Fed kept its policy rate unchanged at 5.25-5.50% for the third consecutive time at its December meeting. However, it indicated a more aggressive easing path in 2024, with year-end policy rate reaching 4.6% compared with 5.1% projected previously 	↔
Liquidity indicators i) Demand & Supply	<ul style="list-style-type: none"> Total Issuance in Corporate Bond in the month of December were 98000 crores.(5 month high as rates ease). Treasury bill supply will increase ~26% to Rs 393,000 crore. SDL supply will increase ~66% to Rs 4,13,452 crore from the previous quarter. 	↑
ii) Call rates/LAF (liquidity adjustment facility)	<ul style="list-style-type: none"> Interbank call money rates remained well above RBI's repo rate of 6.50% for most of December, before closing at 6.05% on December 29 (average of 6.51% during the month). Overnight rates consistently stayed above the upper end of RBI's policy corridor through the month, owing to a widening banking system liquidity deficit. Almost the entire second half of December saw tight liquidity conditions. To combat the significant liquidity deficit, RBI conducted seven-day VRR auctions periodically 	↑

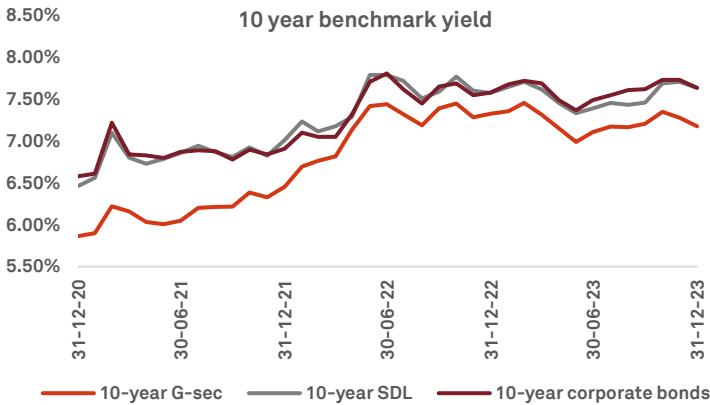
CRISIL's outlook on interest rates

December at a glance



Source: CRISIL MI&A Research

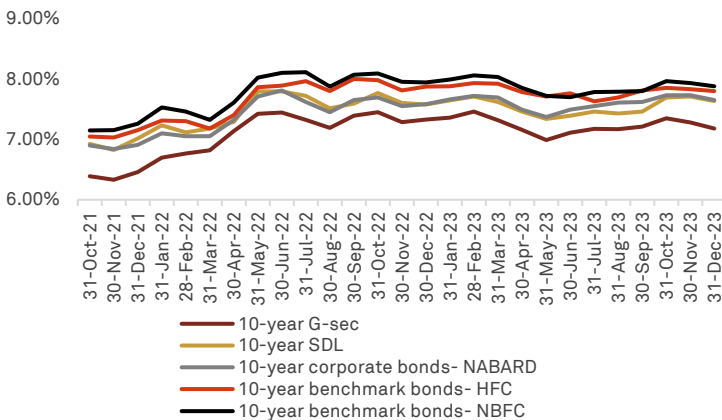
Benchmark yields eased across securities



Source: CRISIL MI&A Research

Yield on the 10-year benchmark G-sec closed December at 7.18%, down 10 bps from its November close, and that on the 10-year SDL was down 7 bps to 7.64% from 7.71%. Yield on CBs (10-year PSU FI) also eased 9 bps to close at 7.64%.

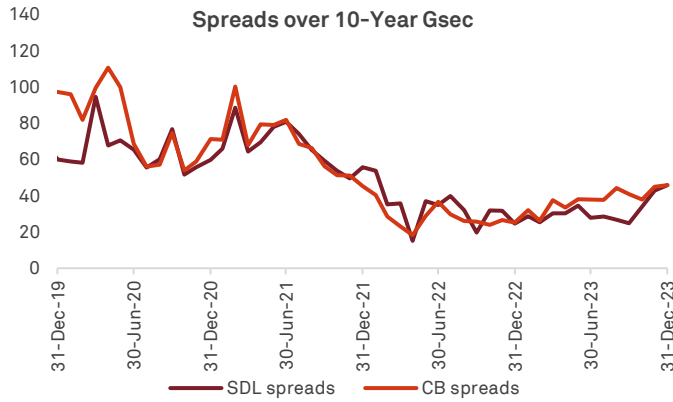
10-year G-sec/ SDL/CB benchmark yields



Source: CRISIL MI&A Research

Yield on the 10-year benchmark bonds — housing finance company (HFC) — softened 3 bps on-month to 7.80% in December and that on the 10-year benchmark bonds for AAA-rated NBFCs and AAA-rated PSU bonds closed at 7.88% and 7.65%, down from November's 7.93% and 7.73%, respectively.

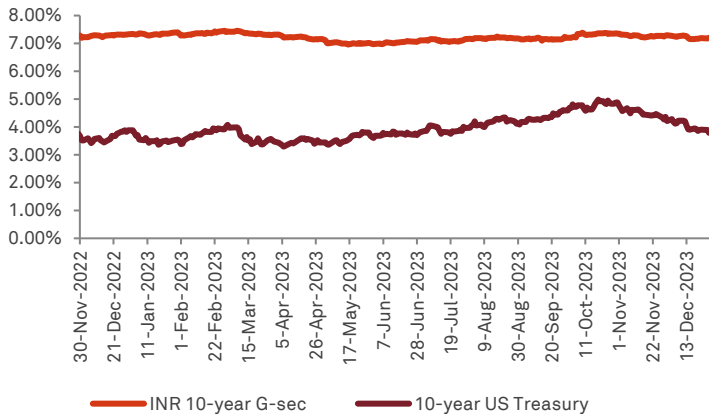
SDL spreads over 10-year benchmark G-sec harden



Source: CRISIL MI&A Research

The spread on the 10-year benchmark SDL over the 10-year benchmark G-sec closed December at 46 bps, up from November's 43 bps. The widening was due to higher cut-off yields at the primary auction. That on the 10-year AAA-rated public sector CB increased from 45 bps to 46 bps. The 12-month average spreads for the 10-year benchmark SDL and CB over the 10-year benchmark G-sec were ~32 bps and ~38 bps, respectively.

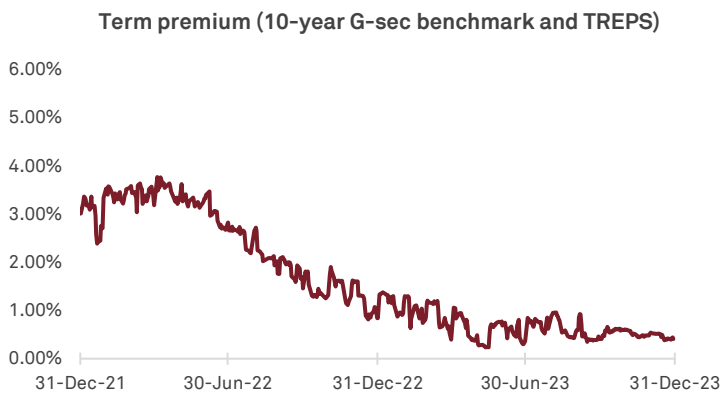
US Treasury yields soften



Source: CRISIL MI&A Research

The 10-year Treasury yield closed December at 3.88%, down 49 bps from November's 4.37%. The monthly average spread between the domestic 10-year benchmark G-sec yield and 10-year Treasury yield hardened to 330 bps from 291 bps. Treasury yields eased due to softer US PMI print, and Fed's indication of cumulative rate cuts in 2024.

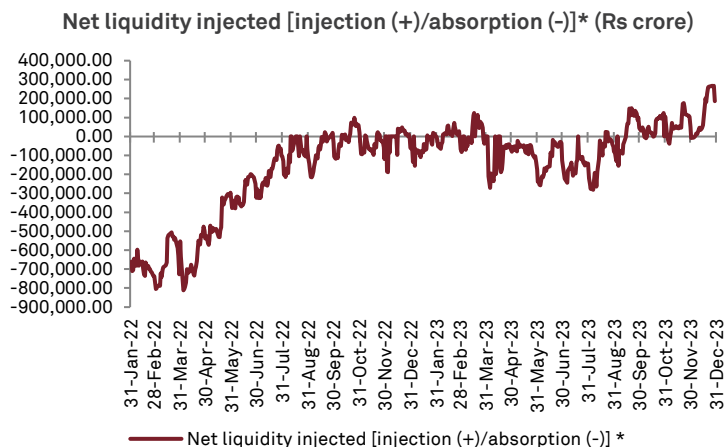
Term premium between 10-year benchmark G-sec and TREPS narrows



Source: CRISIL MI&A Research

The average spread between the 10-year benchmark G-sec yield and tri-party repos (TREPS) lowered to ~41 bps in December from ~52 bps in November. The 12-month average spread was at ~68 bps.

Systemic liquidity



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

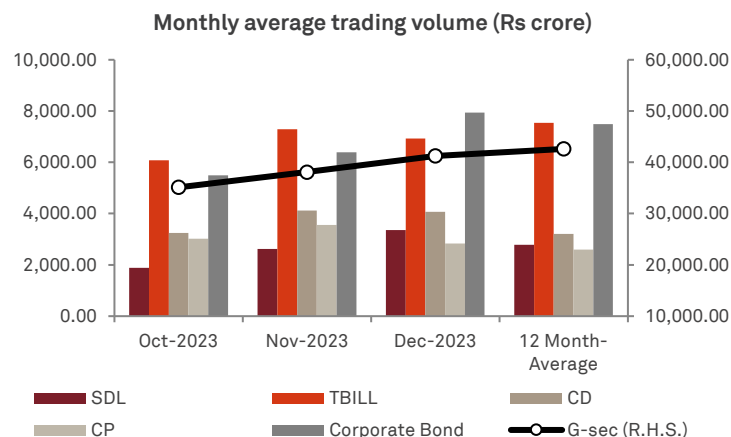
The average deficit in systemic liquidity was ~Rs 1.17 lakh crore in December, as against ~Rs 0.61 lakh crore in November. The average surplus over the past 12 months was ~Rs 0.34 lakh crore. Systemic liquidity remained in deficit for the most part of December. The second half of the month saw liquidity tighten owing to concurrent GST outflows and advance tax flows. To support liquidity, RBI conducted four VRR auctions, which, however, did not help combat the higher deficit in the banking system.

Benchmark spreads over G-sec widened

Spreads over G-sec*				
Rating category	Date	PSUs/ corporates	NBFCs	Housing finance companies
AAA	30-Nov-23	0.39%	0.58%	0.55%
	31-Dec-23	0.54%	0.78%	0.62%
AA+	30-Nov-23	0.60%	1.11%	0.98%
	31-Dec-23	0.77%	1.32%	1.09%
AA	30-Nov-23	1.27%	1.74%	1.50%
	31-Dec-23	1.46%	1.97%	1.68%
AA-	30-Nov-23	1.94%	3.31%	2.36%
	31-Dec-23	2.04%	3.51%	2.47%

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

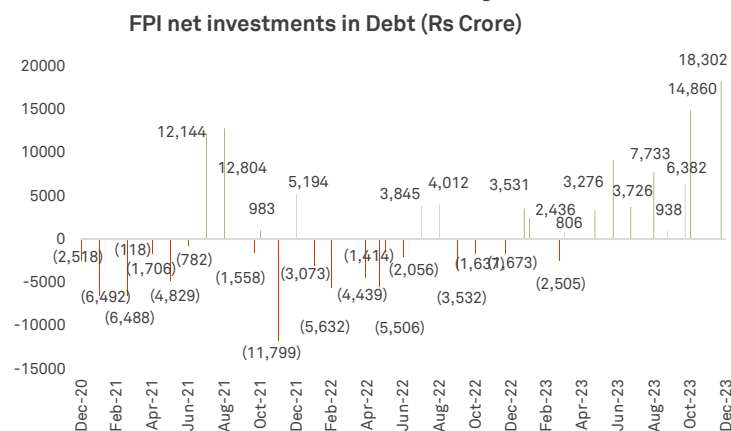
Trading volume across securities



Source: CRISIL MI&A Research

Trading volume in G-secs increased 8.3% and in SDLs, 27.87%, due to higher borrowings. In Treasury bills, however, it declined 4.92%. An increase in primary issuances due to year-end demand led to higher trading volume in commercial papers (CPs) and CDs in November than in December, wherein volume decreased ~20.46% and ~1.35%, respectively. Volume in CBs surged 25% in December.

FPIs continued to be net buyers in debt



Source: CRISIL MI&A Research

Net FPI in debt was Rs 18302 crore in December (the highest in 2023), compared with Rs 14860 crore in November. Total inflows in 2023 stood at Rs ~69000 crore. The inclusion of Indian G-secs in the JP Morgan Government Bond Index-Emerging Markets has spurred foreign fund participation in G-secs. We might see continued capital flows in the country ahead of the index inclusion.

Key downgrades and upgrades

Upgrades		
Issuer name	Old rating	New rating
Vivriti Capital Ltd.	CARE A	CARE A+
Veritas Finance Pvt. Ltd.	CARE A	CARE A+
Union Bank of India (AT-1 Bonds)	CRISIL AA	CRISIL AA+
Union Bank of India (Non-AT-1 Bonds)	CRISIL AA+	CRISIL AAA
SBFC Finance Ltd.	IND A+	IND AA-
Satin Credit care Network Ltd.	[ICRA]A-	[ICRA]A
Punjab National Bank	BWR AA	BWR AA+
Prolific Resolution Pvt. Ltd.	[ICRA]B	[ICRA]BB-
Liquid Gold (PTC)	[ICRA]AA(SO)	[ICRA]AAA(SO)
Jindal Stainless Ltd.	IND AA-	IND AA
IDBI Bank Ltd.	CARE A+	CARE AA-
Hindustan Construction Co. Ltd.	[ICRA]B	[ICRA]BB
DLF Cyber City Developers Ltd.	[ICRA]AA	[ICRA]AA+
Chaitanya India Fin Credit Pvt. Ltd.	CRISIL A	CRISIL AA-
CanFin Homes Ltd.	[ICRA]AA+	[ICRA]AAA
Belstar Microfinance Ltd.	CRISIL AA-	CRISIL AA

Downgrades		
Issuer name	Old rating	New rating
Tapir Constructions Ltd.	IVR A(CE)	IVR A-(CE)
NIDO Home Finance Ltd.	CRISIL AA-	CRISIL A+
Inditrade Microfinance Ltd.	ACUITE BBB+	ACUITE C
Finquest Financial Solutions Pvt. Ltd.	BWR B+	BWR B-
Essel Lucknow Raebareli Toll Roads Ltd.	CARE BBB	CARE BB+
Edelweiss Rural & Corporate Services Ltd.	CRISIL AA-	CRISIL A+
Edelweiss Retail Finance Ltd.	CRISIL AA-	CRISIL A+
Edelweiss Financial Services Ltd.	CRISIL AA-	CRISIL A+
Edelweiss Finance Co. Ltd.	CRISIL AA-	CRISIL A+
ECL Finance Ltd.	CRISIL A+	CRISIL A
ECap Equities Ltd.	CRISIL AA-	CRISIL A+
Bandhan Bank Ltd.	CRISIL AA	CRISIL AA-
Andhra Pradesh State Beverages Corp. Ltd.	ACUITE AA+(CE)	ACUITE AA(CE)
Andhra Pradesh Capital Region Development Authority	CRISIL BBB+(CE)	CRISIL BBB(CE)

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