



Burgundy

Wealth Management | Axis Bank

Fixed Income Update

1st December 2019 – 15th December 2019

Key Events in the Period

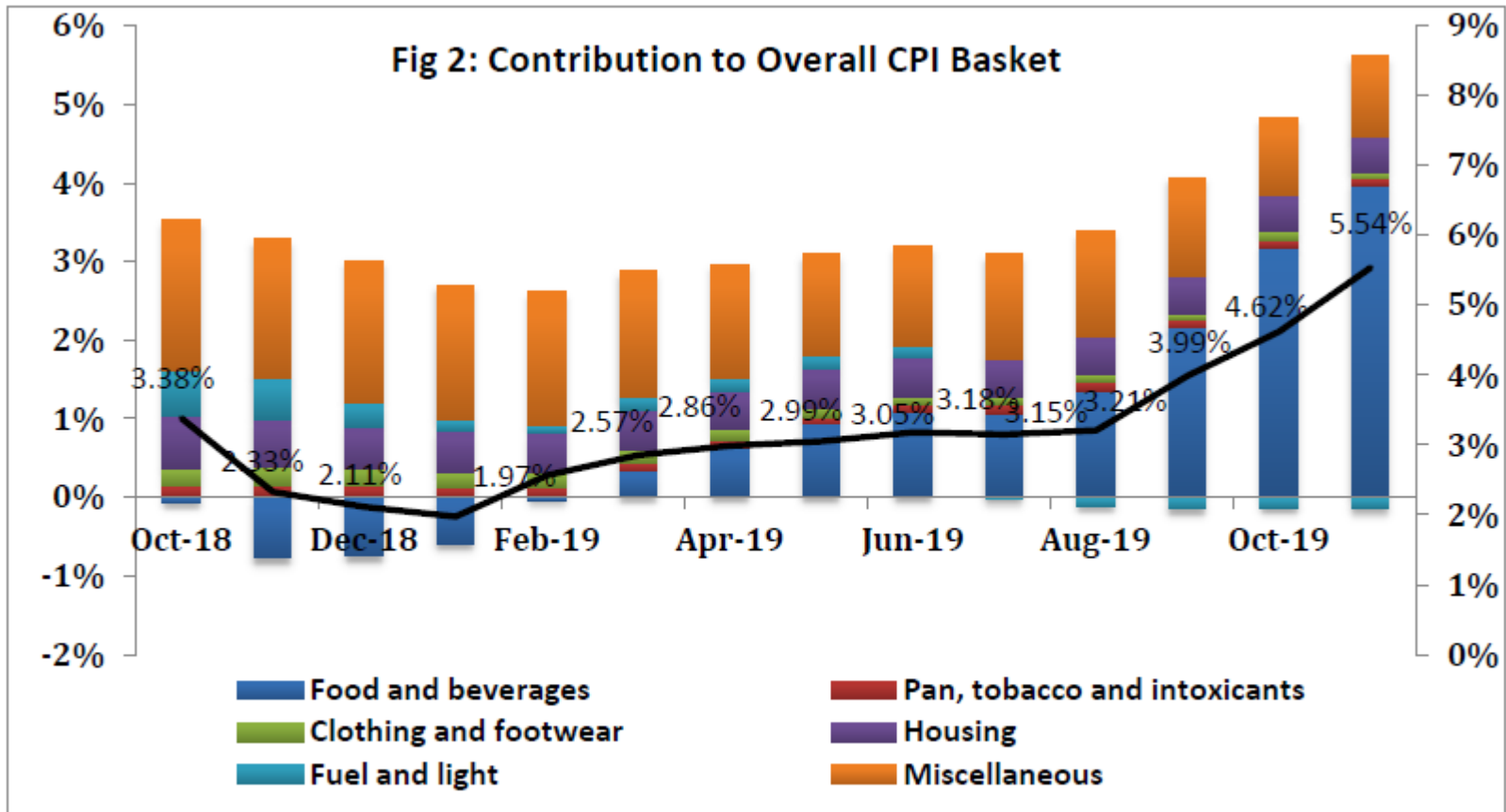
- Belying market expectations, CPI for the month of Nov-19 surged to 40-month high at 5.54% as compared to 4.62% a month prior.
- On the other hand, core CPI inflation stood at 3.48% as compared to 3.47% in the month prior.
- While food inflation witnessed a massive price rise of 8.66% (YoY), highest level in last 5 years, fuel inflation contracted by 2.06% (YoY) for the fifth consecutive month in this financial year.
- Index of Industrial Production contracted for the third consecutive month and came in at -3.8% in Oct-19 as compared to -4.3% in Sep-19.

Market Indicators	01-Dec-19	15-Dec-19
CPI (%)	4.62	5.54
CBLO Wt Avg. (%)	5.04	4.97
Indian Crude Oil Basket (USD/bbl)	63.79	65.82
INR / 1 USD	71.58	70.53
Gold Price (\$)	1,457.60	1,477.54

Source: RBI Website ,CCIL Website, Press Information Bureau - GOI , IBJA Website, Axis Bank Investment Research

- Market movements in the week were driven by negative sentiments originated by multiple triggers. Since, MPC voted to keep the policy repo rate unchanged at 5.15% in December meeting, bond yields have witnessed an upward movement of approximately 25-35 bps.
- Further, rise in US treasury yields and crude oil prices amid stronger US economic data and US-China trade deal weighed on the domestic bond yields.

Event in Charts /Numbers



Contribution is left scaled, CPI is right scaled

Money Markets

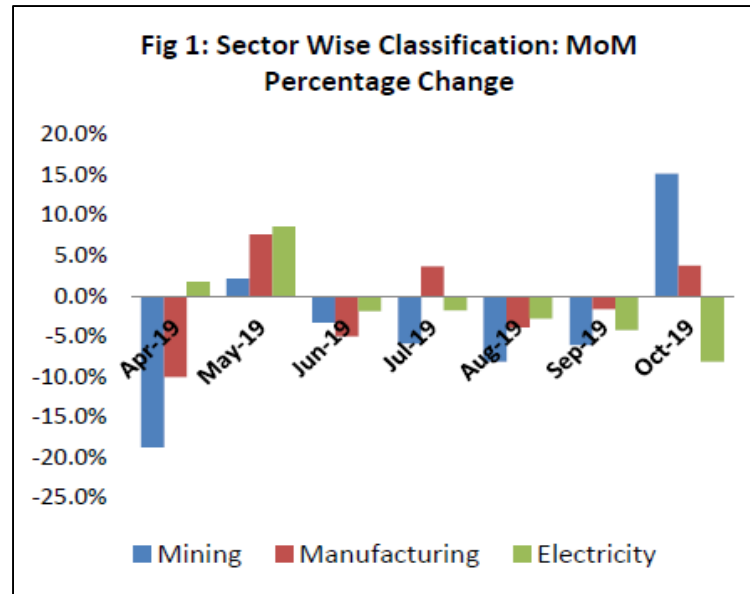
Money Market Asset Rates (%)			
Nomenclature	01-Dec-19	15-Dec-19	Change in yields
CBLO	5.05	5.24	-0.19
91 Day T-Bill	4.95	5.00	-0.05
364 Day T-Bill	5.11	5.25	-0.14
3 Month CD	5.05	5.04	0.01
6 Month CD	5.40	5.50	-0.10
1 Year CD	5.80	5.85	-0.05
3 Month CP	5.35	5.30	0.05
6 Month CP	6.35	6.10	0.25
1 Year CP	6.75	6.63	0.12

Source: CCIL Website, Axis Bank Investment Research

- S&P indicated the possibility of downgrading India's rating if growth conditions do not improve in the coming years.
- As the inflation print inched up to a 40-month high level, way above market expectations, bonds yields further shot up.
- RBI infused average gross liquidity via Repo under LAF window worth Rs 3,322 Cr in this week compared to an infusion of Rs 3,590 Cr in previous week. Average infusions via the MSF route stood at Rs 4,164 Crs.

Market Tidings

- Industrial production contracted for the third consecutive month by 3.8%. However, the print came in as a surprise as there was some improvement as compared to last month's print of -4.3%. Average growth in the period Apr-Oct 19 stands at -0.4% as against a growth of 3.8% observed last year for the same period.
- On a year on year basis all the sectors, mining, manufacturing and electricity noted a negative growth momentum of 8%, 2.1% and 12.2% respectively as compared to strong growth momentum of 7.3%, 8.2% and 10.8% respectively observed in the corresponding period last year.

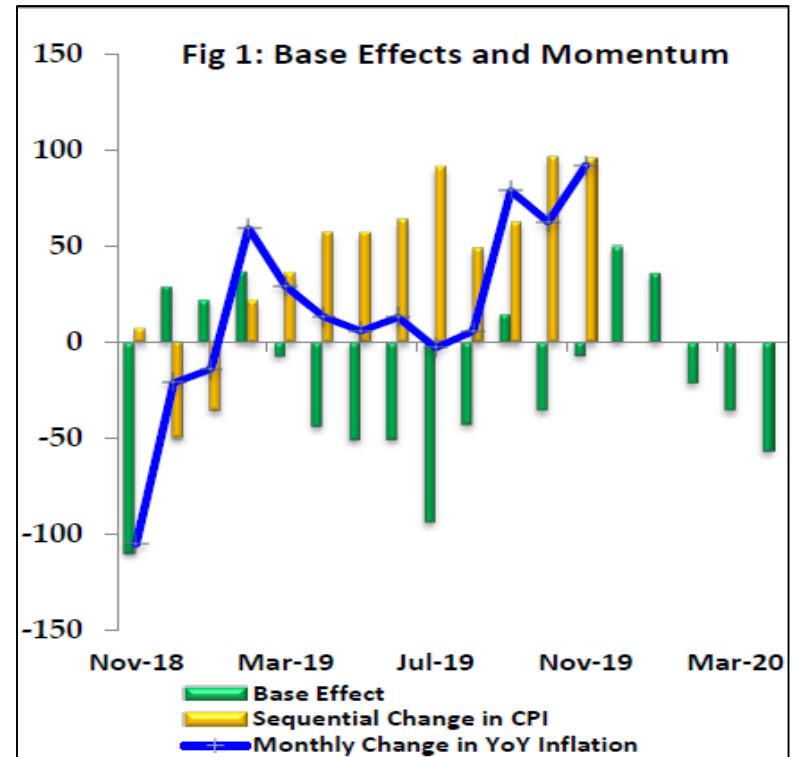


Market Tidings

In December monetary policy meeting, the committee unanimously voted to keep the policy repo rate unchanged at 5.15% considering the uptrend in CPI.

With CPI at 40-month high level along with growth witnessing some signs of improvement as shown in the IIP print, the possibility of MPC voting for a rate cut in the upcoming monetary policy seems to be fading.

With rising inflation amidst fiscal concerns, its expect the 10Y benchmark paper 6.45% GS 2029 to trade in the range of 6.70-6.95% in the near term.



Corporate and Tax Free Bonds

AAA Rated PSU Corporate Bond Yields and Spreads (%)					
Benchmark	Yield			Spread over G-Sec	
	01-Dec-19	15-Dec-19	Change in yields	01-Dec-19	15-Dec-19
2 Year AAA Rated Benchmark	6.33	6.60	-0.27	0.95	0.88
3 Year AAA Rated Benchmark	6.58	6.80	-0.22	0.85	0.83
5 Year AAA Rated Benchmark	6.80	7.10	-0.30	0.41	0.49
10 Year AAA Rated Benchmark	7.45	7.75	-0.30	0.64	0.54

Source: NSE India Website, Axis Bank Investment Research

AAA Rated Tax Free Bond Rates (%)			
Security	01-Dec-19	15-Dec-19	Approximate Change in yields
10 Year Tax Free Bond	5.70- 5.75	5.70- 5.75	0.02 - 0.05
15 Year Tax Free Bond	5.70- 5.75	5.70- 5.75	0.02 - 0.05
20 Year Tax Free Bond	5.70- 5.75	5.70- 5.75	0.02 - 0.05

Source: NSE India Website, Axis Bank Investment Research

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