PGIM
India Mutual Fund

Fixed Income Weekly Update

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20th November - 24th November 2023

Indian Markets:

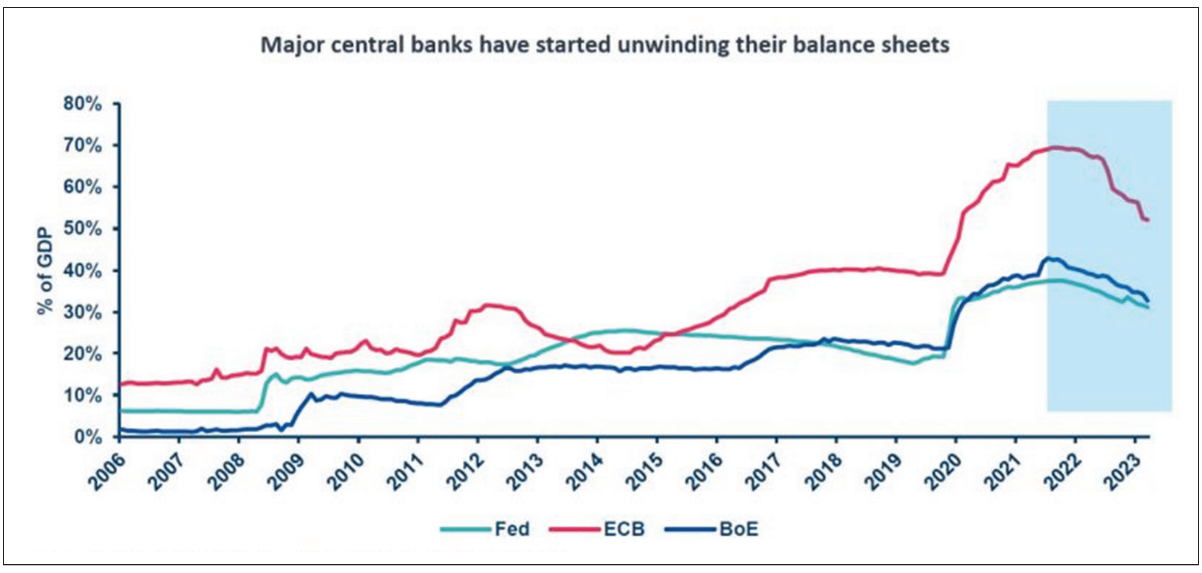
Indian Bond Yields inched higher during the week on profit booking after the sharp rally since the start of this month. The benchmark 10yr Bond yield had fallen by 15 bps from the start of the month till the end of last week. This week the yields retraced a bit and rose by 5bps ending the week at 7.27% from last weeks closing of 7.22%. The market action was generally quite lacklustre throughout the week as liquidity remained tight and the RBI governor reiterating the hawkish stance of RBI while acknowledging that the monetary policy was working as reflected in the moderating core Inflation. The continuous tightness in interbank liquidity has negated any immediate need for RBI OMO sales and currently the market does not expect any formal OMO bond sales announcement by RBI. INR continues to be under pressure closing the week at a record low of 83.38 against the dollar weakening by 11 paise on the week. This despite crude dipping below 79 following the delay in the OPEC meeting though it bounced back above 80 by the end of the week almost flat from last weeks closing. Given the continuous pressure on INR and lack of government spending we expect banking system liquidity to remain tight as currency in circulation is likely to pick up pace going ahead.

RBI governor reiterated the cautious stance on unsecured lending while delivering a speech urging lenders to be more prudent in lending for sustainable growth

The overnight Index swap curve (OIS) curve moved up on similar lines as bonds following the sharp fall earlier in the month. The 5yr OIS was up by 13bps ending the week at 6.58% and the 1yr OIS was higher by 8bps ending the week at 6.92%, reversing some of the flattening trend seen last week.

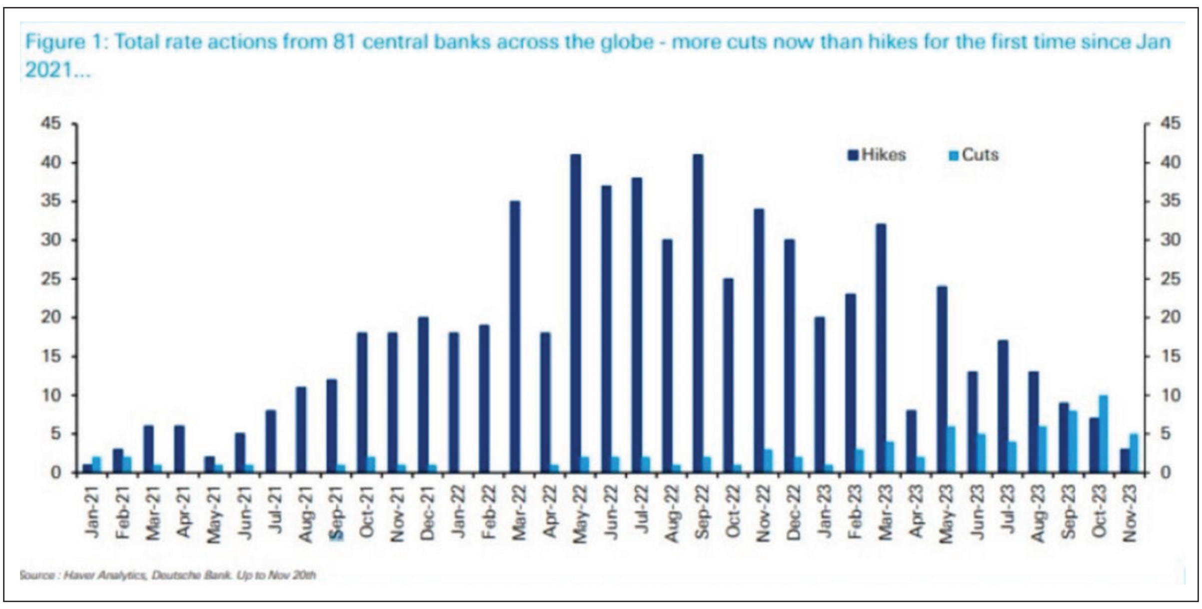
International Markets:

The global bond yields were stable on lack of any major market triggers with data supporting the soft landing theory. The benchmark US10yr bond yield was flat on the week up by 2 bps ending the week at 4.47% from 4.45%. The US treasury market is pricing in rate cuts from June 2024 onwards. Given the incoming data we believe that the major global central banks are done with rate hikes though rate cuts are still some time away. The dollar index weakened further during the week to 103.40 from 103.90, last week. Even as rate hikes come to end, the major central banks balance sheet are shrinking.



Source:Amundi Investment Institute on Bloomberg data, asof 19 September 2023

Even though the rate cuts by major economies are still some time away , worldwide monetary policy has started easing as shown in the graph below.



Our View

We believe that global monetary tightening has come to a pause though rate cuts by major central banks are still sometime away. RBI will also be on a long pause. We think that the broad range of the benchmark 10yr bond yield will be between 7.15% to 7.35% over the next couple of months. Given the recent rise in yields which has pushed back the expectations of rate cuts, yields have entered attractive territory and investors can look to increase allocation to Fixed Income as growth is expected to slow down towards the end of the year.

Investors with medium to long term investment horizon can look at funds having duration of 3-4yrs with predominant sovereign holdings as they offer a better risk reward currently. Investors having an Investment horizon of 6-12 months can look at the money market funds as yields are pretty attractive in the 1yr segment of the curve.