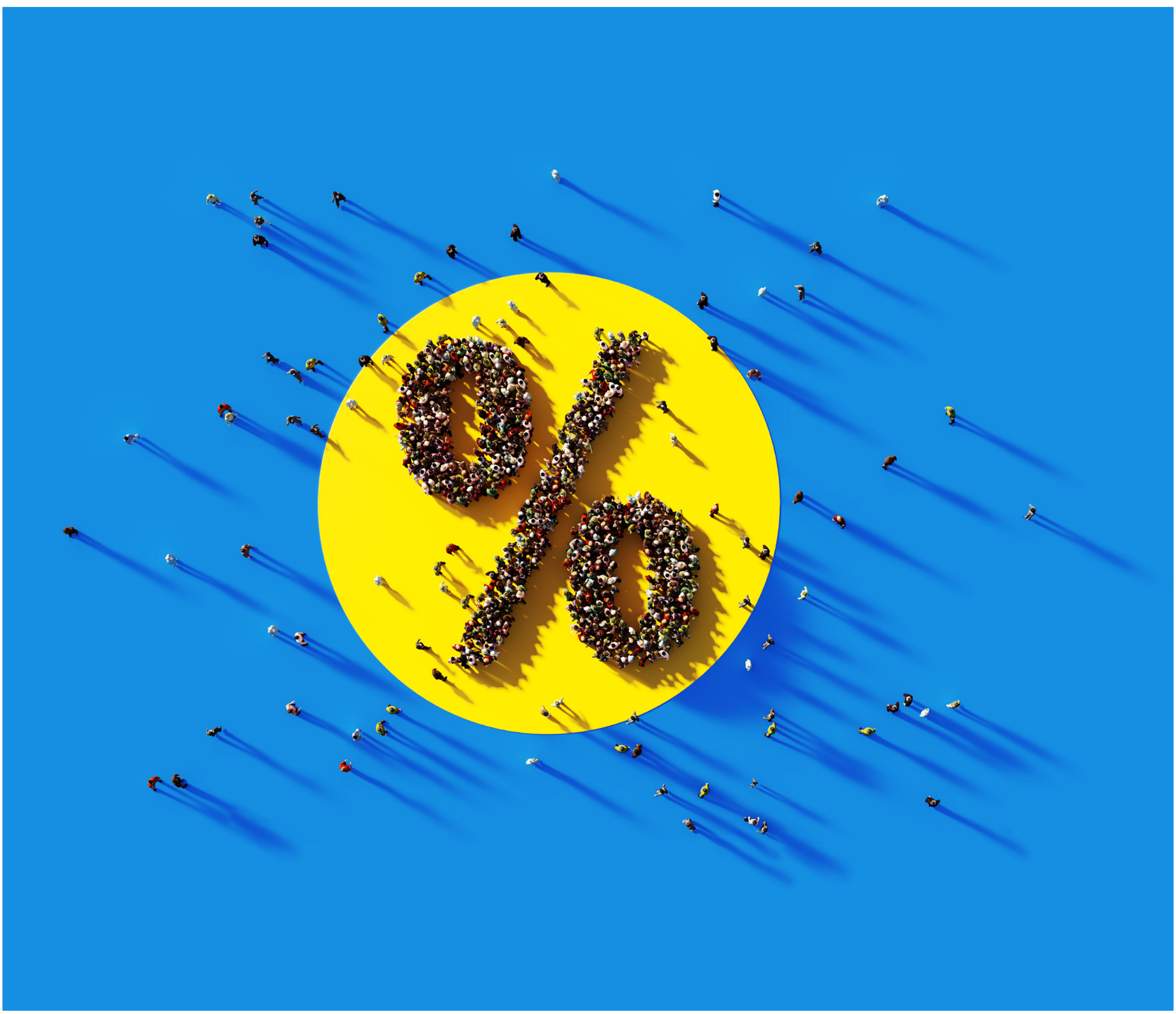
Market Intelligence
& Analytics

CRISIL
An S&P Global Company

RateView

CRISIL's outlook on near-term interest rates

May 2024



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Anxious April

The yield on the old 10-year benchmark government security (G-sec; 7.18% GS 2033) opened April at 7.11% and closed at 7.20%, up 15 basis points (bps) from its March close of 7.05% and above CRISIL's forecast range of 7.07-7.17%.

The first week started on a weak note, tracking a surge in US Treasury yields and increase in crude oil prices. Securities traded in a narrow price range until the outcome of the Reserve Bank of India's Monetary Policy Committee (MPC) meet in April was known. The MPC kept the key repo rate unchanged at 6.50% for the seventh time in a row. In response, the old 10-year benchmark 7.18% GS 2033 closed at 7.12% and the new one (7.10 GS 2034) at 7.09%.

In the next week, too, bonds opened with a negative bias as the upswing in US Treasury yields and crude continued. Data released on April 12 showed that India's Consumer Price Index (CPI)-based inflation for March printed at 4.85%, lower than the previous month's 5.09%. However, US CPI inflation in March accelerated to 3.48% from the previous month's 3.15%. The RBI announced the G-sec auction cut-off of the new 10-year and 15-year paper at 7.10% and 7.23%, respectively. Reacting to the US inflation data, the yield on the old 10-year benchmark closed at 7.18%, while that on the new one closed at 7.14%.

Yields continued the upward journey in the third week owing to foreign portfolio investor (FPI) outflows and worries over the global economy. Geopolitical tensions and apprehensions around the timing of rate cuts in the US also put pressure on sentiment. As a result, the old 10-year benchmark yield closed at 7.23% and the new one at 7.16%.

The fourth week began with a softening of yields, largely because of short covering. As the week progressed, yields hardened on short bets by traders, ahead of the G-sec auction. A decline in US Treasury yields and lower crude oil prices also kept market sentiment upbeat. Thus, the week ended on a positive note with the old benchmark paper closing at 7.20% and the new one at 7.16%, marking the first weekly decline in the new fiscal.

CRISIL's outlook

On interest rates

Benchmark	April 30, 2024 (A)	May 31, 2024 (P)	July 31, 2024 (P)
10-year G-sec yield*	7.20%	7.07% - 7.17%	7.09% - 7.19%
10-year SDL yield	7.48%	7.37% - 7.47%	7.41% - 7.51%
10-year corporate bond yield	7.52%	7.42% - 7.52%	7.47% - 7.57%

A: Actual; P: Projected (7.10 GS 2034)
Source: CRISIL MI&A Research

One-month view

In May, domestic G-sec yields are likely to be influenced by factors such as movements in crude oil prices, rupee-dollar equation, expectation of election outcome, one-time annual dividend by the RBI, inflows of FPI and domestic funds into the debt market and announcement of G-sec auctions, among others.

Three-month view

The 10-year G-sec yield is expected to react to crude oil prices, global interest rates, the CPI inflation print, FPI flows and expectations of US Federal Reserve's rate decision. The outcome of the general election, global cues and liquidity concerns can also impact the yields.

Framework for the outlook

CRISIL provides its outlook on key benchmark rates for different debt classes — 10-year G-secs, state development loans (SDLs) and corporate bonds — 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

Factors influencing the outlook

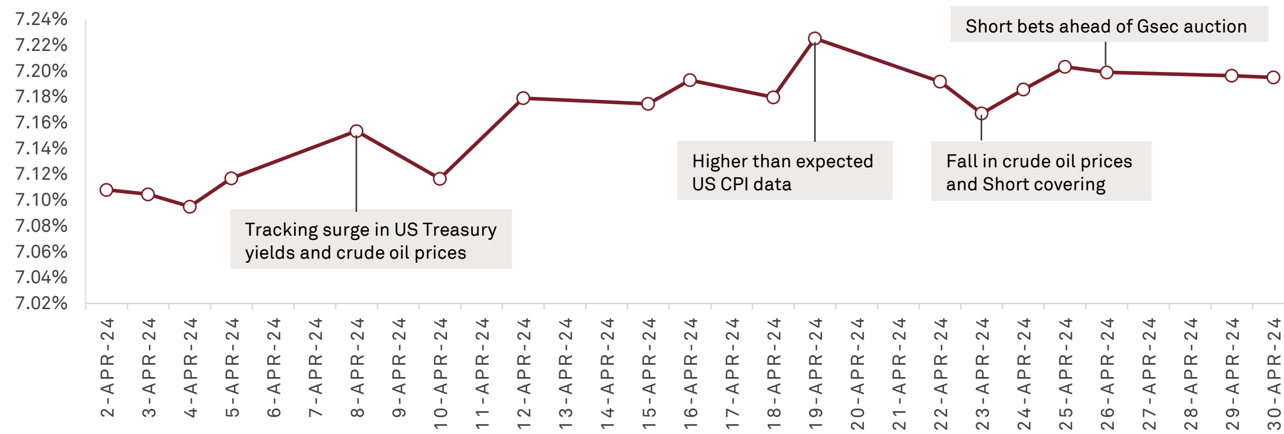
Economic parameter	Our view	Impact on yields
GDP growth	• We expect real GDP growth to moderate to 6.8% this fiscal from 7.6[1]% last fiscal. • High interest rates and lower fiscal impulse will temper growth. Uneven growth in key trade partners will restrict the export recovery. But budgetary support to capex and rural incomes will support the overall economic growth. • Real GDP growth accelerated to 8.4% on-year in the third quarter of fiscal 2024 from 8.1% in the previous quarter.	↓
CPI inflation	• We expect CPI inflation to soften to 4.5% in fiscal 2025 from an estimated 5.4% in the previous fiscal. • Food — the pain point for inflation last fiscal — could ease if monsoon turns favourable this year, as weather forecasts suggest. Weather risks and the uptick in crude oil prices will be the key monitorables. • In March, CPI inflation eased to 4.9% from 5.1% in the previous month.	↓
RBI's monetary policy	• We expect two policy rate cuts by the RBI this fiscal. • Given the uneven inflation trends, the MPC is awaiting clearer signs of easing towards the 4% target before cutting rates. Risks from weather, crude prices and US interest rates are the monitorbales. • The MPC kept policy rates unchanged in its April meeting, while sticking to its stance of withdrawal of accommodation.	↔
Fiscal health	• The budget proposes to reduce the Centre's fiscal deficit to 5.1% of GDP this fiscal from 5.8% of GDP last fiscal. • Gross market borrowing is estimated at Rs 14.1 lakh crore for fiscal 2025, 8.4% lower on-year. The government plans to borrow 53.1% of the budgeted borrowings in the first half of the fiscal.	↓
Crude oil prices	• We expect crude prices to average in the $83-88 per barrel range this fiscal compared with $83 per barrel last fiscal. • Brent crude oil prices increased to $90.1 per barrel on average in April, 5.4% higher on-month and 7.1% higher on-year.	↑

[1]NSO Second Advance Estimate

Economic parameter	Our view	Impact on yields
Current account balance	• We expect the current account deficit (CAD) to average at 1.0% of GDP this fiscal, the same as our estimate for last fiscal. • Moderation in domestic growth and resilience in exports, given the forecasted uptick in global trade volume this year over last, will keep the trade deficit and, hence, CAD in check. • CAD narrowed to 1.2% of GDP in the third quarter of fiscal 2024 from 1.3% of GDP the previous quarter.	↓
US Federal Reserve's stance	• S&P Global expects the Fed to start cutting rates in December, later than its earlier forecast of July. • At its April-May meeting, the Federal Open Market Committee (FOMC), the rate setting panel of the Fed, kept its policy rate unchanged at 5.25-5.50% for the sixth consecutive time.	↔
Liquidity indicators - Demand and supply	Supply: • Buyback of G-secs worth Rs.40,000 crore, which is expected to impact liquidity and ease short-term yields in May. • In April, ~52% of the budgeted amount was accepted in SDL auctions. • Commercial paper issuances during the month stood at Rs 82,500 crore and corporate bond at Rs 36,720 crore compared with Rs 150,860 crore and Rs 127,307 crore in March, respectively. Demand: • Continued demand seen for duration bonds from long-term investors such as pension funds and insurance companies.	↔
- Call rates/ liquidity-adjustment facility	• Interbank call WAR money rates averaged at 6.56% in April, marginally above the RBI's repo rate of 6.5%. Liquidity in the banking system has improved in the current fiscal, after having remained in deficit for most of the last fiscal. • Government spending and some intervention by the central bank in the forex market brought about the improvement. The surplus liquidity prompted the RBI to conduct seven variable rate reverse repo (VRRR) auctions to absorb the excess cash.	↓

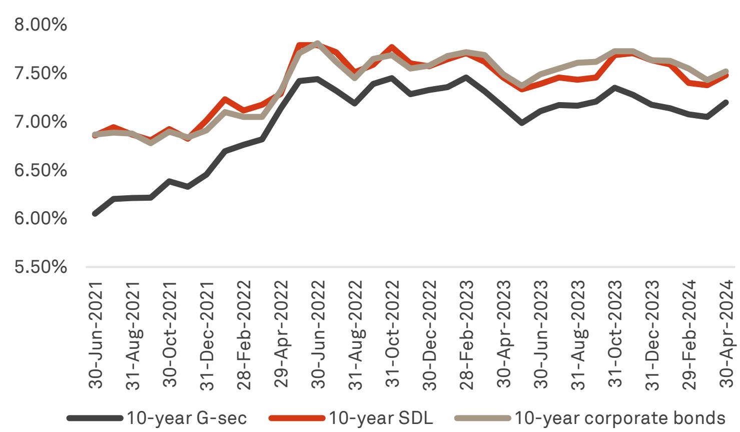
April at a glance

10-year G-sec benchmark yield



Source: CRISIL MI&A Research

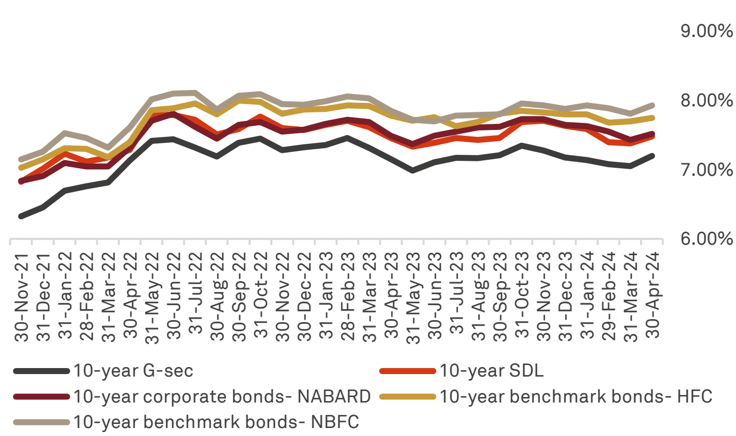
Benchmark yields harden across securities



Source: CRISIL MI&A Research

The yield on the 10-year benchmark G-sec closed April at 7.20%, up 15 bps from its March close. The yield on the 10-year SDL closed at 7.48%, up 10 bps from 7.38%. Yield on corporate bonds (10-year PSU FI) also hardened 9 bps to close at 7.52%.

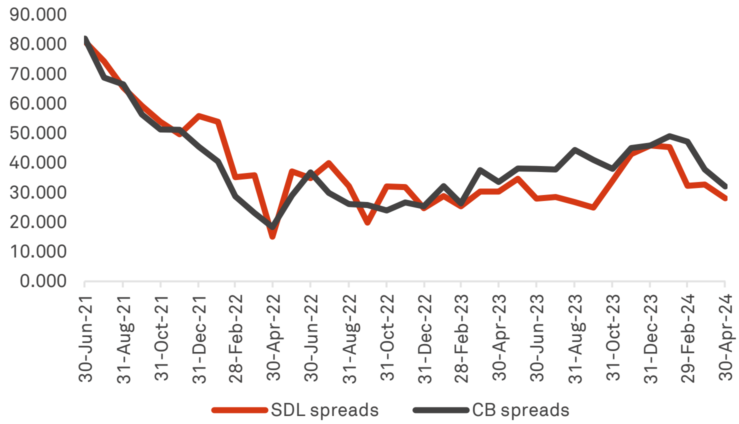
10-year G-sec/ SDL/ corporate bonds benchmark yields



Source: CRISIL MI&A Research

The yield on the 10-year benchmark AAA-rated PSU bonds closed at 7.52%, up from 7.43% in March, and that on AAA-rated NBFCs hardened 12 bps on-month to close at 7.93% in April. Housing finance companies closed at 7.75% in April, up 5 bps from 7.70% in March.

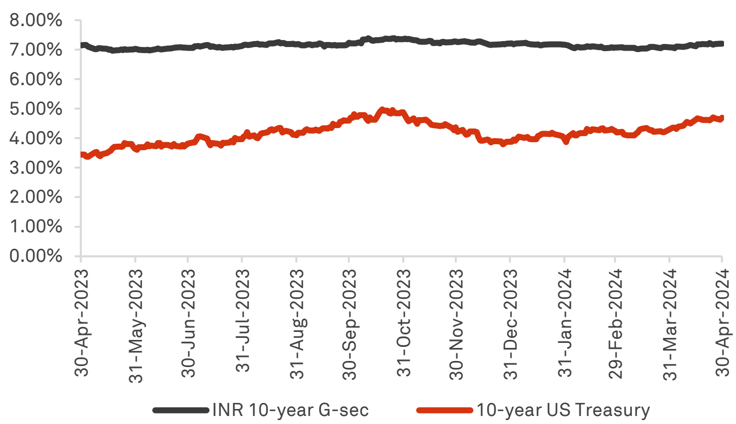
Corporate bond and SDL spreads over 10-year benchmark G-sec ease



Source: CRISIL MI&A Research

The 10-year benchmark SDL spread over the 10-year benchmark G-sec closed April at 28 bps, 5bps down from 33 bps in March. The 10-year AAA-rated public sector corporate bond spread narrowed from 38 bps to 32 bps. The 12-month average spreads for the 10-year benchmark SDL and corporate bond over the 10-year benchmark G-sec were ~34 bps and ~41 bps, respectively.

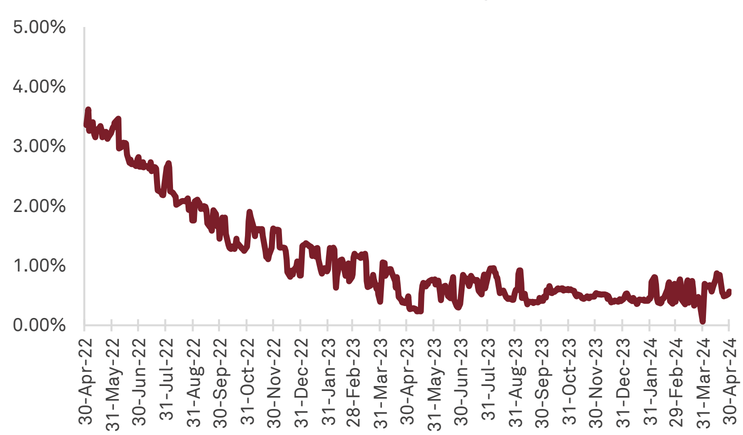
US Treasury yields harden



Source: CRISIL MI&A Research

The 10-year US Treasury yields hardened and closed April at 4.69%, up 49 bps from 4.20% in March. The monthly average spread between the domestic benchmark 10-year G-sec yield and the 10-year Treasury yield eased to 261 bps.

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

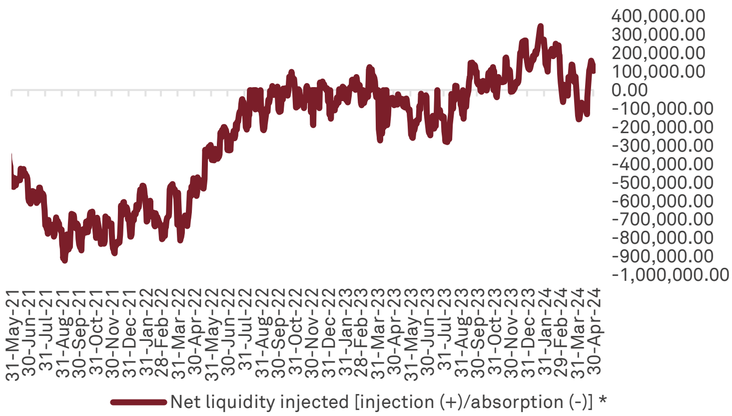


Source: CRISIL MI&A Research

The average spread between the 10-year benchmark G-sec yield and the tri-party repo (TREPS) increased to ~64 bps in April from ~53 bps in March. The 12-month average spread was ~55 bps.

Systemic liquidity

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



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

In April, the average systemic liquidity surplus was ~Rs 0.17 lakh crore compared with a deficit of ~Rs 0.31 lakh crore in March. The central bank had conducted various VRRR auctions, which had helped to a certain extent. The average deficit over the past 12 months was Rs 0.056 lakh crore.

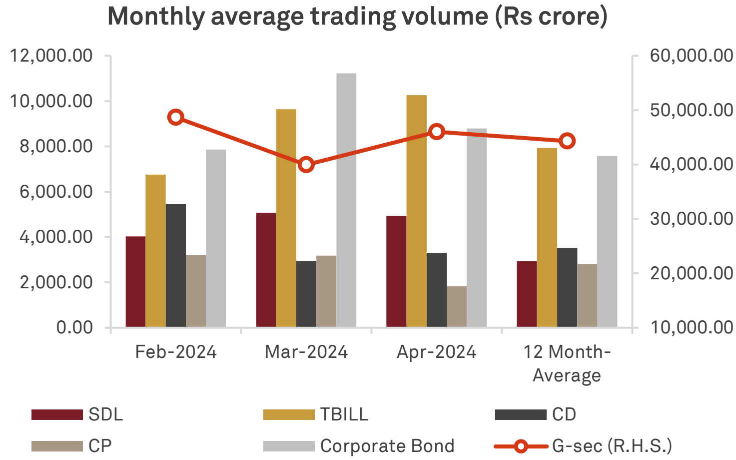
Benchmark spreads over G-secs

Spreads over G-Sec*				
Rating category	**Date**	**PSUs / Corporates**	**NBFC**	**HFCs**
AAA	31-Mar-24	0.45%	0.77%	0.60%
	30-Apr-24	0.41%	0.70%	0.50%
AA+	31-Mar-24	0.77%	1.20%	1.02%
	30-Apr-24	0.67%	1.10%	1.07%
AA	31-Mar-24	1.08%	2.18%	1.83%
	30-Apr-24	1.00%	2.09%	1.76%
AA-	31-Mar-24	2.00%	3.38%	2.49%
	30-Apr-24	1.90%	3.35%	2.46%

*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)

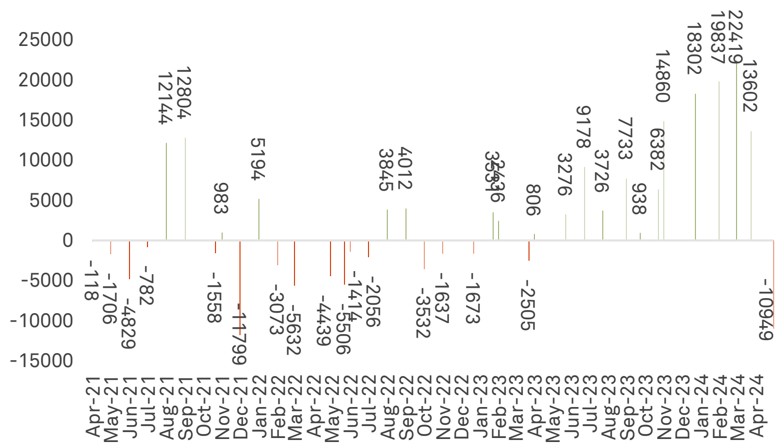


Source: CRISIL MI&A Research

In April, G-sec trading volume increased 15.18% on-month. SDL volume, meanwhile, decreased 2.66% after rising 25.94% in March. The volume in T-bills rose 6.49% on-month and that in certificates of deposit (CDs), 11.73%. Commercial papers saw 42.19% decrease in volume and corporate bonds, 21.77%.

FPIs turned to be net sellers in debt

(Rs crore)



Source: CRISIL M&IA Research

Net FPI outflow from debt was Rs 10,949 crore in April, compared with an inflow of Rs 13,602 crore in March. In April, the FPIs were overall net sellers.

Rating upgrades and downgrades in April 2024

Upgrades

Issuer name	Old rating	New rating
MAS Financial Services Ltd	CARE A+	CARE AA-
DLF Cyber City Developers Ltd	CRISIL AA	CRISIL AA+
Macrotech Developers Ltd	[ICRA]A+	[ICRA]AA-
Sonata Finance Pvt Ltd	IND BBB+	IND AA
Tata Power Co Ltd	CRISIL AA	CRISIL AA+
Nimbus	[ICRA]AA(SO)	[ICRA]AA+(SO)

Downgrades

Issuer name	Old rating	New rating
HDFC Credila Financial Services Ltd	CARE AAA	CARE AA-
HDFC Credila Financial Services Ltd	[ICRA]AAA	[ICRA]AA
Parsvnath Estate Developers Pvt Ltd	IVR C	IVR D
Adani Capital Pvt Ltd	CRISIL AA-	CRISIL A+
Inditrade Microfinance Ltd	ACUITE BBB-	ACUITE D

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