Market Intelligence
& Analytics

CRISIL
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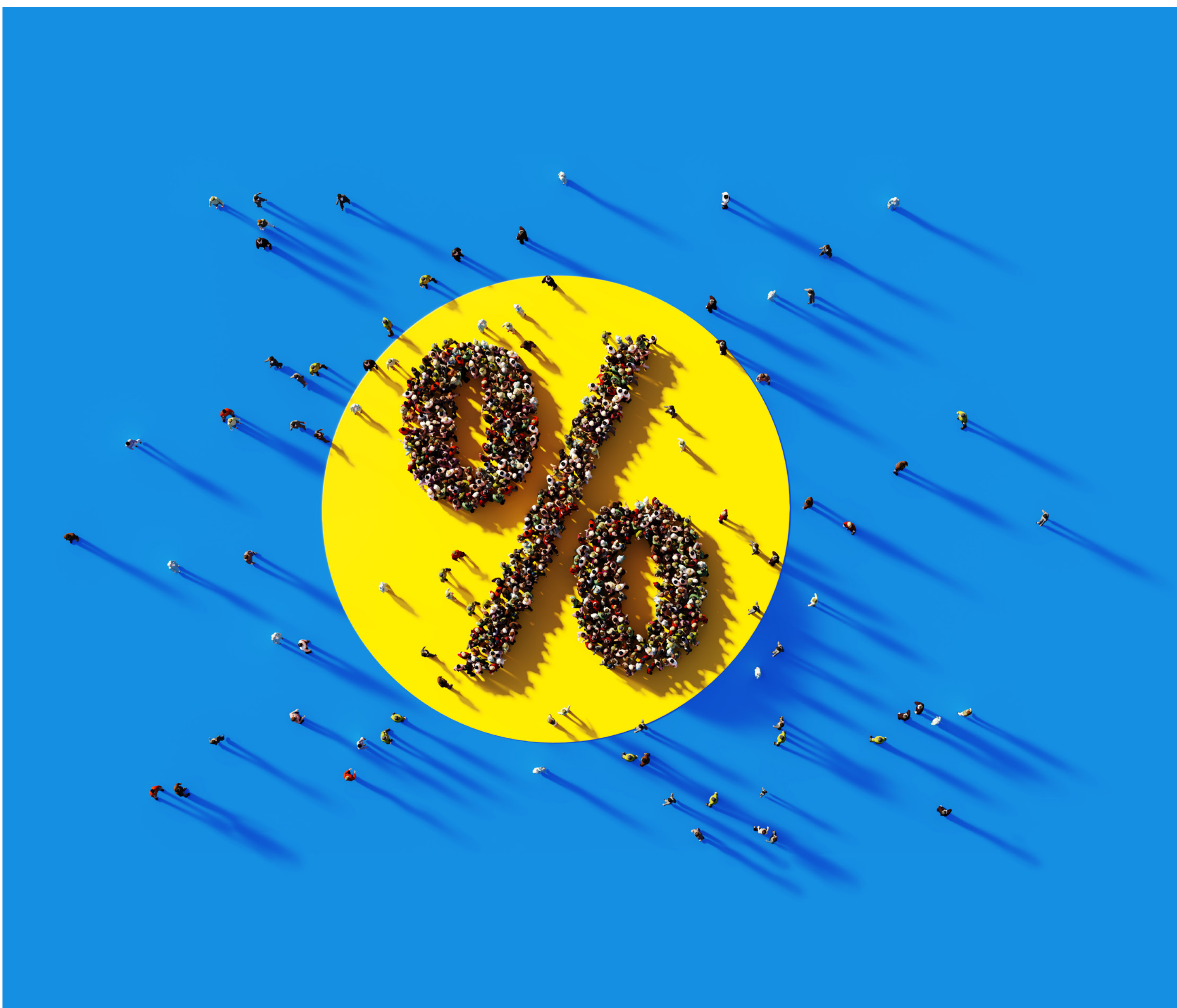
RateView

CRISIL's outlook on near-term interest rates

October 2024



Research

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September skid

The yield on the 10-year benchmark government security (G-sec; 7.10% GS 2034) opened September at 6.88% and closed at 6.75%, down 11 basis points (bps) from its August close of 6.86% and within CRISIL's forecast range of 6.75-6.85%.

The 10-year benchmark G-sec yield traded in a narrow range in the second week, ahead of the domestic Consumer Price Index (CPI) inflation print. A reduction in Treasury bill (T-bill) supply, combined with better weekly cut-offs, boosted market sentiments and increased trading volumes. Consequently, the yield on the 10-year benchmark G-sec fell below 6.80% for the first time since March 2022, closing the week at 6.79%.

During the third week, the 10-year benchmark G-sec yield traded flattish, though softening slightly due to a decline in UST yields. The Federal Open Market Committee (FOMC) lowered the federal funds rate by 50 bps to a range of 4.75-5%, marking the first cut in four years and signalling further easing before year-end. The US Federal Reserve (Fed) projects additional rate cuts of 50 bps in 2024 and 100 bps in 2025, according to its updated dot plot. However, the futures market expects a rate cut of 75 bps in 2024, with a toss-up between a 25 and 50 bps cut in November. The European Central Bank also reduced rates by 25 bps, underscoring the global trend of monetary policy easing. Profit-taking and short bets led the 10-year benchmark G-sec to close the week at 6.76%.

In the last week, the 10-year benchmark G-sec traded in a narrow range, starting at 6.77%. Market sentiment remained upbeat due to optimism about the cut in gross borrowing amount. On September 26, the government announced plans to raise Rs 6.61 lakh crore in the second half of this fiscal through issuance of dated securities, including sovereign green bonds worth Rs 20,000 crore. This accounts for 47.2% of the total gross market borrowing target of Rs 14.01 lakh crore for the full fiscal, in line with expectations. To manage short-term funding needs, the government also plans to issue T-bills worth Rs 2,47,000 crore in the third quarter. The 10-year benchmark G-sec ended the month at 6.75%.

CRISIL's outlook

On interest rates

Benchmark	September 30, 2024 (A)	October 31, 2024 (P)	December 30, 2024 (P)
10-year G-sec yield*	6.75%	6.68% - 6.78%	6.63% - 6.73%
10-year SDL yield	7.09%	7.04% - 7.14%	6.99% - 7.09%
10-year corporate bond yield	7.22%	7.13% - 7.23%	7.09% - 7.19%

A: Actual; P: Projected; SDL: State development loan
Source: CRISIL MI&A Research

One-month view

In October, domestic G-sec yields are likely to remain stable due to the RBI's changed policy stance and domestic inflows into the debt market. However, they may be impacted by crude oil price movements and geopolitical uncertainties.

Three-month view

The 10-year benchmark G-sec yield is likely to be impacted by global oil prices, capital flows, UST yields, geopolitical uncertainties, foreign portfolio investor (FPI) flows, and policy decisions of the RBI's MPC and the FOMC.

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 (CBs) — based on statistical models and inputs from in-house experts. We also incorporate our views on policy expectations, the 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

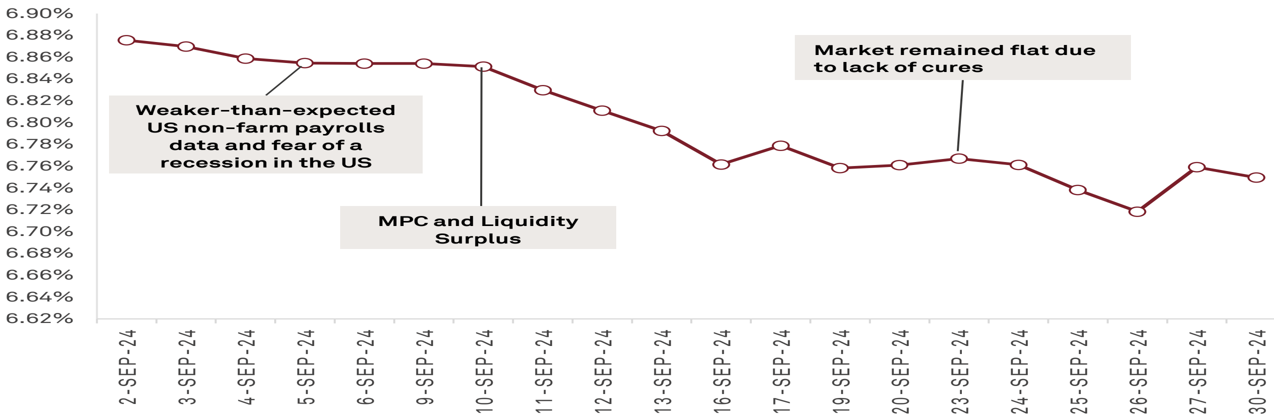
Factors influencing the outlook

Economic parameter	Our view	Impact on yields
GDP growth	• We expect real GDP growth to moderate to 6.8% this fiscal from 8.2% last fiscal. • High interest rates and lower fiscal impulse (from a reduction in the fiscal deficit) will weigh on growth. But growth will become more balanced as the last fiscal's laggards — agriculture and private consumption — are poised to rise. High rural demand and easing food inflation are expected to lift consumption. • Real GDP growth moderated to 6.7% on-year in the first quarter of this fiscal from 7.8% in the previous quarter.	↓
CPI inflation	• We expect CPI inflation to soften to 4.5% this fiscal from 5.4% last fiscal. • Given the improved agricultural outlook for this fiscal, we expect food inflation to soften. The southwest monsoon was above average this fiscal, at 108% of its long period average. Non-food inflation could see a statistical uptick but is expected to remain soft overall on the back of benign commodity prices. However, the recent rise in international food, crude, food and metal prices remains monitorable. • CPI inflation inched up to 3.7% in August from 3.6% in July.	↓
RBI's monetary policy	• We expect the RBI's MPC to cut the repo rate by 25 bps in December, given easing food inflation and benign non-food inflation. • Rate cuts by major global central banks, particularly the US Fed, have given the RBI space to ease its policy. That said, the RBI will monitor risks from geopolitical uncertainties and international commodity price movements before initiating a rate cut. • The MPC kept the policy rates unchanged in its October meeting. However, it changed the policy stance to 'neutral' from 'withdrawal of accommodation'.	↓
Fiscal health	• The Union Budget has targeted a reduction in the centre's fiscal deficit to 4.9% of gross domestic product (GDP) this fiscal from 5.6% of GDP last fiscal. • In the first five months of this fiscal, the centre's fiscal deficit stood at 27% of the budget target, compared with 36% in the same period last year. Capital expenditure as a proportion of the budget target is lower than last fiscal. • Gross market borrowing is estimated at Rs 14 lakh crore this fiscal, down 9.2% on-year. The government plans to borrow 47.2% of the budgeted borrowings in the second half of this fiscal.	↓
Crude oil prices	• We expect crude oil prices to average $80-$85 per barrel this fiscal, compared with $83 per barrel last fiscal. • Brent crude oil prices averaged $74.3 per barrel in September, down 8.1% on-month and 21% on-year.	

[1]Provisional estimate

Economic parameter	Our view	Impact on yields
Current account balance	• We expect the current account deficit (CAD) to average 1.0% of GDP this fiscal, compared with 0.7% of GDP last fiscal. • This fiscal, higher imports, driven by an uptick in consumption demand, is expected to widen the trade deficit and put pressure on CAD. That said, healthy services trade surplus and remittances would help keep CAD in check. • India's current account recorded a deficit of 1.1% of GDP in the first quarter of this fiscal, compared with a surplus of 0.5% of GDP in the previous quarter.	↔
US Fed's stance	• S&P Global expects the US Fed to cut rates by another 50 bps in 2024 and 125 bps in 2025. • The US Fed cut its policy rate by 50 bps to 4.75-5.0% in September, marking the first rate cut since February 2020.	↓
Liquidity indicators i) Demand and supply	**Supply:** • The Government of India dated securities calendar for H2-FY25 gross borrowing was pegged at Rs 6,61,000 crore, lower than the calendar for H1-FY25 (Rs 7,50,000 crore). • For September, the actual SDL borrowing was Rs 82,243 crore, compared with the budgeted borrowing of Rs 95,332 crore. • The SDL Q3-FY25 calendar was announced at Rs 82,858 crore, higher than the Q3-FY24 calendar. • Demand • Demand for longer-tenure G-secs and SDLs from insurance and pension players has increased constantly. • Demand for lower-tenure SDLs increased due to the cancellation of the T-bill auction for two consecutive weeks **Demand:** • Demand for longer-tenure G-secs and SDLs from insurance and pension players has increased constantly. • Demand for lower-tenure SDLs increased due to the cancellation of the T-bill auction for two consecutive weeks	↔
ii) Call rates/ liquidity adjustment facility	• In line with July and August 2024, liquidity in the Indian banking system remained in surplus for most of September. Consequently, the weighted average overnight money market rates consistently traded close to the RBI's repo rate of 6.50% during the first half of the month. A series of variable rate reverse repo auctions to absorb excess liquidity, along with quarterly advance tax payments and monthly Goods and Services Tax outflows, briefly pushed liquidity levels into deficit territory during the latter half of the month. However, as the month drew to a close, the RBI's variable rate repo auction helped restore surplus liquidity, bringing the interbank weighted average call rate for September back in line with the repo rate, at 6.54%.	↑

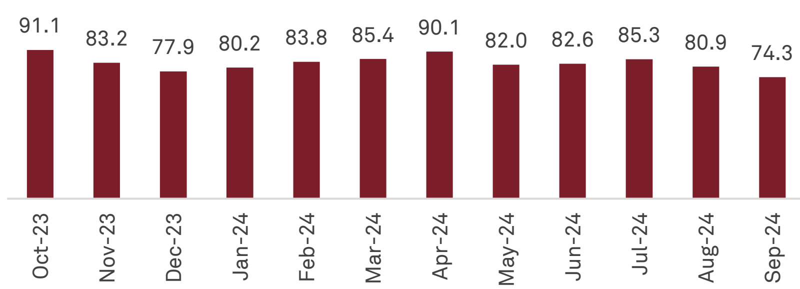
September at a glance



Source: CRISIL MI&A Research

Crude oil prices fell in September

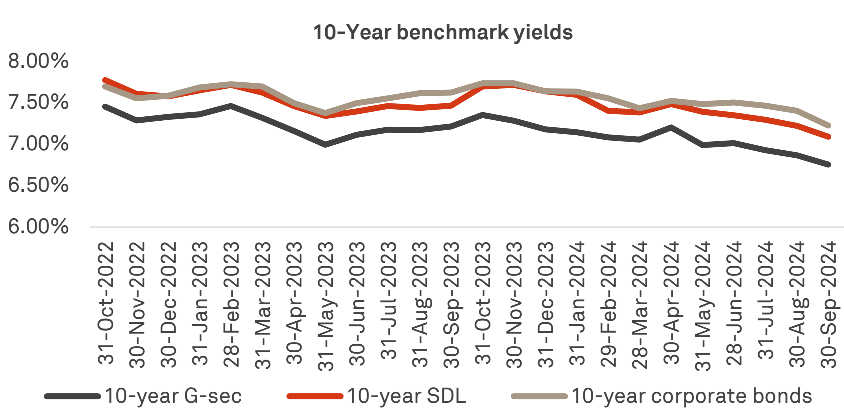
Brent Crude ($/barrel average)



Brent crude prices decreased to ~$74 per barrel on average in September, down 6.6% on-month.

Source: CRISIL MI&A Research

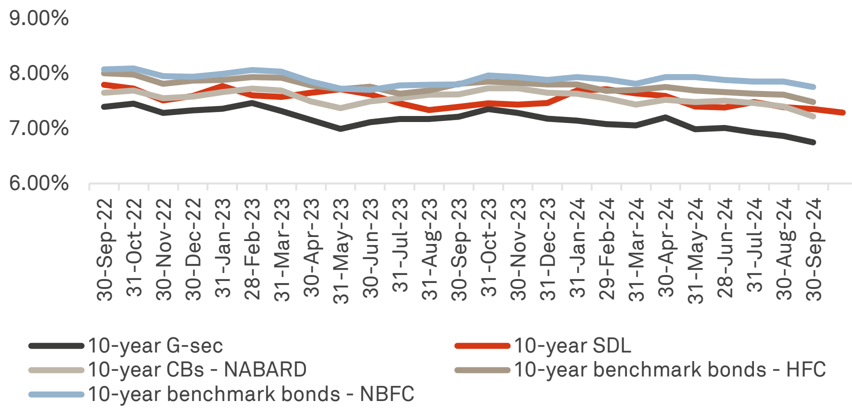
Benchmark yields ease for SDLs, G-secs and corporate bonds (CBs)



The yield on the 10-year benchmark G-sec closed at 6.75% in September, down 11 bps from the previous month's close. The yield on the 10-year SDL eased 13 bps to 7.09% and that on the 10-year CB (10-year PSU FI) eased 18 bps to 7.22%.

Source: CRISIL MI&A Research

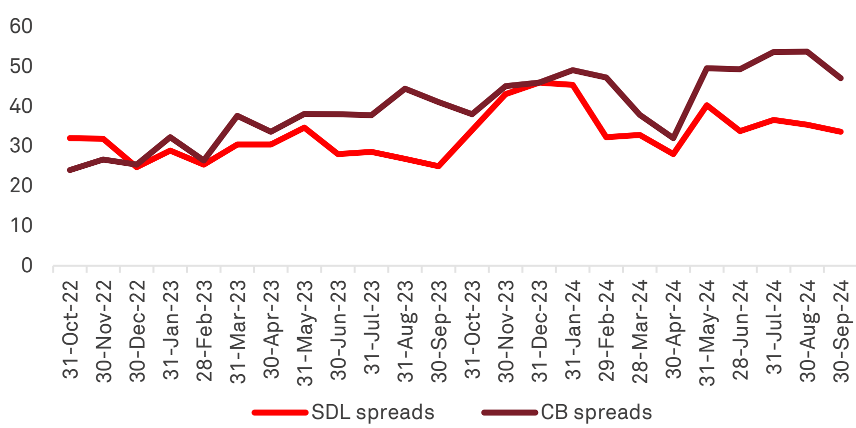
10-year G-sec/SDL/CB benchmark yields trend lower



Source: CRISIL MI&A Research

Yields on 10-year benchmark AAA-rated public sector undertaking (PSU) bonds decreased to 7.22% in September from 7.40% in August. Yields for housing finance companies also declined, closing at 7.48% against the previous month's close of 7.61%. Yields for AAA-rated non-bank financial companies (NBFC) closed at 7.75%, lower than the previous month's close of 7.85%.

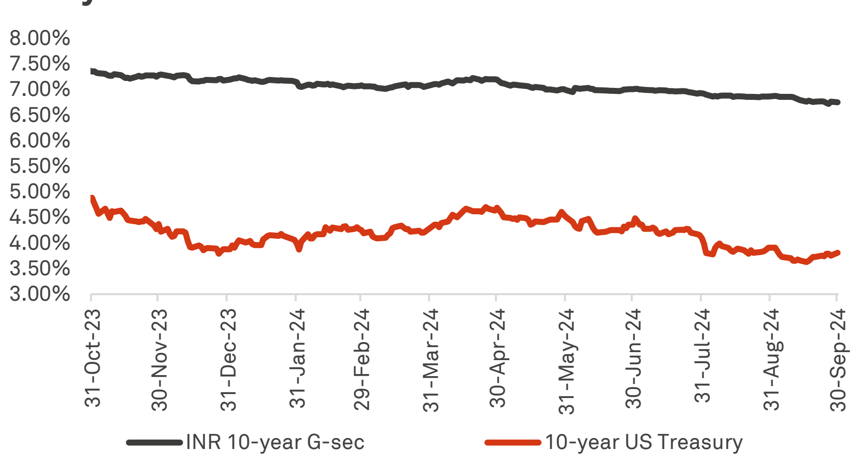
CB and SDL spreads over 10-year benchmark G-secs hold steady



Source: CRISIL MI&A Research

The spread on the 10-year benchmark SDL over the 10-year benchmark G-sec closed at 33 bps in September, down 1.81 bps from the previous month's close. Meanwhile, the spread on the 10-year AAA-rated public sector CB closed at 47 bps, down 6,65 bps from the previous month's close. The 12-month average spreads on the 10-year benchmark SDL and CB over the 10-year benchmark G-sec were ~37 bps and ~46 bps, respectively.

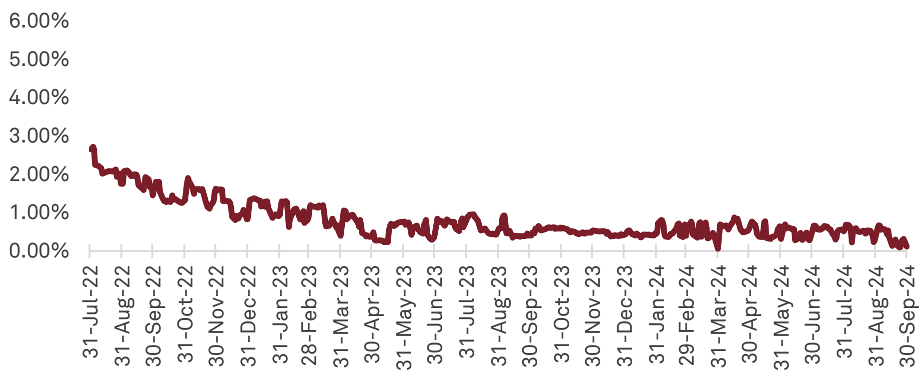
UST yields dive



The 10-year UST yields dropped sharply after the FOMC rate cut of 50bps. Yields ended at 2.94%, down 10 bps from the previous month's close. As a result, the monthly spread between the domestic benchmark 10-year G-sec and the 10-year UST yields widened to 307 bps.

Source: CRISIL MI&A Research

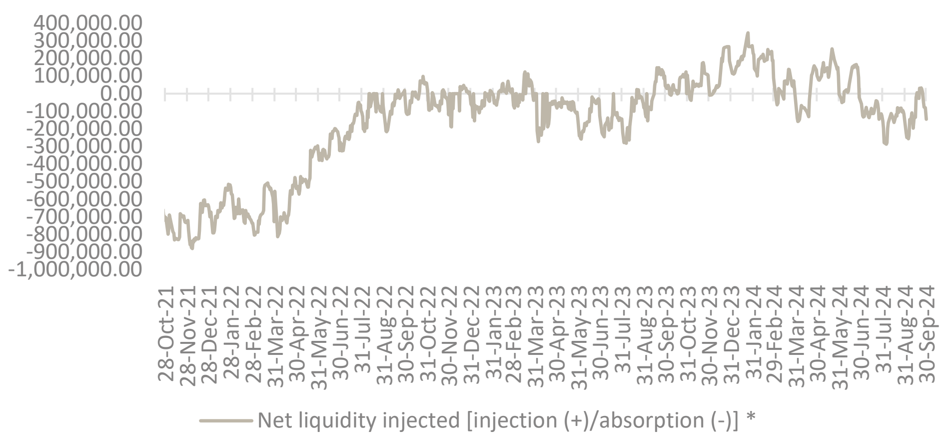
Term premium between 10-year benchmark G-sec and TREPS narrows



The average spread between the 10-year benchmark G-sec yield and the tri-party repo (TREPS) decreased to ~37 bps in September from ~50 bps in the previous month. The 12-month average spread was ~51 bps.

Source: CRISIL MI&A Research

Systemic liquidity reduces



The average systemic liquidity surplus was ~Rs 0.98 lakh crore in September, compared with ~Rs 1.48 lakh crore in August. The average liquidity over the past 12 months was Rs 0.36 lakh crore.

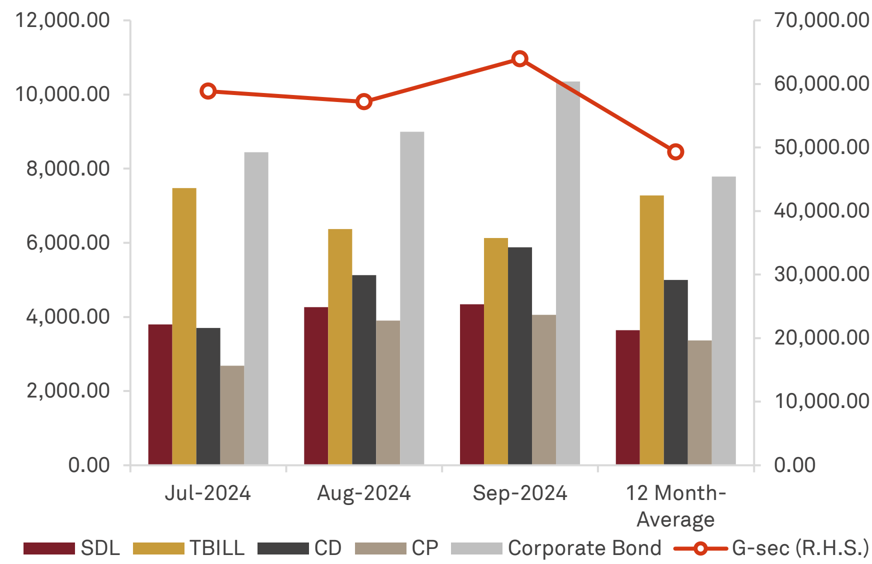
**Net liquidity is calculated as repo + marginal standing facility + standing liquidity facility - reverse repo*
Source: CRISIL MI&A Research

Benchmark spreads over G-secs

Spreads over G-sec*				
Rating category	**Date**	**PSUs / Corporates**	**NBFCs**	**Housing finance companies**
AAA	31-Aug-24	0.60%	1.04%	0.85%
	30-Sep-24	0.58%	1.03%	0.84%
AA+	31-Aug-24	0.98%	1.55%	1.44%
	30-Sep-24	0.93%	1.52%	1.53%
AA	31-Aug-24	1.16%	2.55%	2.02%
	30-Sep-24	1.18%	2.28%	1.98%
AA-	31-Aug-24	2.17%	3.51%	2.79%
	30-Sep-24	2.10%	3.28%	2.84%

**Spreads are for 5-year securities over the annualised G-sec yield; selection of representative issuers has been re-evaluated as per the periodic review*
Source: CRISIL MI&A Research

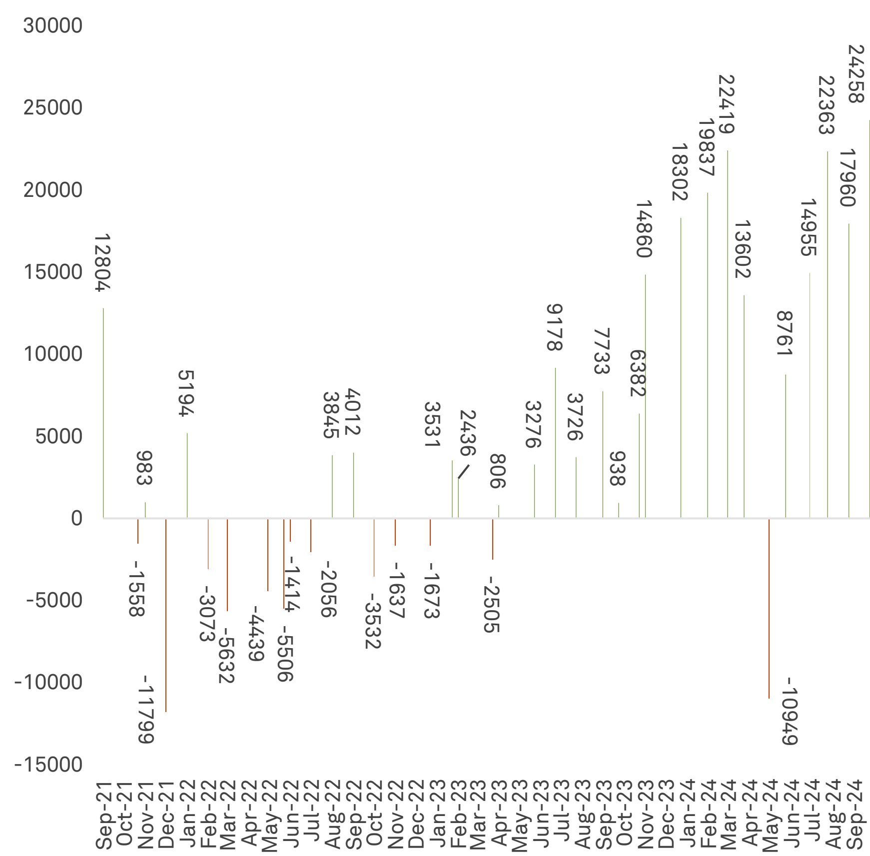
Trading volume increases across securities, except T-bills



Source: CRISIL MI&A Research

In September, trading volume of G-secs increased 11.84% on-month, while that of SDLs increased 1.75%. Trading volume of T-bills declined 3.72%, while that of certificates of deposit (CDs), commercial papers (CPs) and CBs increased 14.56%, 3.90% and 15.11%, respectively.

FPIs continue to be net buyers



Source: CRISIL MI&A Research

FPI inflows stood at Rs 24258 crore in September. The positive outlook for Indian bonds is bolstered by the country's consistent economic performance.

Rating upgrades and downgrades in September 2024

Upgrades

Issuer name	Old rating as per CRISIL	New rating
Clix Capital Services Pvt. Ltd.	CARE A	CARE A+
EarlySalary Services Pvt. Ltd.	CARE BBB+	CARE A-
IDBI Bank Ltd.	CARE AA-	CARE AA
Indigo	[ICRA]AA+(SO)	[ICRA]AAA(SO)
Muthoot Fincorp Ltd.	CRISIL A	CRISIL A+
Namdev Finvest Pvt. Ltd.	CARE BBB	CARE BBB+
Sarvagram Fincare Pvt. Ltd.	CRISIL BBB-	CRISIL BBB
The Jammu & Kashmir Bank Ltd.	CARE A+	CARE AA-
Union Bank of India(Basel III Tier II)	BWR AA+	BWR AAA
Union Bank of India(Basel III AT-1)	BWR AA	BWR AA+
Whispering Heights Real Estate Pvt. Ltd.	CARE BBB	CARE BBB+
Yes Bank Ltd.	CARE A	CARE A+

Downgrades

Issuer name	Old rating	New rating
Ashv Finance Ltd.	IND BBB	IND BBB-
Bandhan Bank Ltd.	[ICRA]AA	[ICRA]AA-
Goswami Infratech Pvt. Ltd.	CARE BB	CARE BB-
Inbrew Beverages Pvt. Ltd.	IVR BB	IVR BB-
Joyville Shapoorji Housing Pvt. Ltd.	CARE BBB+	CARE BBB
Mahanagar Telephone Nigam Ltd.	CARE AAA(CE)	CARE AA+(CE)
Sterlite Technologies Ltd.	CRISIL AA	CRISIL AA-

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