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Fixed Income Update

15th June 2019 - 8th July 2019

Key Events in Fortnight

- India's Current Account Deficit in the Jan-Mar quarter of FY19 narrowed to USD 4.6 Bn (0.7% of GDP) compared to US 13.0 Bn (1.9% of GDP) in the corresponding period previous year. On Q-o-Q basis, CAD narrowed from USD 17.7 Bn which is 2.7% of GDP. This narrowing was primarily on account of lower trade deficit at USD 35.2 Bn compared to USD 49.8 Bn in previous quarter.

- On cumulative basis, CAD for FY19 widened to 2.1% of GDP vis-à-vis 1.8% in FY18 on back of increase in trade deficit for full year to USD 180.3 Bn compared to USD 160.0Bn in previous year.

- Overall, foreign exchange reserves, on BoP basis, registered an accretion of USD 14.2 Bn in Q4 FY19 compared to USD 13.2 Bn in Q4 FY18. In contrast, on cumulative basis, in FY19, it recorded a depletion of USD 3.3 Bn as against an accretion of USD 43.6 Bn in FY18

- To deepen the bond market further, government will work with regulators to enable stock exchanges to allow AA rated bonds as collateral in corporate tri-party repo market.

Market Indicators	15-Jun-19	9-Jul-19
CPI (%)	3.10	3.10
CBLO Wt Avg. (%)	5.65	5.70
Crude Oil (USD/bbl)	61.79	64.28
INR / 1 USD	69.58	68.63
Gold Price ($/10gm)	1345.64	1399.90

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

- The Hon'ble Finance Minister, Ms Nirmala Sitharaman tabled the Union Budget for 2019-20 in Parliament on July 5, 2019 amidst much hope and hype. The hopes were that the government would not deviate from the fiscal deficit target on account of continuation of existing fiscal policies after BJP led NDA returned to the power and that a progressive fiscal policy would enable the economy to get back on the growth path and address the structural inefficiencies and deficiencies. ***However, the government's decision to revise its fiscal deficit target downwards for FY2019-20 to 3.3% of GDP from 3.4% of GDP set earlier in Interim Budget pleasantly surprised the market.***

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Events in Numbers

Government Receipts (in Rs Cr)					
	Actual	BE	RE	BE (Interim)	BE
	FY18	FY19	FY19	FY20	FY20
Revenue Receipts	**14,35,233**	**17,25,738**	**17,29,682**	**19,77,693**	**19,62,761**
(Net) Tax Revenue	12,42,488	14,80,649	14,84,406	17,05,046	16,49,582
Non Tax Revenue	1,92,745	2,45,089	2,45,276	2,72,647	3,13,179
Non debt Capital Receipts	**1,15,678**	**92,199**	**93,155**	**1,02,508**	**1,19,828**
Recovery of loans	15,633	12,199	13,155	12,508	14,828
Other Receipts	1,00,045	80,000	80,000	90,000	1,05,000
Borrowings and Other Liabilities	5,91,062	6,24,276	6,34,398	7,03,999	7,03,760
Total Receipts	**21,41,973**	**24,42,213**	**24,57,235**	**27,84,200**	**27,86,349**

Source: Union Budget Documents, STCI PD Research

Balance of Payments (in USD Bn)				
	Q1 FY19	Q2 FY19	Q3 FY19	Q3 FY19
A. Current Account	**-15.8**	**-19.0**	**-17.7**	**-4.6**
% of GDP	*-2.3*	*-2.9*	*-2.6*	*-0.7*
1. Merchandise	-45.7	-50.0	-49.3	-35.2
2. Invisibles	29.9	30.9	31.5	30.5
B. Capital Account	**4.8**	**16.6**	**13.7**	**19.2**
1. Foreign Investment	1.4	7.6	5.2	15.8
FDI	9.5	7.4	7.3	6.4
FPI	-8.1	0.2	-2.1	9.4
2. Loans	-4.3	6.9	2.9	10.2
3. Banking Capital	10.0	0.5	4.9	-8.0
4. Rupee Debt Service	-0.023	-0.001	0.0	-0.007
5. Other Capital	-2.4	1.5	0.7	1.2
C. Errors and Omissions	**-0.3**	**0.5**	**-0.3**	**-0.4**
Overall Balance (A+B+C)	**-11.3**	**-1.9**	**-4.3**	**14.1**

Source: RBI

Government Securities

Government Security Yields (%)				
Benchmark	**Residual Maturity**	**15-Jun-19**	**8-Jul-19**	**Change in yields (bps)**
7.80% GS 2020	1 Year	6.23	6.19	0.04
7.80% GS 2021	3 Years	6.35	6.26	0.09
7.37% GS 2023	4 Years	6.71	6.73	-0.02
7.59% GS 2026	7 Years	7.11	7.15	-0.04
6.79% GS 2027	8 Years	7.2	7.00	0.20

Source: CCIL Website, Axis Bank Investment Research

- Bond markets are generally positive as concerns over fiscal deficit were put to rest in Union Budget. Further, mood in the market improves after Finance Secretary said that government may issue upto $10 Bn worth of overseas sovereign bonds in FY20. As a result, FPI's have stepped up their purchases in Indian bond market.

- Belying market expectations, the Government has revised its fiscal deficit target downwards for FY20 to 3.3% of GDP from 3.4% of GDP budgeted earlier while retaining its borrowing numbers. In a kneejerk reaction, bond yields fell 10-12 bps across the curve. However, the market awaits the Jalan Committee's recommendation on RBI's Economic and Capital Framework as it would shed light on the outcome of additional transfers in the current financial year.

Corporate and Tax Free Bonds

AAA Rated PSU Corporate Bond Yields and Spreads (%)					
Benchmark	Yield			Spread over G-Sec	
	15-Jun-19	8-Jul-19	Change in yields	15-Jun-19	8-Jul-19
2 Year AAA Rated Benchmark	7.48	7.30	0.18	1.15	1.01
3 Year AAA Rated Benchmark	7.60	7.20	0.40	1.15	0.84
5 Year AAA Rated Benchmark	7.49	7.32	0.17	0.67	0.48
10 Year AAA Rated Benchmark	7.90	7.65	0.25	0.66	0.37

Source: NSE India Website, Axis Bank Investment Research

- As India's sovereign external debt to GDP is less than 5%, government plans to start raising a part of its gross borrowing programme in external markets in external currencies. This will have positive impact on demand supply situation for government securities in domestic market. Additionally, to deepen the bond market further, government will work with regulators to enable stock exchanges to allow AA rated bonds as collateral in corporate tri-party repo market.
- Government revised its target of taxes on income and GST downwards to 23% and 14% in FY20 compared to 34% and 14% respectively which were budgeted in interim Budget of FY20. Going forward, the tax collection numbers will be closed watched as it will decide whether the government will adhere to fiscal deficit consolidation map.

AAA Rated Tax Free Bond Rates (%)			
Security	15-Jun-19	8-Jul-19	Approximate Change in yields
10 Year Tax Free Bond	6.20 -6.25	5.95-5.91	~ 20 Bps
15 Year Tax Free Bond	6.20 -6.25	5.95-5.91	~ 20 Bps
20 Year Tax Free Bond	6.20 -6.25	5.95-5.91	~ 20 Bps

Additional Takeaways

- In order to make India a more attractive FDI destination, government permitted 100% FDI for insurance intermediaries and also eased local sourcing norms for FDI in Single Brand Retail sector. Further, government increased the statutory limit for FPI investment in a company from 24% to sectoral foreign investment limit with option given to the concerned corporates to limit it to a lower threshold.

- The Finance Minister extended lower corporate tax rate of 25% to companies having annual turnover upto Rs 400 Cr, earlier this benefit was availed by companies having annual turnover upto Rs 250 Cr. On the other hand, government enhanced surcharge on individuals having taxable income from Rs 2 Cr to Rs 5 Cr and Rs 5 Cr and above by 3% and 7% respectively.

- Fiscal deficit for FY20 is pegged at Rs 7.03 Lac Cr compared to Rs 6.34 Lac Cr for FY19. Revenue deficit has been estimated at 2.3% implying an amount of Rs. 4.85 Lac Cr which is higher than revised estimates of FY19 in absolute terms as well as percentage terms. The government has retained the market borrowing numbers which were announced in Interim Budget FY20 on February 1, 2019. Therefore, Gross market borrowing in dated securities for FY20 continues to stand at Rs 7.10 Lac Cr, higher than Rs 5.71 Lac Cr FY19. The redemptions for FY20 are Rs 2,36,878 Cr which leads to net market borrowing of Rs 4.73 Lac Cr.

- Apart from T-Bill issuances, government has budgeted CMB issuance worth Rs. 1 Lac Cr (compared to Rs. 2,00,000 Cr in FY19) and WMA Advances at Rs 5 Lac Cr (compared to Rs 9 Lac Cr in FY19). No MSS transactions have been budgeted for FY20. The government has scheduled to borrow 62.3% of total borrowing amounting to Rs 4.42 Lac Cr in first half of the year with each weekly auction of Rs 17,000 Cr. Thus, government has frontloaded its borrowing programme and will borrow balance Rs 2.68 Lac Cr in H2 FY20.

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