Fixed Income Update
5th May 2019 - 28th May 2019

Key Events in Fortnight

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by AXIS BANK

- Industrial production entered the negative territory in March-19 after 21-months, contracting -0.1% due to slow down in manufacturing sector and unfavorable statistical base effect. Cumulatively, average IIP stands at 3-year lows of 3.6% for FY19 as against 4.4% in FY18.

- Notably, significant sequential uptick was observed across all sectors: Mining sector grew by 17.9%, Manufacturing grew by 8% and Electricity sector grew by 16.9%

- The emergence of decisive mandate was a big positive boost to the market. Continuity in government policies and hopes of FPI inflows further boosted market sentiments. Amidst choppy participation, bond market noted highest volumes since beginning of April.

- Continuity in government policies and hopes of FPI inflows further boosted market sentiments. However, as rupee gave up its gains against the US dollar on resurfacing US-China trade war worries, participants turned cautious.

Market Indicators	05-May-19	28-May-19
CPI (%)	2.86	2.92
CBLO Wt Avg. (%)	6.10	6.00
Crude Oil (USD/bbl)	69.48	68.27
INR / 1 USD	69.37	69.83
Gold Price ($/10gm)	1,281.09	1,284.29

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

- The SIAM data validated the same highlighting the slowdown in auto sector reporting growth in car sales of 2.7%, lowest in last five years. With the election on and new government likely to present Budget in July, there will be no thrust on government spending. Hence, only pickup in consumption and investment activity will accelerate growth of the economy.

Events in Numbers

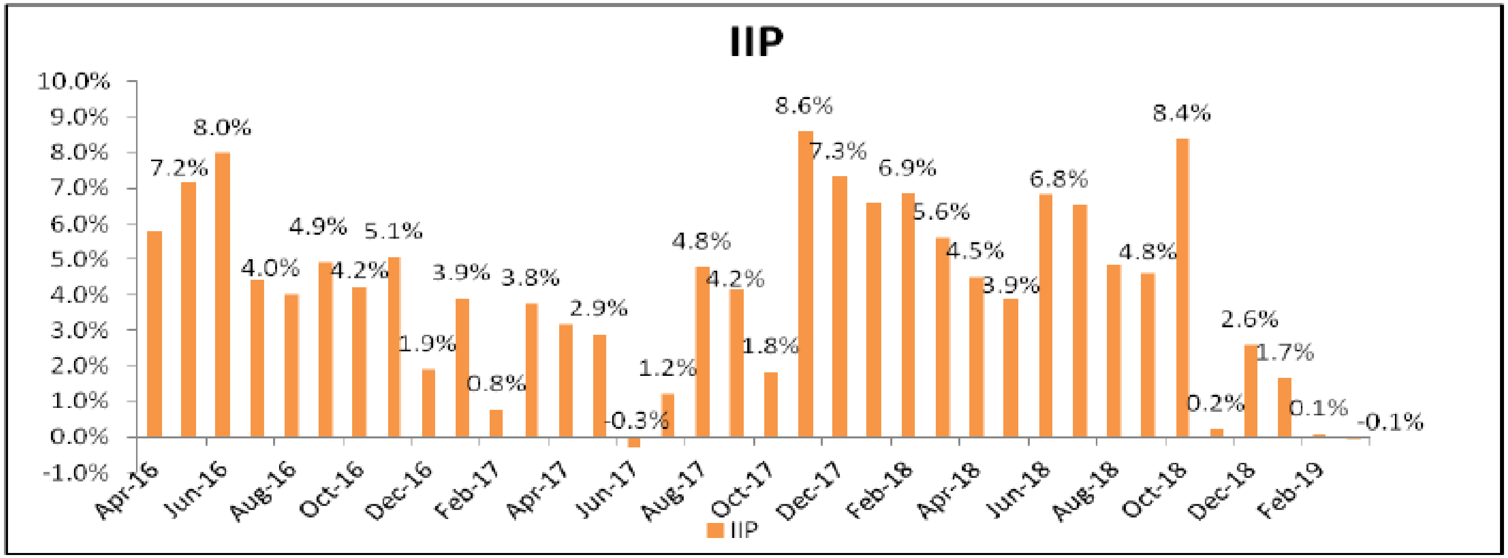

Table 1: Annual Growth in IIP (%)		
	Mar-19	**Feb-19**
Headline IIP	-0.1%	0.1%
Sector-wise Classification		
1. Mining	0.8%	2.2%
2. Manufacturing	-0.4%	-0.4%
3. Electricity	2.2%	1.3%
Use-based Classification		
1. Primary Goods	2.5%	1.3%
2. Capital Goods	-8.7%	-8.9%
3. Intermediate Goods	-2.5%	-5.0%
4. Construction	6.4%	2.1%
5. Consumer Durables	-5.1%	1.2%
6. Consumer Non-durables	0.3%	4.2%
Source: MOSPI		

- On the usage front, upward momentum was observed in Primary sector of 2.5% (y-o-y), Construction sector of 6.4% (y-o-y) and consumer non-durables of 0.3% (y-o-y). On contrary, capital goods, which is a gauge of private sector investments saw moderation of -8.7% (y-o-y) signalling dip in investment activity.

- At the same time, intermediate goods and consumer durables also witnessed negative growth of -2.5% (y-o-y) and -5.1% (y-o-y) respectively.

Government Securities

Government Security Yields (%)				
Benchmark	Residual Maturity	05-May-19	28th – May - 19	Change in yields (bps)
7.80% GS 2020	1 Year	6.63	6.43	0.20
7.80% GS 2021	3 Years	6.79	6.64	0.15
7.37% GS 2023	4 Years	7.18	6.8	0.38
7.59% GS 2026	7 Years	7.44	7.18	0.26
6.79% GS 2027	8 Years	7.58	7.31	0.27

Source: CCIL Website, Axis Bank Investment Research

- Both retail and wholesale prices have remained contained in the current reading despite significant inflationary momentum in the food index mainly due to a largely favorable base. Though this rise in food prices is seasonal, favourability of the monsoon rainfall and volatility in international crude oil prices would lend some caution to achieving the H1 FY19 targets.

- While the rise in prices of the Recreation and Amusement sub-component is a one-off, the overall lack of inflationary momentum in the services category is reflective of the weak growth momentum in the economy. While inflation and growth are expected to rise gradually as the year progresses, unfavorable international financial market scenario poses a risk to domestic macroeconomic fundamentals. In our view, with the base remaining favorable in the following months, intensity of sequential pressures would determine the inflation trajectory.

Corporate and Tax Free Bonds

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AAA Rated PSU Corporate Bond Yields and Spreads (%)					
Benchmark	Yield			Spread over G-Sec	
	05-May-19	28-May-19	Change in yields	17-Apr-19	05-May-19
2 Year AAA Rated Benchmark	7.95	7.45	0.50	1.21	0.92
3 Year AAA Rated Benchmark	7.92	7.55	0.37	1.01	0.80
5 Year AAA Rated Benchmark	8.10	7.45	0.65	0.79	0.53
10 Year AAA Rated Benchmark	8.42	8.04	0.38	0.84	0.73

Source: NSE India Website, Axis Bank Investment Research

- The emergence of decisive mandate was a big positive boost to the market. Continuity in government policies and hopes of FPI inflows further boosted market sentiments. Amidst choppy participation, bond market noted highest volumes since beginning of April. Continuity in government policies and hopes of FPI inflows further boosted market sentiments.

- Some participants were also of the view that these gains observed were overdone and that fresh fall in yields would only occur if RBI cuts interest rates and announces measures to support liquidity in its policy review in June.

AAA Rated Tax Free Bond Rates (%)			
Security	05-May-19	28-May-19	Approximate Change in yields
10 Year Tax Free Bond	6.20 -6.25	6.12-6.18	~ 10 Bps
15 Year Tax Free Bond	6.20 -6.25	6.12-6.18	~ 10 Bps
20 Year Tax Free Bond	6.20 -6.25	6.12-6.18	~ 10 Bps

Source: NSE India Website, Axis Bank Investment Research

Money Markets

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Money Market Asset Rates (%)			
Nomenclature	**05-May-19**	**28-May-19**	**Change in yields**
CBLO	6.08	6.00	0.08
91 Day T-Bill	6.44	6.21	0.23
364 Day T-Bill	6.50	6.30	0.20
3 Month CD	7.40	6.50	0.90
6 Month CD	7.55	7.05	0.50
1 Year CD	7.78	7.30	0.48
3 Month CP	7.98	6.90	1.08
6 Month CP	8.15	7.70	0.45
1 Year CP	8.55	8.00	0.55

Source: CCIL Website, FIMMDA,IDFC MF, Axis Bank Investment Research

- RBI infused average gross liquidity via Repo under LAF window worth Rs 6,223 Crs. Average infusions via the MSF route stood at Rs 749 Cr.

- RBI announced the cut offs for SDL auction as follows: 10-year state loan at 7.78% and 8-year at 7.78%. The cut off for the re-issue of 7.89% GJ SDL 2025 stood at Rs 101.05 (7.67%). Tamil Nadu did not accept any offers for its auction of 8.06% TN SDL 2028. The auction saw a subscription of Rs 4,500 Cr as against notified amount of Rs 5,500 Cr. The spread of the 10 Yr state loan against the G-sec benchmark stood at 63 bps.

Additional Takeaways

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- Overall, industrial activity as indicated by the IIP index has witnessed considerable moderation due to slowdown in manufacturing sector. The PMI number for the month of March showed the similar trend coming in at 52.6 compared to 54.3 in previous month.

- In order to ensure pickup in private investment activity and consumption growth, the recent two cuts in policy Repo rate would provide a much needed impetus. Hence, transmission into lending rates will further the cause of boosting economic activity. Going forward, as election related growth risks abate, strength in industrial activity is expected to gain momentum.

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