02nd March 2020

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PNB GILTS LTD (Subsidiary of Punjab National Bank)

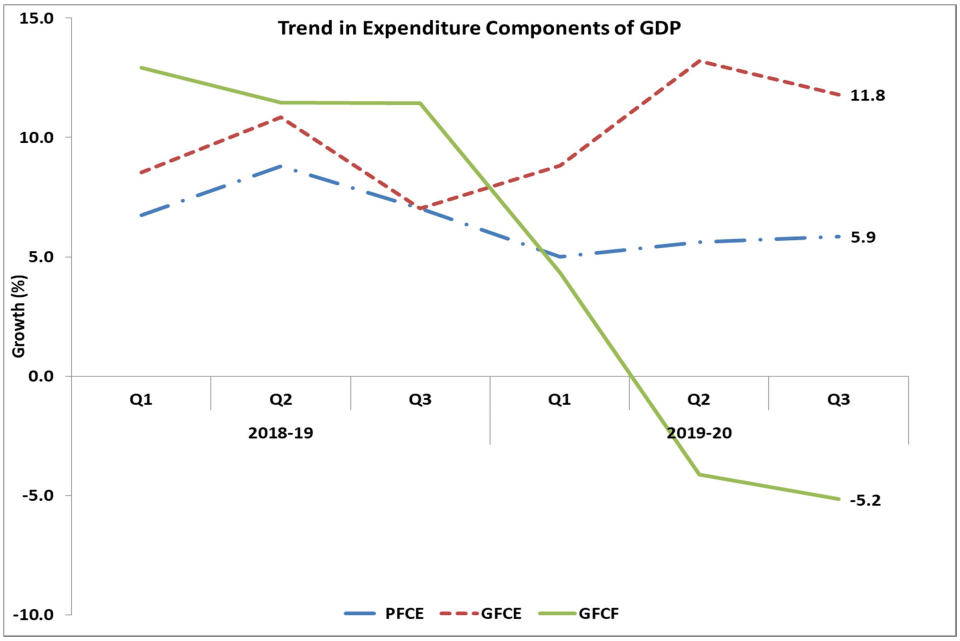
ECONOMY & GILT WATCH

Q3 GDP: No Green Shoots Yet

The GDP estimates for the third quarter have no new story to tell, neither they show any signs indicating potential reversal in economic activity. According to the data released last Friday, real GDP posted y-o-y growth of 4.7% in line with estimates in Q3 while for Q2, the GDP growth number was revised upwards to 5.1% as against initial estimate of 4.5%. In terms of gross value added (GVA), there was deterioration from the previous quarter, with GVA growth (at constant prices) falling to 4.5% in Q3 vis-à-vis 4.8% in Q2 of the current fiscal. Manufacturing and Electricity contracted 0.2% and 0.7% respectively during the quarter, while construction sector barely managed to remain in the positive territory posting a growth of 0.3% during the quarter. GVA growth for the services sector remained almost flat, which helped offset the poor performance by other sectors.

In terms of GDP, capital formation continues to display a disturbing trend with Gross Fixed Capital Formation (GFCF) contracting for the second successive quarter. In Q3, GFCF contracted by 5.2% and by 4.1% in Q2 of FY 2019-20. There was a marginal improvement in private consumption, with Private Final Consumption Expenditure (PFCE) growing by 5.9% in Q3 up from 5.6% in the previous quarter. Government Expenditure continues to anchor overall economic growth, showing double digit growth of 11.8% in Q3. Broadly, economic growth momentum continues to remain fragile, with growth being largely supported by government expenditure. With the fears of the ongoing Coronavirus scare turning into a pandemic becoming increasingly real, the global and domestic investment sentiments may be dented seriously which is likely to weigh down on global economic growth prospects significantly in near future.

INSIDE THE ISSUE



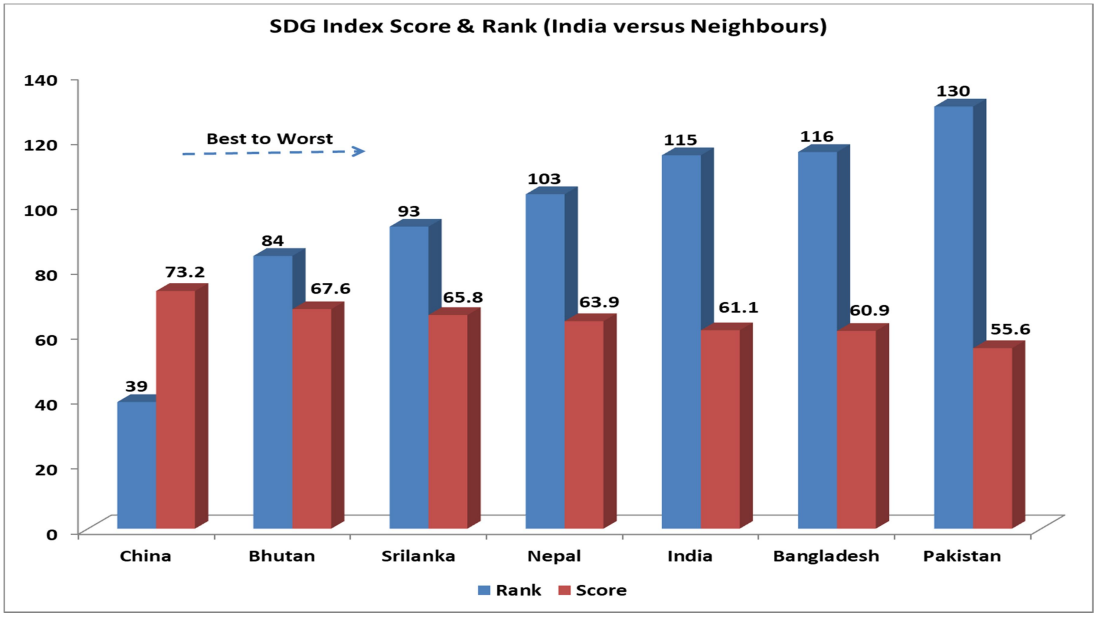
Government Expenditure continues to anchor overall economic growth, while capital formation has plunged to the lowest level since Global Financial Crisis

SDG Index Report: Synopsis

Sustainable Development Goals Index highlights a deepening crack in the economy

It's not just the GDP growth numbers that are reflective of the dire state of the economy. The SDG Index for the year 2019 released by NITI Ayog in collaboration with the UN highlights some worrying trends in the economy. According to the report, India's performance in terms of poverty, hunger and inequalities deteriorated during 2019-20, which only increases the challenge in achieving the goal of a USD 5 trillion economy. Amongst 193 countries, India ranks at 115 with an index score of 61.1 in 2019 as against 59.1 in the previous year. Of the 17 SDGs, India faces major challenges in 9 of the goals which include critical development goals such as zero hunger, health, gender equality etc. In other important development goals such as no poverty, quality education etc, India continues to remain on a weak footing facing significant challenges in achievement of these goals. State wise comparison shows that Kerela continues to enjoy the top position followed by Himachal Pradesh while Jharkhand and Bihar remain the worst performers. Comparing India's score on different goals, India has slipped in terms of scoring in SDG 1 (no poverty) and SDG 2 (zero hunger), however areas like sanitation, gender equality, health, energy saw modest improvements. The SDG report clearly shows that India faces a tough challenge in achieving the UN SDG goals timeline of 2030 as we continue to face major challenges in most of the goals laid out for achieving holistic development of the country. A focused approach on achievement of these goals by

assessing the gaps and aligning the policies with the targets is indispensable for turning India into a truly developed economy.



India's Performance in 17 SDG

SDG	Goals	Dashboard	Trend
1	No Poverty	orange	↑
2	Zero Hunger	red	↗
3	Good Health & Well Being	red	↗
4	Quality Education	orange	.
5	Gender Equality	red	→
6	Clean Water & Sanitation	red	↗
7	Affordable & Clean Energy	red	↗
8	Decent Work & Eco Growth	yellow	↑
9	Industry Innovation	red	→
10	Reduced Inequalities	red	.
11	Sustainable Cities & Communities	red	→
12	Sustainable Consumption & production	yellow	↑
13	Climate Action	yellow	↑
14	Life Below water	orange	→
15	Life on Land	orange	↓
16	Peace, Justice & Strong Institutions	red	→
17	Partnership for goals	yellow	.

green	Goal Achievement	↑	On track or maintaining achievement
yellow	Challenges remain	↗	Moderately Increasing
orange	Significant challenges	→	Stagnating
red	Major challenges	↓	Decreasing

Fixed Income Outlook

Fundamental View

Bond markets remained buoyant during the previous fortnight and as expected, the 10-yr yield tested both the bounds of the 6.32% to 6.42% range given in the previous fortnight's newsletter. With growing cases of the novel Coronavirus infections outside China with each passing day (recent cases seen in US, Italy, South Korea) the clamour for coordinated Central Bank action has increased. The US treasury yields have plunged to historic lows on continued safe haven buying even as expectations of a rate cut by Fed have increased substantially. Amidst the benign global outlook, the view for bond markets remains positive with 10-year yield expected to trade in the range of 6.32% to 6.42%. Any announcement of further LTROs by RBI would push down yields further below the 6.32% mark.

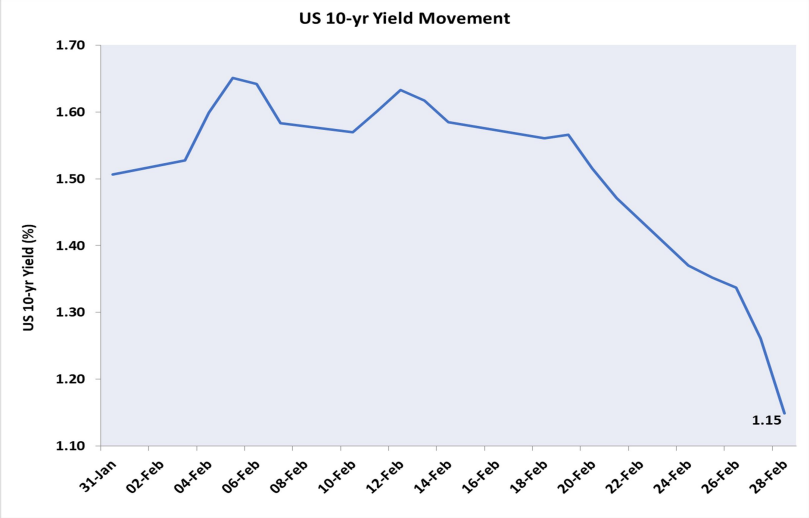
Technical View

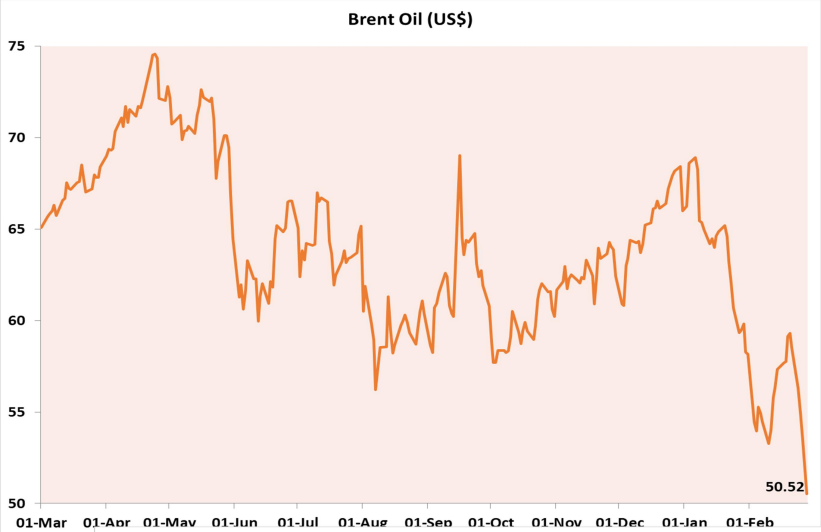
6.45% GS 2029 Yield settled at 6.37% on Friday's session. Last fortnight benchmark Yield, broadly consolidated between 6.42% - 6.33% zone. The current pause in momentum was justifiable after recent sell off in 10 Year yield. Momentum indicator RSI bounced back from oversold zone of 30 and currently it is hovering around 35. Going forward, any sustenance below 6.32% may lead to resumption of downtrend in benchmark yields and we may move towards 6.25% zone. On higher side 6.42% will act as crucial resistance zone from heron.

Corona Impact: In charts

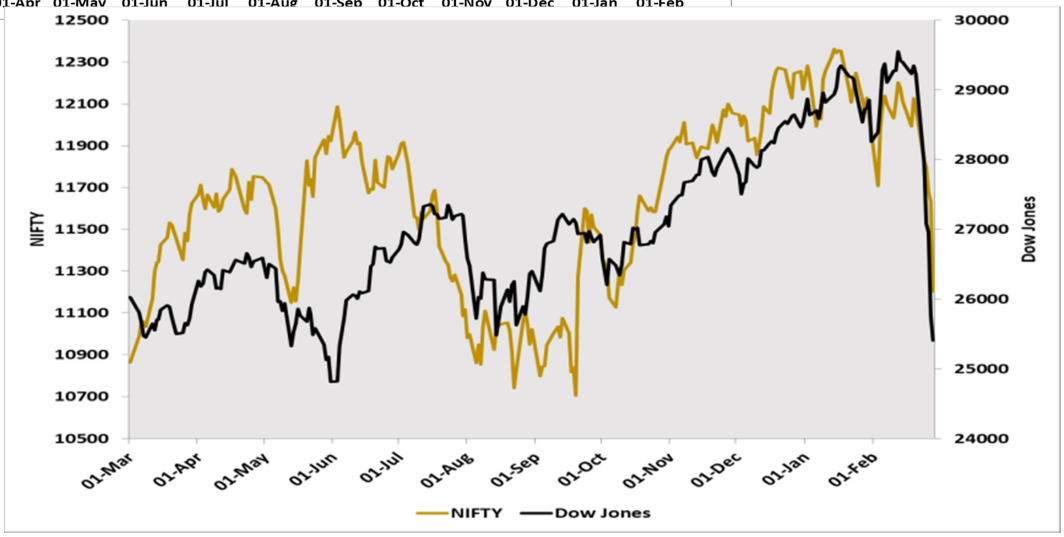
Investors flee risky assets battering global equities and other risky assets.

US treasury yields plunge to historic lows as investors seek the safety of safe haven assets.





After the strong sell off in crude which saw Brent touching USD 48 a barrel, conflict between Turkey and Syria and OPECs plan to curtail supplies to support prices may cause oil prices to rebound.



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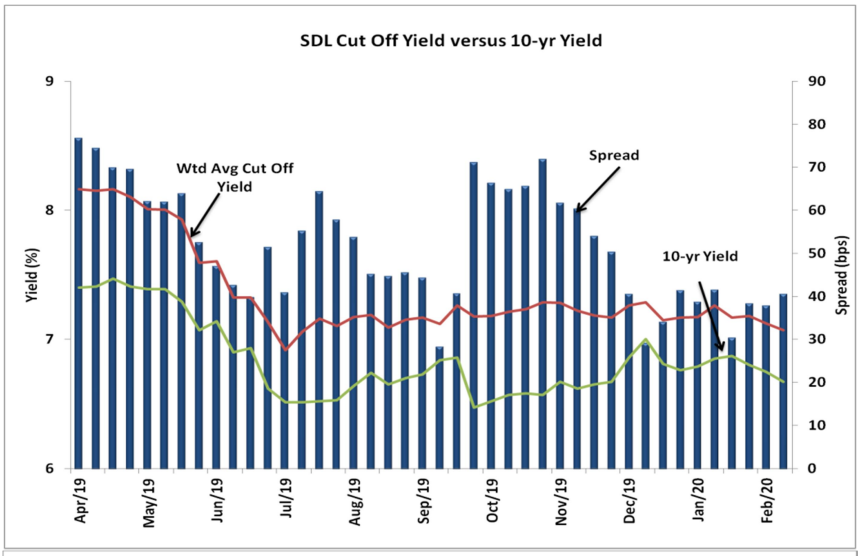
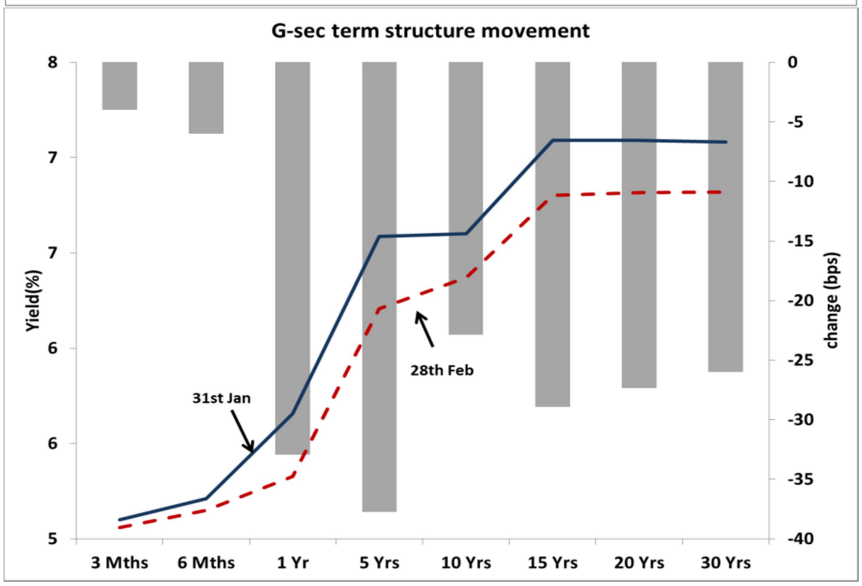
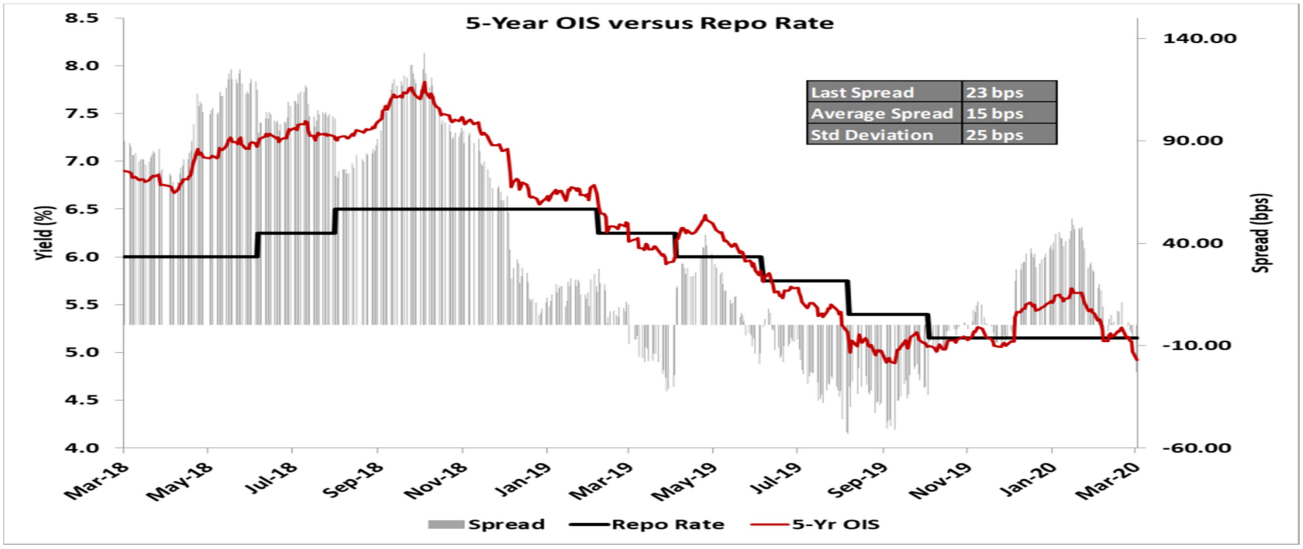
SPREAD MONITOR





Bond markets are expected to remain buoyant amid benign domestic & global outlook. Further easing of yields would be contingent on any positive triggers such as announcement of LTROs.

5-yr OIS is trading at a spread of 23 bps vis-à-vis the Repo rate in expectation of rate cuts.



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