

## ECONOMY &amp; GILT WATCH

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**RBI Policy Path**

The GDP growth figure miss had given hopes of a more imminent rate cut by the RBI as much as in the recently concluded MPC on 6<sup>th</sup> December. Certain sections of the bond market and larger financial markets had placed bets on a rate cut post the 5.4% GDP growth print which was way below the street estimate.

In such a situation, there had to be some sort of disappointment for market participants depending on which side you were on. Making things tricky for a RBI rate cut was the downward trending Foreign Exchange reserves which were built very pain painstakingly over the last two years. Also, the recent inflation spike made things further difficult to cut rate as a weaker currency would spur more inflation. Added to the mix was the persistent dollar demand from FPI outflows. Liquidity conditions remaining tight and rupee already in a short squeeze made all the more sense to delay the cut cycle and go ahead with measures to address liquidity and the outflow pressure.

While the growth inflation warranted differing approaches, RBI stuck to being data driven and balance various factors to ensure financial markets stability. Particularly there was no indication given as to when and how deep the cut cycle is going to be.

In this context some of the major RBI MPC announcements on 6<sup>th</sup> December were –

- Repo rate unchanged at 6.5% ; by a 4-2 vote
- MSF, SDF and Bank Rate unchanged
- CRR cut by 50 bps to 4% ; CRR cut to inject INR 1.16 lakh crore into banking system in two tranches
- FY25: Cut to 6.6% from 7.2% ; FY25: Raised to 4.8% from 4.5%
- Raising FCNRB deposit ceiling by 200 basis points

**RBI Policy Path**

Parikshit Payal

Associate Vice President

[parikshit.payal@pnbgilts.com](mailto:parikshit.payal@pnbgilts.com)**SDL Outlook:**

Anshul Arora

Sr. Vice President

[a.arora@pnbgilts.com](mailto:a.arora@pnbgilts.com)**Technical Outlook:**

Ashish Bansal

Vice President

[a.bansal@pnbgilts.com](mailto:a.bansal@pnbgilts.com)**Liquidity**

Prabhakar Gautam

Associate Vice President

[Prabhakar.gautam@pnbgilts.com](mailto:Prabhakar.gautam@pnbgilts.com)

*RBI is  
expected to be  
dovish.*

### **Newer MPC : What to expect**

The MPC with its current members is slightly new with three members joining in October and a newly appointed Governor in Sanjay Malhotra. It is also to be noted that Deputy governor Patra's tenure is also coming to an end on 15<sup>th</sup> January 2025. With market's perception of Deputy governor and outgoing governor Das as hawkish, the tilt in MPC is turning dovish. As such market expects the RBI to take a more accommodative approach in the time to come along with the imminent challenges that come with the unravelling of different trades post Trump's assumption of presidency in January.

## Fixed Income Outlook

### Fundamental View

Indian Bond markets are expected to trade sideways but with a bullish bias. With GDP print miss and inflation likely cooling down going forward markets are going to rally. On the currency front, as of now, there is some slowdown in FPI selling INR depreciation is likely to be capped near 85.00 levels courtesy of help from RBI intervention.

*Yields to trend down*

OIS markets are expected to outperform bonds in the run up to rate cutting cycle as and when it happens with most impacted being short tenor rates.

### SDL Overview

Last fortnight, CG benchmark 10 Yr traded in a very narrow range of 6.67% -6.83%, whereas, the 10Y SGS got dealt in the range of 7.09-7.21 i.e. the sdl spreads vis-a-vis their CG counterpart remained in the range of 37-43 bps. In Q3, so far States are continuing the trend, they followed in H1, of coming up with smaller issuances than the notified calendar amount. So far, they had borrowed a sum of 1,77,085 Crores vs the notified figure of 2,42,605 Crores (27% lower). In the last fortnight, spreads had widened and our sense is that this spread is further set to widen and hover in the band of 37- 45 bps. as we expect the sizes of Auction will get bigger as we are approaching the quarter end.

*SDL spreads can widen*

## Technical View

### Technical Synopsis 6.79% GS 2034 Yield (11.12.2024)

6.79% G Sec 2034 paper settled at 6.7171% on today's session. Passing fortnight, Benchmark witnessed pullback after touching low of 6.65% on Monetary Policy day. Going forward, with 3 inside candle in making on EOD charts along with Divergence between RSI and Yield indicates pause to southward movement of Yields at current juncture. On higher side 6.76-6.80% to act as an immediate resistance in short term and on lower side 6.65% to act as an immediate support for coming Fortnight.



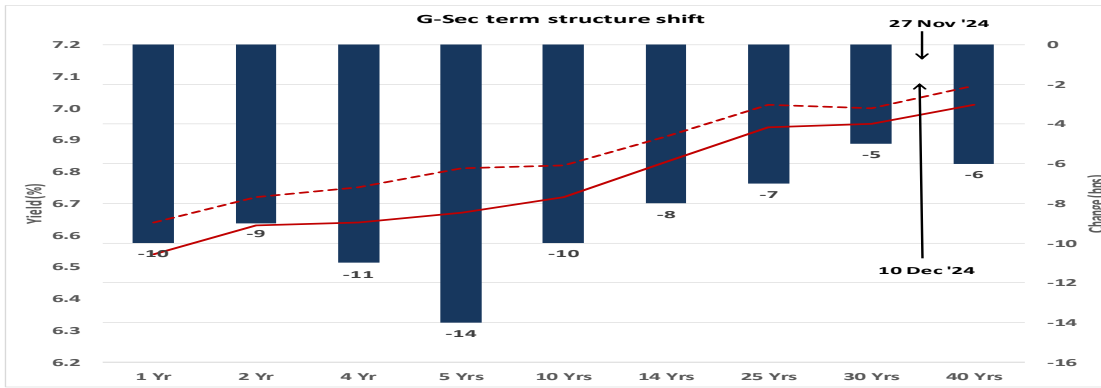
## Liquidity

The System liquidity was in deficit in the past weeks due to which money market rates were on the higher side because of a rise in currency in circulation and due to foreign exchange outflows. To ease the potential liquidity stress, RBI has decided to reduce the cash reserve ratio (CRR) of all banks to 4.0 per cent of net demand and time liabilities (NDTL) in two equal tranches of 25 bps each with effect from the fortnight beginning December 14, 2024 and December 28, 2024. Going forward the liquidity condition might tighten on account of GST outflow and corporate tax. However, we may see pro-active participation by RBI in liquidity management as stated in the last MPC meeting by RBI Governor.

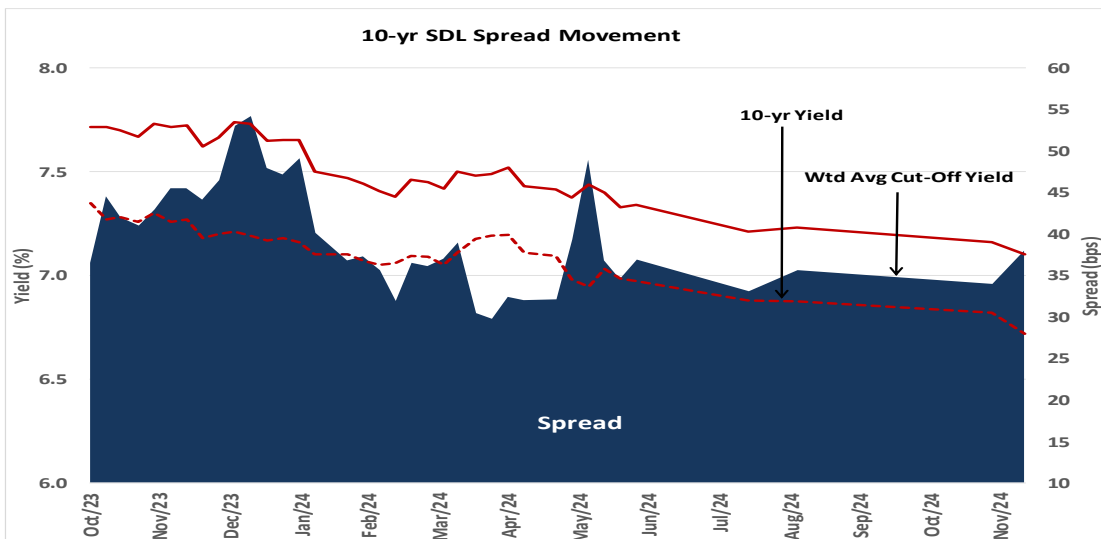
*Sideways to lower movement in yields*

*Liquidity conditions can tighten*

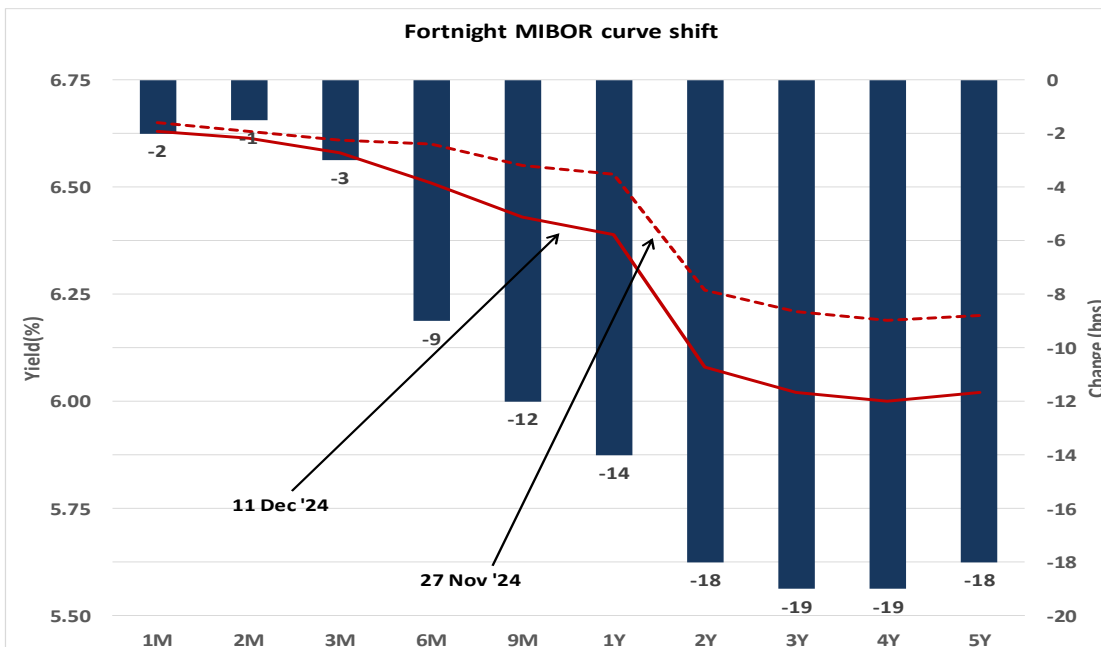
# Spread Monitor



*G-Sec yields have come down*



*SDL Spreads remained flatish*



*OIS trending downward*



(Subsidiary of Punjab National Bank)

**PNB GILTS LTD.**  
5, Sansad Marg  
New Delhi  
110001

Phone 011-23325759

For Fixed Income retail  
queries: 011-23321568

E Mail: [marketing@pnbgilts.com](mailto:marketing@pnbgilts.com)

For other queries:  
[research@pnbgilts.com](mailto:research@pnbgilts.com)

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