Market Intelligence
& Analytics

CRISIL
An S&P Global Company

RateView

CRISIL's outlook on near-term rates

April 2024

Research

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March watch

The yield on the 10-year benchmark government security (G-sec; 7.18% GS 2033) opened March at 7.06% and closed at 7.05%, down 3 basis points (bps) from its February close of 7.08% and within CRISIL's forecast range of 6.96-7.06%.

The opening week started on a positive note as expectations of a mid-calendar year rate cut in the US led to a decline in US Treasury yields as the week progressed; higher-than-expected GDP rate released for India led to a softening of yields. Towards the end of the week, Federal Reserve Chairman Jerome Powell hinted at a rate cut this year, supporting market sentiments, with 10-year benchmark yield closing at 7.03%, the lowest since June 2023.

In the following week, the Reserve Bank of India (RBI) conducted a seven-day variable rate repo (VRR) auction on March 15 banks placing bets of the allotted amount with weighted average cut off at 6.65%. G-secs had opened on a positive note, backed by an overnight fall in US Treasury yields. However, as the week progressed, market participants avoided placing aggressive bets ahead of the release of inflation print for India and US. Towards the end of the week US Treasury yields hardened owing to higher-than-expected producer price inflation data print. As a result, the 10-year benchmark closed at 7.06%.

In the third week, a higher-than-indicated calendar amount of the state-development loan (SDL) auction and surge in overnight US Treasury yields led to a negative start of the domestic bond market. As the week progressed, US treasury yields edged lower after the Federal Open Market Committee (FOMC) decided to keep the rates unchanged at 5.25-5.50% for the fifth consecutive meeting. The 10-year benchmark closed at 7.05%.

In the last week, yields opened on a negative note due to a rise crude oil prices and a sharp fall in the rupee. The RBI conducted a six-day VRR auction on 27 March 2024 of Rs 75000 crore. At the end of the week, bond prices increased due to lower-than-expected borrowings in the first half of fiscal 2025. The 10-year benchmark paper closed the month at 7.05%.

CRISIL's outlook

On interest rates

Benchmark	March 31, 2024 (A)	April 31, 2024 (P)	June 31, 2024 (P)
10-year G-sec yield*	7.05%	7.07%-7.17%	7.07%-7.17%
10-year SDL yield	7.38%	7.39%-7.49%	7.40%-7.50%
10-year corporate bond yield	7.43%	7.46%-7.56%	7.47%-7.57%

A: Actual; P: Projected
Source: CRISIL MI&A Research

One-month view

In April, domestic G-sec yields are likely to be influenced by factors such as movements in crude oil prices, rupee dollar equation, foreign portfolio investor (FPI) flows and domestic inflows into the debt market, announcement of G-sec auctions amongst others

Three-month view

The 10-year G-sec yield is expected to react to crude oil prices, global interest rates, the Consumer Price Index (CPI) inflation print, FPI flows, FOMC expectations. The outcome of the general election, global cues, and liquidity concerns can also impact yields.

Framework for the outlook

CRISIL provides its outlook on key benchmark rates for different debt classes — 10-year G-secs, SDLs, and corporate bonds (CBs) — based on statistical models and inputs from our in-house experts. We also incorporate our views on policy expectations, 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

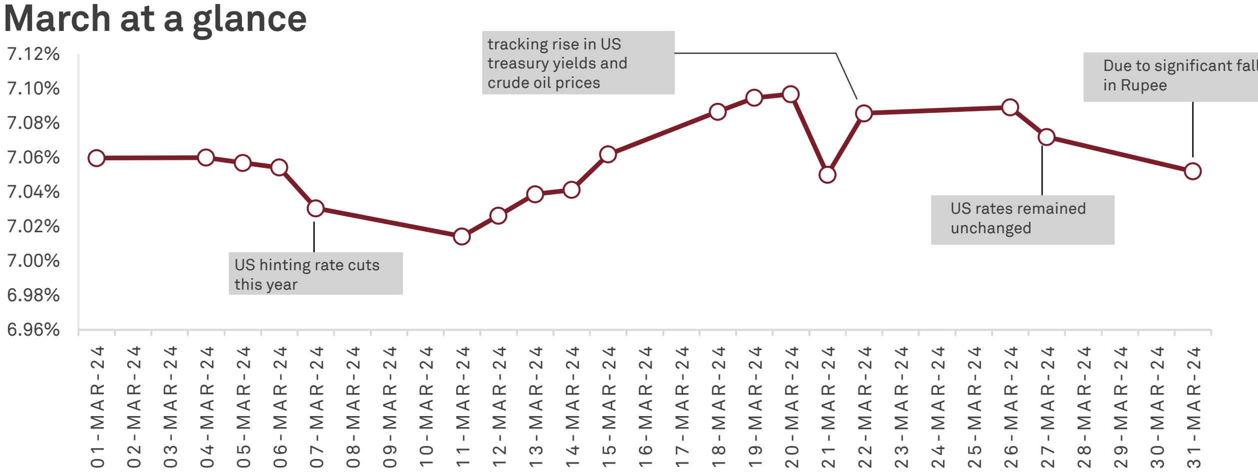
Factors influencing the outlook

Economic parameter	Our view	Impact on yields
Gross domestic product (GDP) growth	• We expect real GDP growth to moderate to 6.8% in fiscal 2025 from 7.6 % in the previous fiscal. • High interest rates and lower fiscal impulse will temper growth. Uneven growth in key trade partners will restrict healthy export recovery. But budgetary support to capex and rural incomes will support growth. • Real GDP growth accelerated to 8.4% on-year in the third quarter of fiscal 2024 from 8.1% in the previous quarter.	↓
Consumer price index (CPI) inflation	• We expect consumer price index (CPI)-linked inflation to soften to 4.5% in fiscal 2025 from an estimated 5.5% previous fiscal. • Normal monsoon and healthier farm output should help moderate inflation this fiscal. A non-inflationary budget that focusses on asset-creation rather than direct cash support bodes well for core inflation. • CPI inflation stayed pat at 5.1% in February.	↓
RBI's monetary policy	• We expect the RBI to initiate rate cuts in mid-2024, lest weather and crude prices play spoilsport. Food, the pain point for inflation last year, could ease if monsoon turns normal this year, as early weather forecasts suggest. • Given the uneven inflation trends, the MPC is awaiting clearer signs of easing towards the 4% target. Strong domestic growth momentum has provided it space to do so. • The MPC kept policy rates unchanged in its April meeting, while maintaining stance of withdrawal of accommodation.	↔
Fiscal health	• The budget has targeted a reduction in centre's fiscal deficit to 5.1% of GDP in fiscal 2025 from 5.8% of GDP past fiscal. • Gross market borrowing is estimated at Rs. 14.1 lakh crore for fiscal 2025, 8.4% lower on-year. The government plans to borrow 53.1% of the budgeted borrowings in the first half of the fiscal.	↓
Crude oil prices	• We expect crude prices to remain in the $80-$85 per barrel range in fiscal 2025. • Brent crude oil prices increased to $85.5 per barrel average in March, 2% higher on-month and 8.8% higher on-year.	↑
Current account balance	• We expect the current account deficit (CAD) average 1.0% of GDP in fiscal 2025, the same as our estimate for fiscal 2024. • Softer crude oil prices and moderation in domestic growth will keep the trade deficit in check. Additionally, robust services-trade surplus and healthy remittances should keep the CAD in check. • CAD narrowed to 1.2% of GDP in the third quarter of fiscal 2024 from 1.3% of GDP the previous quarter.	↓

Economic parameter	Our view	Impact on yields
US Federal Reserve's stance	• S&P Global expects the Fed to start cutting rates around mid-2024, with cumulative rate cuts of 75 bps by 2024-end • The Fed kept its policy rate unchanged at 5.25-5.50% for the fifth consecutive time at its March meeting.	↔
Liquidity indicators i) Demand & Supply	**Supply:** • Government of India dated securities calendar for H1- FY25 gross borrowing pegged at Rs. 7, 50, 000 crores lower than market estimates • Q1 FY 25 T-bills supply at Rs 3,21,000 crore similar to Q1FY 24 weekly run rate • SDL Q1 FY 25 calendar announced at Rs 2,54,000 crores higher than Q1 FY 24 • SGRBs issuance for Rs 13000 crore announced in the H1-FY 25 calendar **Demand:** • Lower corporate bond issuances in the month of April will lead to muted volumes in corporate bonds • Demand for duration corporate bonds will slowly increase post the change in implementation of HTM regulation for banks	↓
ii) Call rates/LAF (liquidity adjustment facility)	• Interbank call WAR money rates averaged at 6.61%, higher than the RBI's repo rate of 6.5%, in March as the liquidity levels eventually began tightening in the second half of the month due to outflows on account of Goods and Services Tax (GST) payments. However, the liquidity deficit was capped by a series of VRR auctions conducted by the RBI, coupled with increased government spending • Meanwhile, a judicious mix of instruments deployed by the RBI to regulate both short- and long-term liquidity and liquidity injections by the central bank helped ease liquidity tightness during the month	↑

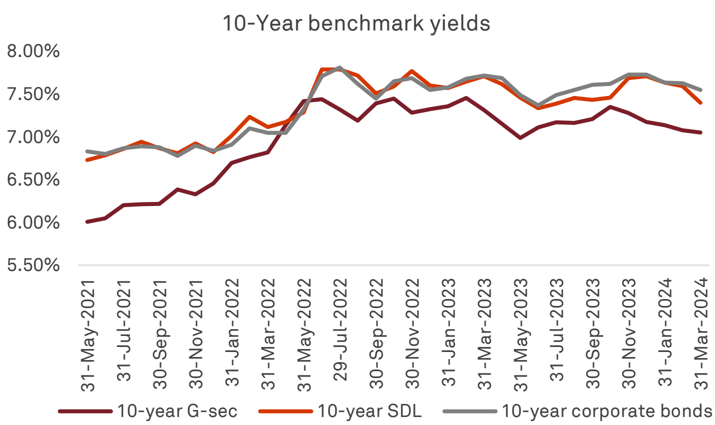
CRISIL's outlook on interest rates

March at a glance



Source: CRISIL MI&A Research

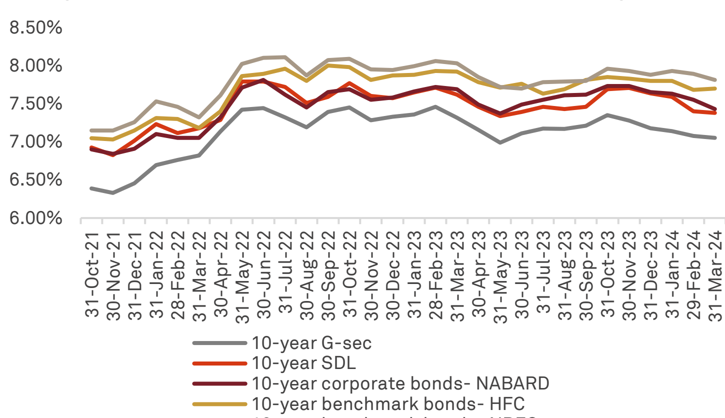
Benchmark yields ease across securities



Source: CRISIL MI&A Research

The yield on the 10-year benchmark G-sec closed March at 7.05%, down 3 bps from its February close, and that on the 10-year SDL was down 2 bps to 7.38% from 7.40%. Yield on CBs (10-year PSU FI) also eased 12 bps to close at 7.43%.

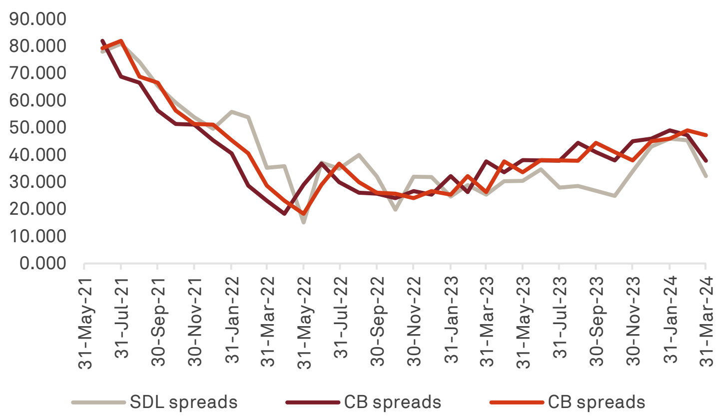
10-year G-sec/ SDL/CB benchmark yields



Source: CRISIL MI&A Research

The yield on the 10-year benchmark bonds for AAA-rated PSU bonds closed at 7.43%, down from February's 7.55%, and that on AAA-rated NBFCs eased 8 bps on-month to 7.81% in March. Housing finance companies closed at 7.70% in March up by 2 bps from 7.68% in February.

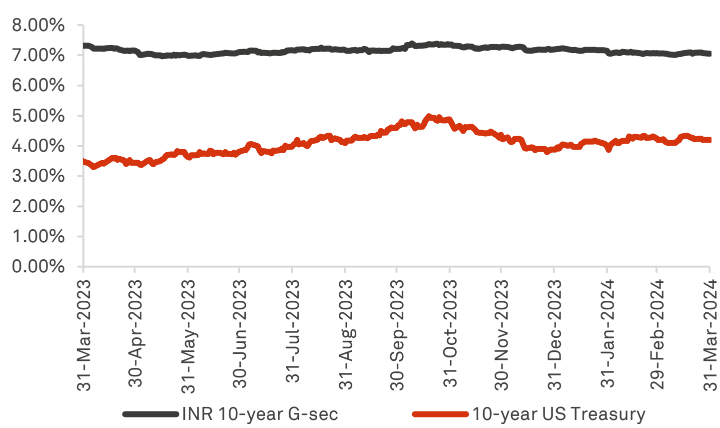
Corporate Bonds spreads over 10-year benchmark G-sec eases



Source: CRISIL MI&A Research

The spread on the 10-year benchmark SDL over the 10-year benchmark G-sec closed March at 33 bps,1bps up from February's 32 bps. The spread on the 10-year AAA-rated public sector CB decreased from 47 bps to 38 bps. The 12-month average spreads for the 10-year benchmark SDL and CB over the 10-year benchmark G-sec were ~34 bps and ~41 bps, respectively.

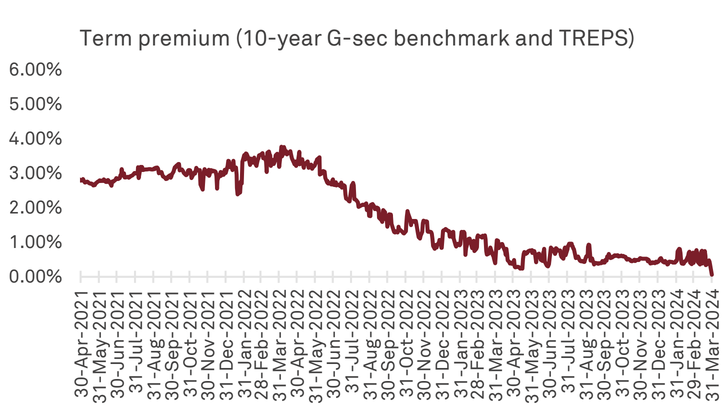
US Treasury yields eases



Source: CRISIL MI&A Research

The 10-year US Treasury yields eased due to no changes in rates in FOMC meeting and closed March at 4.20%, down 5 bps from February's 4.25%. The monthly average spread between the domestic benchmark 10-year G-sec yield and the 10-year Treasury yield eased to 285 bps.

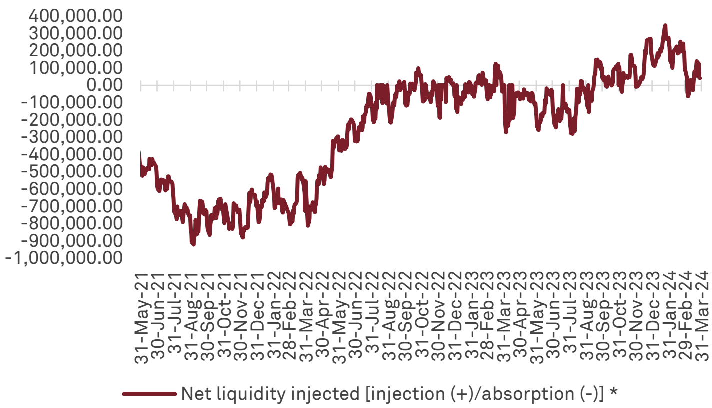
Term premium between 10-year benchmark G-sec and TREPS narrowed



Source: CRISIL MI&A Research

The average spread between the 10-year benchmark G-sec yield and the tri-party repo (TREPS) decreased to ~53 bps in March from ~55 bps in February. The 12-month average spread was ~55 bps.

Systemic liquidity



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

The average deficit in systemic liquidity was ~Rs 34,000 crore in March, as against ~Rs 1.89 lakh crore in February. The average surplus over the past 12 months was Rs 1,536 crore. The RBI conducted several VRR and VRRR auctions during the month to manage liquidity in the system.

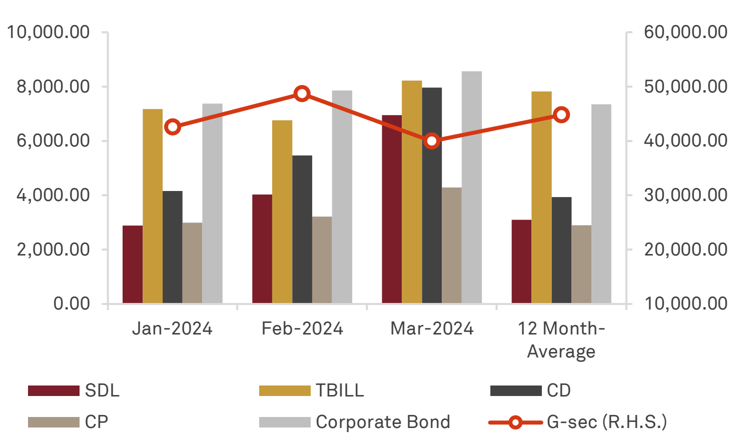
Benchmark spreads over G-secs

Spreads over G-sec*

Rating category	Date	PSUs/ corporates	NBFCs	Housing finance companies
AAA	29-Feb-24	0.45%	0.77%	0.60%
	31-Mar-24	0.45%	0.77%	0.60%
AA+	29-Feb-24	0.70%	1.26%	1.07%
	31-Mar-24	0.77%	1.20%	1.02%
AA	29-Feb-24	1.07%	2.04%	1.82%
	31-Mar-24	1.08%	2.18%	1.83%
AA-	29-Feb-24	1.95%	3.22%	2.36%
	31-Mar-24	2.00%	3.38%	2.49%

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

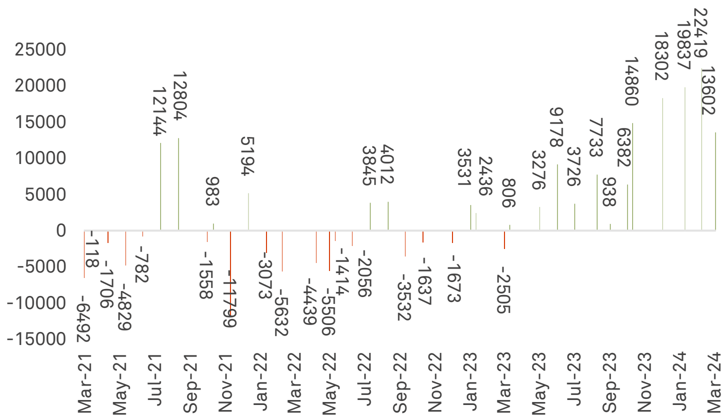
Trading volume across securities



Source: CRISIL MI&A Research

In March, the trading volume of G-secs decreased 17.92% on-month, while that of SDLs increased 72.54% – after a 14% decline in February – and of T-bills rose 21.60%. Volumes of commercial papers (CPs), certificates of deposit (CDs) and CBs increased 33.38%, 45.85%, and 9.07%, respectively.

FPIs continue to be net buyers in debt



Source: CRISIL MI&A Research

Net FPI in debt was Rs 13,602 crore in March, compared with Rs 22,419 crore in February. The inclusion of Indian G-secs in the JP Morgan Government Bond Index-Emerging Markets along with the inclusion of Indian bonds in Bloomberg's Emerging Markets Local Currency Indices from 31 January 2025, may attract further debt inflows. The momentum is expected to continue throughout 2024.

Rating upgrades and downgrades in March 2024

Upgrades		
Issuer name	**Old rating**	**New rating**
Arthmate Financing India Pvt. Ltd.	IVR BBB-	IVR BBB
Kogta Financial (India) Ltd.	CARE A	CARE A+
Tata Motors Ltd.	CARE AA	CARE AA+
Tata Motors Finance Ltd.	CARE AA	CARE AA+
Parampujya Solar Energy Pvt. Ltd.	IND AA(CE)	IND AA+(CE)
Adani Green Energy (UP) Ltd.	IND AA(CE)	IND AA+(CE)
Prayatna Developers Pvt. Ltd.	IND AA(CE)	IND AA+(CE)
Incred Financial Services Ltd.	CRISIL A+	CRISIL AA-
U GRO Capital Ltd.	CRISIL A-	CRISIL A
Jana Small Finance Bank Ltd.	[ICRA]BBB+	[ICRA]A-
PNB Housing Finance Ltd.	[ICRA]AA	[ICRA]AA+
Kinara Capital Pvt. Ltd.	CARE BBB	CARE BBB+

Downgrades		
Issuer name	**Old rating**	**New rating**
SBM Bank (India) Ltd.	[ICRA]A+	[ICRA]A
Resulticks Digitals India Pvt. Ltd.	CRISIL BBB+	CRISIL BB+
HDFC Credila Financial Services Ltd.	CRISIL AAA	CRISIL AA+

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