Market Intelligence
& Analytics

CRISIL
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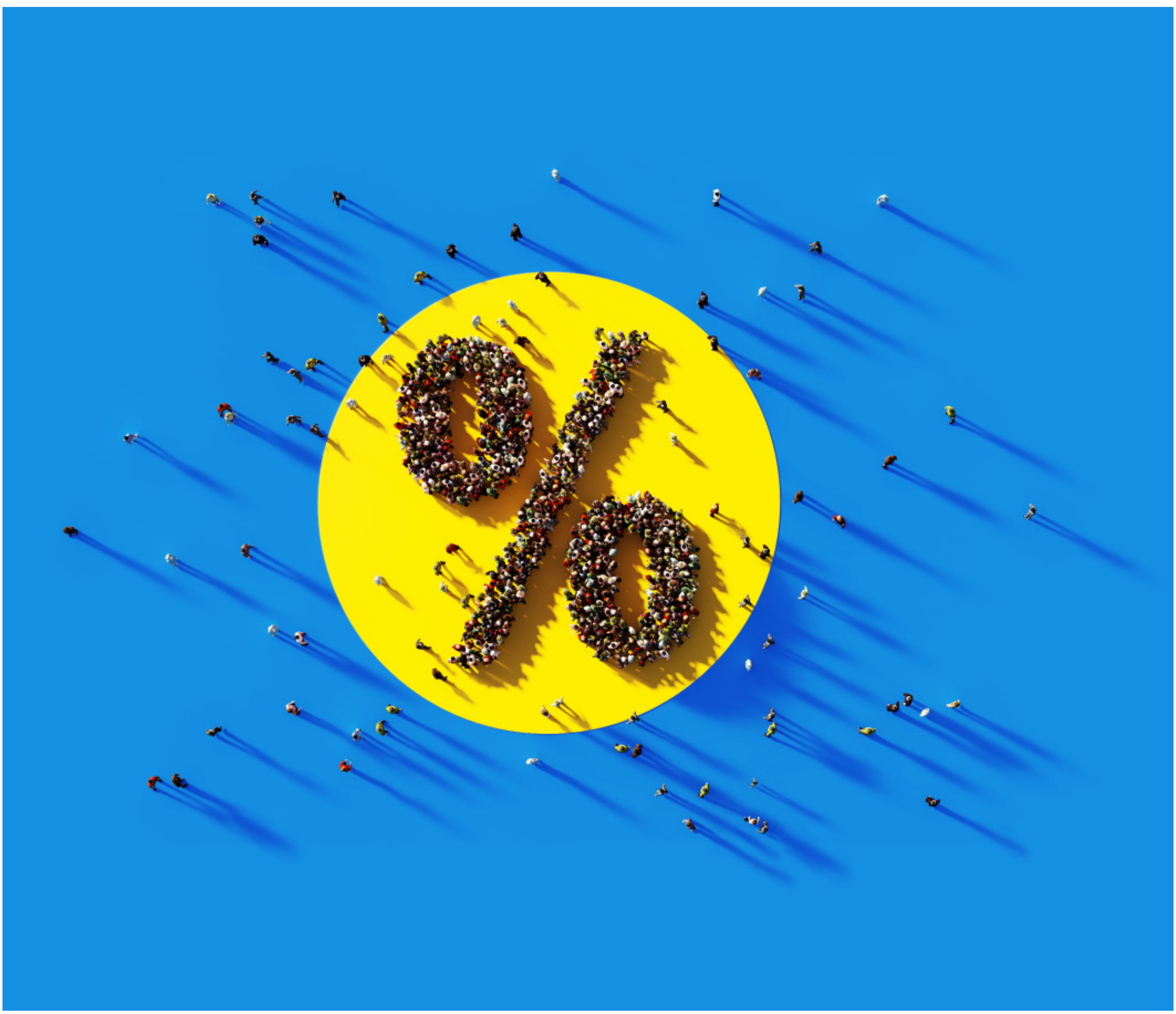
RateView

CRISIL's outlook on near-term interest rates

December 2024



Research

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November knock

The yield on the 10-year benchmark government security (G-sec) opened November at 6.80% and closed at 6.75%, down 9 basis points (bps) from its October close of 6.84% and below CRISIL's forecast range of 6.79-6.89%.

Domestic bond prices opened on a positive note, tracking lower US Treasury yields. Initially, bonds traded in a narrow range with muted volumes amid uncertainty over the outcome of presidential elections in the US. On November 6, US Treasury yields surged on Donald Trump's win. However, on November 9, US yields softened after the Federal Open Market Committee (FOMC) cut key rates by 25 basis points, supporting domestic bond prices. Results of the Reserve Bank of India's (RBI) weekly G-sec auction were also in line with market expectations. The 10-year benchmark G-sec closed the first week at 6.77%.

The second week opened steady amid mixed global and domestic cues. For most of the week, higher US Treasury yields and a rise in domestic retail inflation to a 14-month high at 6.2%, beating market expectations, weighed on bond prices. The 10-year benchmark G-sec closed the week at 6.83%.

In the third week, bonds traded in a narrow range amid lack of global and domestic news flow. The 10-year benchmark closed the week at 6.85%.

In the fourth week, bond yields eased, tracking lower US Treasury yields and the impending release of GDP data. The second quarter fiscal 2025 GDP print came in at 5.4%, significantly lower than the market expectation of 6.7%. The weaker GDP data heightened hopes of a policy rate cut and liquidity easing by the central bank. The benchmark 10-year yield closed the week at 6.75%.

That said, on December 6, the RBI's Monetary Policy Committee (MPC) decided to keep its policy repo rate unchanged at 6.50% for the 11th consecutive time. The MPC said real GDP growth in the second quarter was much lower than expectation, largely due to a substantial deceleration in industrial growth to 2.1% in the second quarter from 7.4% in the first quarter. The central bank slashed the cash reserve ratio (CRR) by 50 bps to 4% from 4.5% to boost liquidity in the financial system. The 10-year G-sec yield inched up 6 bps to 7.74% after the policy decision.

CRISIL's outlook

On interest rates

Benchmark	November 30, 2024 (A)	December 31, 2024 (P)	February 28, 2025 (P)
10-year G-sec yield*	6.75%	6.69%-6.79%	6.68%-6.78%
10-year SDL yield	7.16%	6.99%-7.09%	6.98%-7.08%
10-year corporate bond yield	7.30%	7.09%-7.19%	7.08%-7.18%

A: Actual; P: Projected (6.79 GS 2034)

One-month view

In December, domestic G-sec yields are likely to be influenced by various factors, such monetary policy decision and minutes, liquidity management, foreign portfolio investor (FPI) inflows and outflows, crude oil price movements and the impact of rupee-dollar moves on the debt market.

Three-month view

The 10-year G-sec yield is expected to hinge on FPI flows, Union Budget 2025-26, crude oil prices, global interest rates, the CPI inflation print, the FOMC decision, global cues and liquidity concerns

Framework for the outlook

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

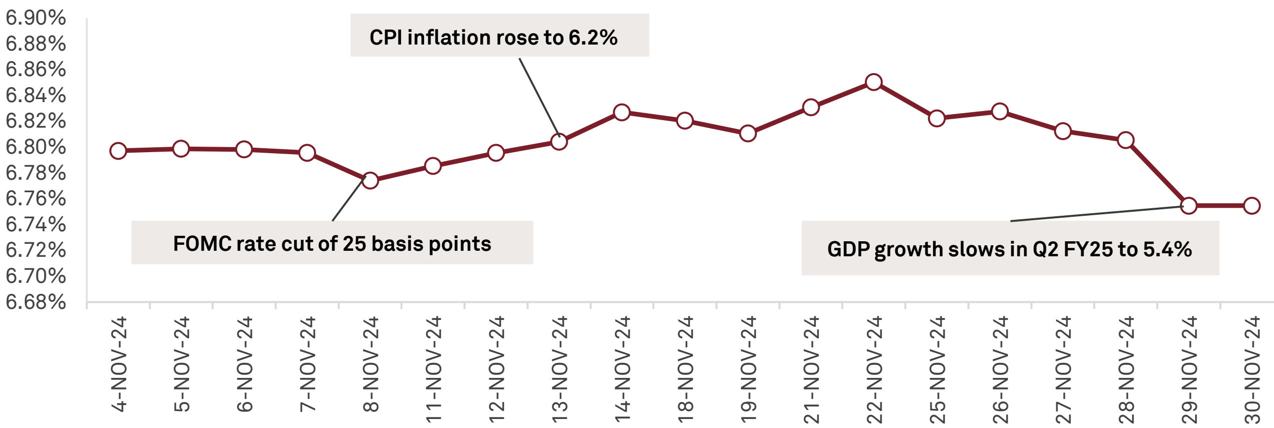
Factors influencing the outlook

Economic parameter	Our view	Impact on yields
GDP growth	• We expect real GDP growth to be ~6.8% (with a downward bias) in fiscal 2025, from 8.2% in the previous fiscal • Higher interest rates and lower fiscal impulse (from the reduction in fiscal deficit) will weigh on growth. Risks are tilted towards the downside, given the lacklustre second-quarter growth. That said, consumption growth is expected to improve in the second half of fiscal 2025, with easing inflation and the onset of the festive and wedding seasons • GDP grew 5.4% on-year in the second quarter of fiscal 2025, a sharp deceleration from 6.7% in the first quarter of fiscal 2024	↓
CPI inflation	• We expect the consumer price index (CPI)-linked inflation to soften to 4.6% in fiscal 2025 from 5.4% in the previous fiscal • Food prices should start easing, at least sequentially, in the second half of fiscal 2025, given the healthy monsoon season. Easing food inflation and benign non-food inflation are expected to bring down headline CPI • CPI inflation accelerated to a 14-month high of 6.2% in October from 5.5% the previous month	↓
RBI's monetary policy	• We expect the first rate cut by the MPC in February 2025 • Easing domestic inflation will be the main driver for the RBI's rate cuts from February. That said, cumulative reduction in the upcoming cutting cycle would be less than the 250 bps hike since May 2022, as domestic growth momentum is projected to remain healthy and the global rate-cut cycle will also be shallower • The MPC kept its policy rates and stance unchanged in its December meeting. The central bank announced it will cut the CRR in two tranches of 25 basis points (bps) in December, bringing it to 4% this fiscal — on a par with pre-pandemic rates	↓
Fiscal health	• Union Budget 2024-25 has targeted a reduction in the Centre's fiscal deficit to 4.9% of GDP in fiscal 2025 from 5.6% of GDP in the previous fiscal • In the first seven months of fiscal 2025, the fiscal deficit stood at 46.5% of the Budget target, compared with 45% in the year-ago period • Gross market borrowing is estimated at Rs 14 lakh crore for fiscal 2025, 9.2% lower on-year. The government plans to borrow 47.2% of the budgeted borrowings in the second half of the fiscal	↓
Crude oil prices	• We expect oil crude prices to average in the $80-85 per barrel range in fiscal 2025, compared with $82.7 per barrel on average in the previous fiscal • Brent crude oil prices declined to $74.4 per barrel on average in November, 1.7% lower on-month and 10.6% lower on-year	↔

[1]*Provisional estimate*

Economic parameter	Our view	Impact on yields
Current account balance	• We expect the current account deficit (CAD) to average 1.0% of GDP in fiscal 2025, compared with 0.7% of GDP in fiscal 2024 • Higher imports, given the uptick in consumption demand in fiscal 2025, are expected to widen the trade deficit and put some pressure on CAD. That said, healthy services trade surplus and remittances would keep a tab on the CAD • India's current account recorded a deficit of 1.1% of GDP in the first quarter of fiscal 2025 versus a surplus of 0.5% of GDP in the previous quarter	↑
US Federal Reserve's stance	• S&P Global expects the Fed to cut rates more gradually than previously expected. It now expects the Fed funds rate to reach 3.5-3.75% by the end of 2025, compared with the previous forecast of 3-3.25% • The Fed cut its policy rate by 25 bps in November to 4.5-4.75%.	↓
Liquidity indicators **i) Demand and supply**	**Supply:** • For November, the actual SDL borrowing was Rs 55,006 crore, compared with the budgeted borrowing of Rs 94,468 crore • Overall short-term borrowing through CPs and CDs increased ~17% YoY in November 2024 to Rs 207,000 crore amid healthy credit demand • Corporate-bond supply increased 14.66% on an MoM basis to Rs 91,890.7 crore **Demand:** • Continued demand from insurance companies and pension funds for the longer end curve in SDLs and corporate bonds	↔
ii) Call rates/ liquidity-adjustment facility	• Liquidity in the Indian banking system remained in surplus for most of November 24, 2024, prompting the RBI to conduct multiple variable-rate reverse repo (VRRR) auctions to mop up the excess liquidity • However, the liquidity eventually turned into a deficit from November 25, as the balance of payments turned negative for the ongoing quarter at $23 billion, amid persistent FPI outflows and the dollar selling by the central bank in the market to support the rupee. • The strain on liquidity can also be attributed to a slowdown in deposit growth and monthly Goods and Services Tax (GST) payments. Accordingly, overnight borrowing rates went up slightly above the policy repo rate of 6.50%, as the month drew towards a close. The interbank weighted-average call rate (WACR) for the month was 6.53%.	↑

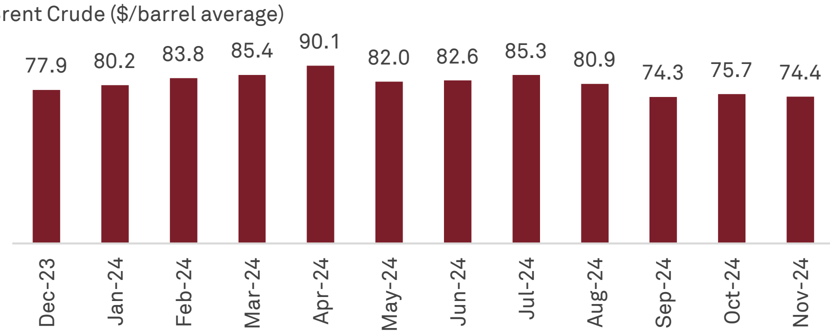
November at a glance



Source: CRISIL MI&A Research

Crude oil prices declined in November

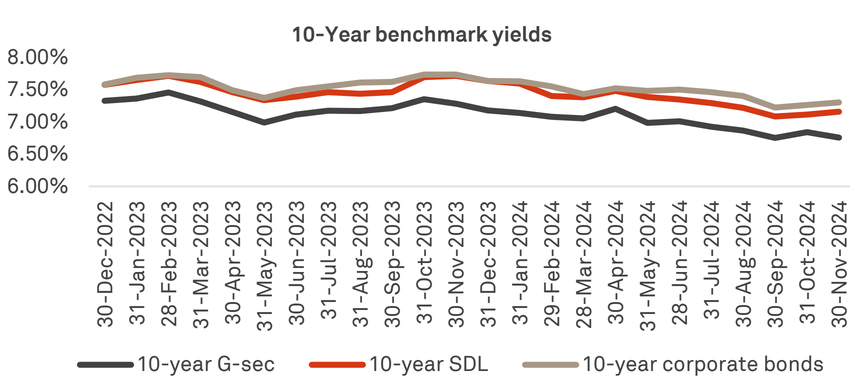
Brent Crude ($/barrel average)



Brent crude oil prices declined to ~$74.4 per barrel on average in November, down 1.72% on-month.

Source: CRISIL MI&A Research

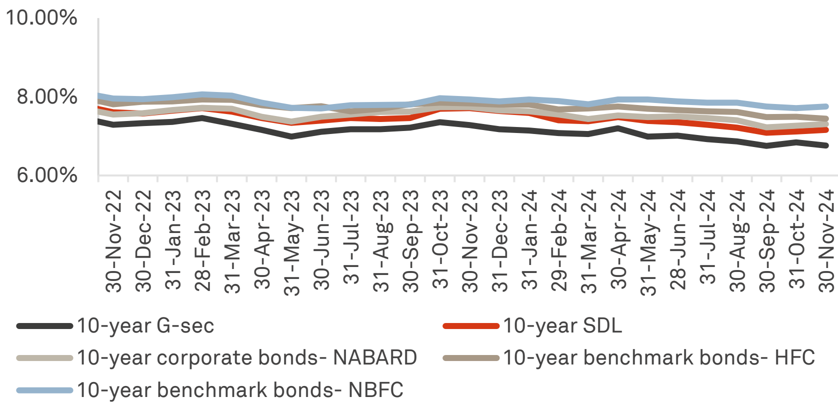
Benchmark G-sec yield eases, while SDL and corporate bond (PSU FI) yields harden



The yield on the 10-year benchmark G-sec closed at 6.75% in November, down 9 bps from the previous month's close. The yield on the 10-year SDL hardened 4 bps to 7.16% and that on the 10-year corporate bond (10-year PSU FI) strengthened 4 bps to 7.30%.

Source: CRISIL MI&A Research

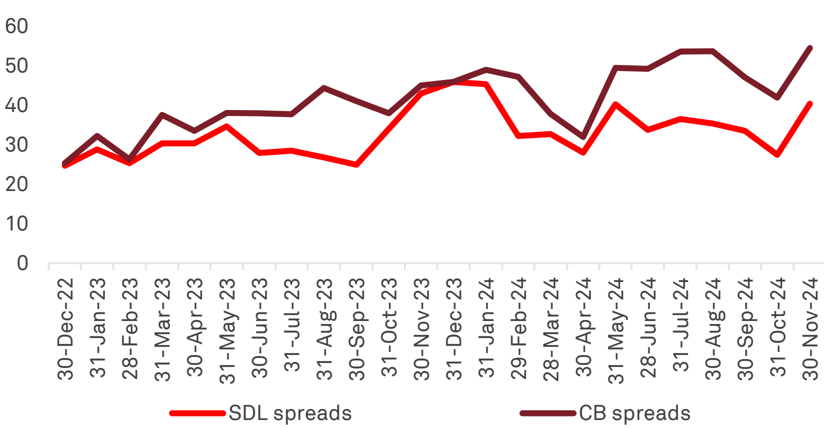
10-year G-sec/SDL/corporate bonds benchmark yields



Source: CRISIL MI&A Research

Yields on 10-year benchmark AAA-rated public sector undertaking and financial institution (PSU FI) bonds surged to 7.30% in November from 7.26% in October. Yields for housing-finance company (HFC) bonds eased, closing at 7.44% against the previous month's close of 7.49%. Yields on AAA-rated non-bank financial company (NBFC) bonds closed at 7.75%, higher than the previous month's close of 7.71%.

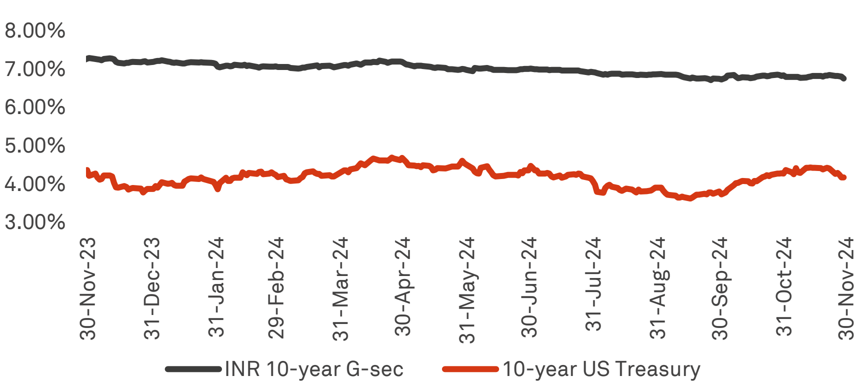
Corporate bonds and SDL yield spreads over 10-year benchmark G-sec yields



Source: CRISIL MI&A Research

The spread on the 10-year benchmark SDL over the 10-year benchmark G-sec closed at 40 bps in November, up ~13 bps from the previous month's close. Meanwhile, the spread on the 10-year AAA-rated public sector corporate bonds (PSU FI) closed at 55 bps, up ~13 bps from the previous month's close. The 12-month average spreads on the 10-year benchmark SDL and corporate bond (PSU FI) over the 10-year benchmark G-sec were ~36 bps and ~47 bps, respectively.

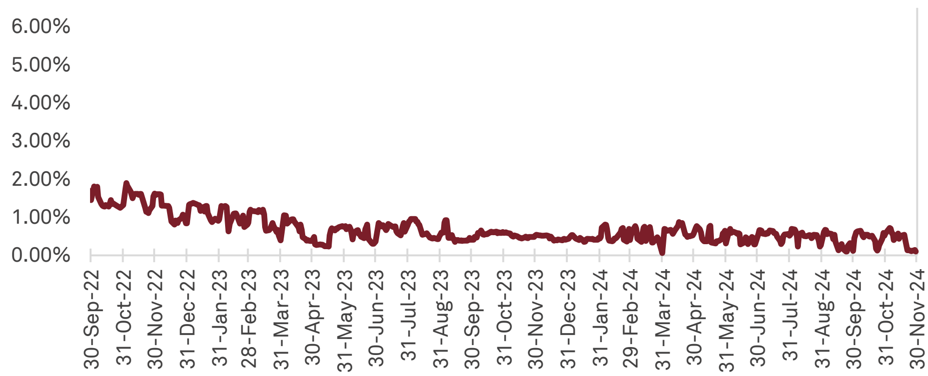
US Treasury and G-sec yield trajectory



Source: CRISIL MI&A Research

US Treasury yields closed lower by 10 bps at 4.18% versus the previous month's close. The monthly spread between the domestic benchmark 10-year G-sec and the 10-year US Treasury yield is 257 bps in November.

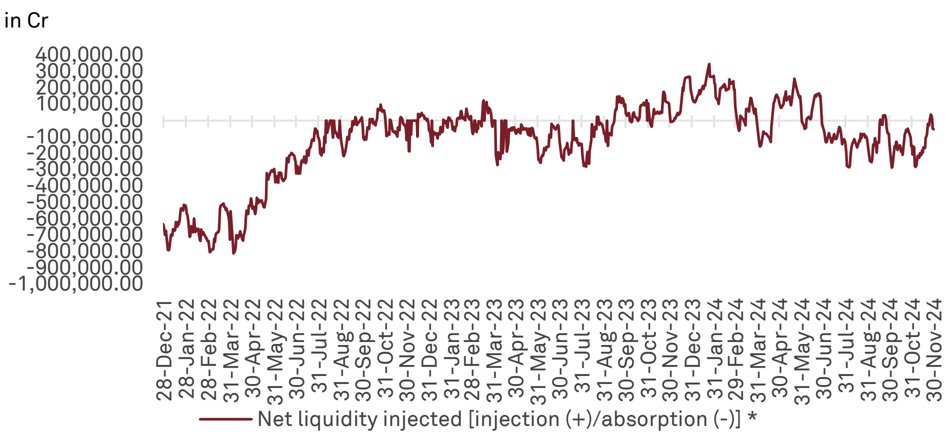
Term premium between 10-year benchmark G-sec and TREPS



The average spread between the 10-year benchmark G-sec yield and the tri-party repo (TREPS) narrowed to ~38 bps in November from ~46 bps in the previous month. The 12-month average spread was ~49 bps.

Source: CRISIL MI&A Research

Systemic liquidity



The average systemic liquidity surplus was ~Rs 1.34 lakh crore in November, compared with ~Rs 1.48 lakh crore in October. The average liquidity over the past 12 months was Rs 0.037 lakh crore. The RBI also conducted several VRRR auctions during the month to manage liquidity in the system.

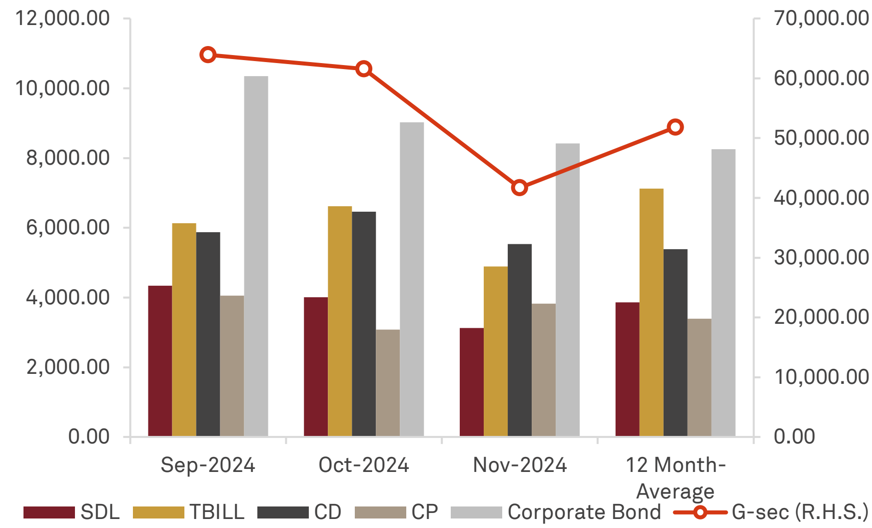
**Net liquidity is calculated as repo + marginal standing facility + standing liquidity facility - reverse repo*
Source: CRISIL MI&A Research

Benchmark spreads over G-secs

Spreads over G-sec*				
Rating category	**Date**	**PSUs / Corporates**	**NBFCs**	**Housing finance companies**
AAA	31-Oct-24	0.61%	0.95%	0.78%
	30-Nov-24	0.61%	0.95%	0.78%
AA+	31-Oct-24	1.13%	2.34%	1.93%
	30-Nov-24	0.87%	1.42%	1.43%
AA	31-Oct-24	1.13%	2.34%	1.93%
	30-Nov-24	1.15%	2.36%	1.93%
AA-	31-Oct-24	2.02%	3.40%	2.83%
	30-Nov-24	1.96%	3.23%	2.73%

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

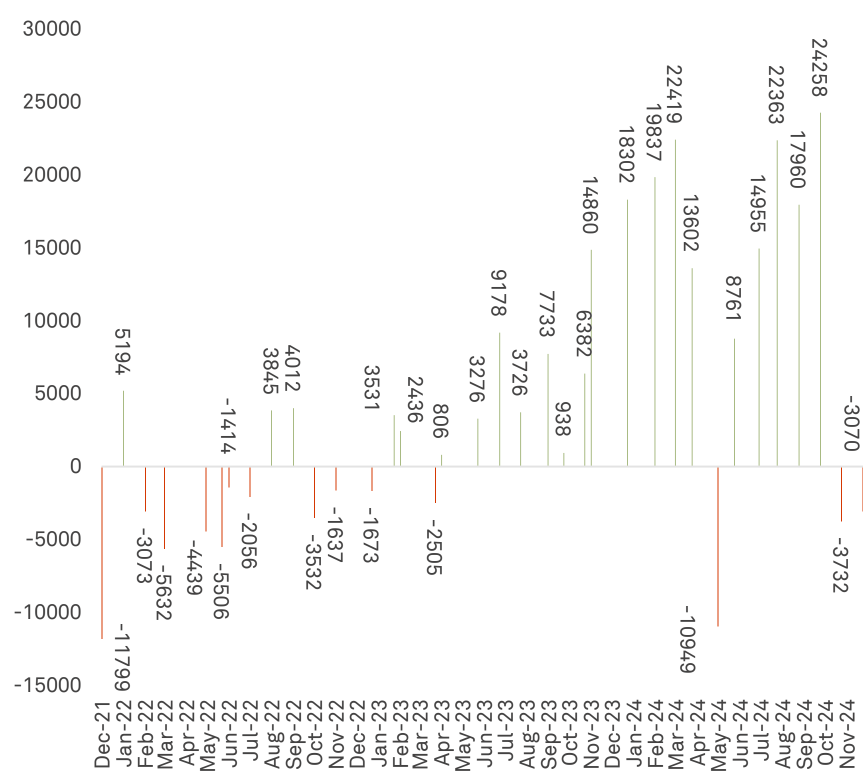
Trading volume decreases across securities except CPs



In November, trading volume in G-secs declined 32.30% on-month, while that of SDLs (amid low supply) fell 21.91%. Trading volume in T-bills and certificates of deposit (CDs) fell 26.03% and 14.43%, respectively, while that in commercial papers (CPs) and corporate bonds (CBs) rose 23.94% and declined 6.72%, respectively.

Source: CRISIL MI&A Research

FPIs remain sellers, but debt outflow recedes slightly



Net FPI outflow from the debt market was Rs 3,070 crore in November, compared with an outflow of Rs 3,732 crore in October 2024. The foreign portfolio investors (FPIs) were net sellers during the month. After the US presidential elections, emerging-market currencies weakened on a strong US dollar. FPI outflow continued in both equity and debt markets during the month.

Source: CRISIL M&IA Research

Rating upgrades and downgrades in November 2024

Upgrades

Issuer name	Old rating as per CRISIL	New rating
Alpha Alternatives Financial Services Pvt. Ltd.	ACUITE PP-MLD BBB-	ACUITE PP- MLD BBB+
Andhra Pradesh Capital Region Development Authority	ACUITE C	ACUITE BB(CE)
Bangalore International Airport Ltd.	CRISIL AA+	CRISIL AAA
Indian Overseas Bank	[ICRA]AA-	[ICRA]AA
Marwadi Shares & Finance Ltd.	IVR A	IVR A+
Rattanindia Power Ltd.	ACUITE BB+	ACUITE BBB-
Whispering Heights Real Estate Pvt. Ltd.	BWR BBB-	BWR BBB+
Yes Bank Ltd.	CARE A	CARE A+

Downgrades

Issuer name	Old rating	New rating
Aviom India Housing Finance Pvt. Ltd.	CRISIL BBB+	CRISIL D
Fusion Micro Finance Ltd.	[ICRA]A+	[ICRA]A
Madhya Pradesh Financial Corporation	CARE C	CARE D

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