

RateView

CRISIL's outlook on near-term interest rates

March 2024



Research

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February fare

The yield on the 10-year benchmark government security (G-sec; 7.18% GS 2033) opened February at 7.06% and closed at 7.08%, down 6 basis point (bps) from its January close of 7.14% and within CRISIL's forecast range of 7.03-7.13%.

In the first week, the 10-year benchmark traded on an optimistic note on announcement of a fiscally prudent vote on account and lower-than-expected borrowing for FY 24-25. A decline in US treasury yields and crude oil prices also supported the yield.

During the second week, the yield soared to a high of 7.11% as the Reserve Bank of India (RBI) retained its policy stance of "withdrawal of accommodation" and the US Treasury yields rose amid a higher-than-expected US inflation print of 3.01% for January 2024. US Treasury yields hardened 13 basis points to close the week at 4.30%. However, the 10-year G-sec yield remained in the 7.09-7.11% range as the CPI print came in at 5.1%, down 60 bps on-month.

As the month progressed, strong buying support from domestic players supported yields and foreign portfolio investment (FPI) inflows into the debt market hit a six-year high of Rs 22,419 crore.

Amid tight liquidity in the banking system, the bond market witnessed a yield-curve inversion between short-term treasury bills and 10-year G-secs, wherein the 182-day and 364-day T-bills traded above the 10-year benchmark throughout February.

The Monetary Policy Committee (MPC) meeting minutes were broadly in line with market expectations, with a clear focus on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth.

This month, advance tax outflows, Goods and Services Tax collection and the fiscal-end effect might put pressure on liquidity in the system, but a pickup in the government's spending and reversal of dollar/rupee sell-buy swaps will absorb the impact.

CRISIL's outlook

On interest rates

Benchmark	February 29, 2024 (A)	March 31, 2024 (P)	May 31, 2024 (P)
10-year G-sec yield*	7.08%	6.96%-7.06%	7.03%-7.13%
10-year SDL yield	7.40%	7.41%-7.51%	7.48%-7.58%
10-year corporate bond yield	7.55%	7.41%-7.51%	7.48%-7.58%

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

One-month view

In March, advance tax outflows and GST collection may put pressure on liquidity in the system and impact yields negatively, but a pickup in government spending, reversal of dollar/ rupee sell-buy swaps, FPI and domestic inflows into the debt market can support yields.

Three-month view

Global interest rates, continued foreign capital inflows and the government's borrowing calendar for fiscal 2024 can impact yields positively, while liquidity concerns may impact negatively.

Framework for outlook






CRISIL provides its outlook on key benchmark rates for different debt classes — 10-year G-secs, SDLs (state-development loans), 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

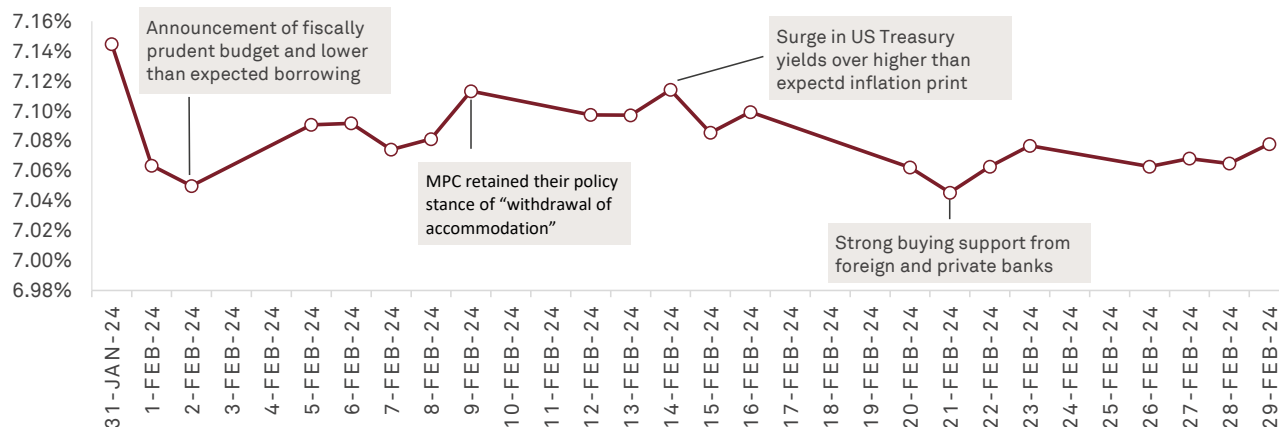
Economic parameter	Our view	Impact on yields
GDP growth	<ul style="list-style-type: none"> We expect real GDP growth to moderate to 6.8% in fiscal 2025 from 7.6¹% this fiscal. High interest rates and lower fiscal impulse will temper domestic demand. Uneven growth in key trade partners will restrict healthy 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. 	↓
CPI inflation	<ul style="list-style-type: none"> We expect consumer price index (CPI)-linked inflation to soften to 4.5% in fiscal 2025 from an estimated 5.5% this fiscal. Cooling domestic demand and healthier farm output should help moderate inflation next fiscal. A non-inflationary budget that focusses on asset-creation rather than direct cash support bodes well for core inflation. CPI inflation eased to a three-month low of 5.1% in January from 5.7% in December. 	↓
RBI's monetary policy	<ul style="list-style-type: none"> We expect the first interest rate cut in June at the earliest, if not later. While fiscal prudence has smoothed the path for monetary policy, the RBI is wary of cutting rates or changing stance too soon given inflation is not fully tamed yet. The MPC kept policy rates unchanged in its February meeting, while maintaining stance of withdrawal of accommodation. 	↔
Fiscal health	<ul style="list-style-type: none"> The budget has targeted a reduction in centre's fiscal deficit to 5.1% of GDP in fiscal 2025 from 5.8% of GDP this fiscal. Gross market borrowing is estimated at Rs. 14.1 lakh crore for fiscal 2025, 8.4% lower on-year. In the first ten months of this fiscal, centre's fiscal deficit stood at 63.3% of the budget target, compared with 67.8% in same period last year. Capital and revenue expenditure as a proportion of budget target has been lower relative to last year. 	↓

¹NSO Second Advance Estimate

Economic parameter	Our view	Impact on yields
Crude oil prices	<ul style="list-style-type: none"> We expect crude prices to remain in the \$80-\$85 per barrel range in fiscal 2025. Brent crude oil prices increased to \$83.8 per barrel average in February, 4.4% higher on-month and 1.3% higher on-year. 	
Current account balance	<ul style="list-style-type: none"> We expect current account deficit (CAD) average 1.0% of GDP in fiscal 2025, the same as our estimate for fiscal 2024. Benign international commodity prices and support from healthy services trade surplus and remittances will keep CAD in check. CAD narrowed to 1% of GDP in the second quarter of fiscal 2024 from 1.1% of GDP the previous quarter. 	
US Federal Reserve's stance	<ul style="list-style-type: none"> 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 fourth consecutive time at its January meeting. 	
Liquidity indicators	<ul style="list-style-type: none"> During the month, SDL issuance came out at 70% of the indicative amount. 	
- Demand and supply	<ul style="list-style-type: none"> Issuance of CDs (certificates of deposit) increased 77% month-on-month due to tighter liquidity. CB issuance increased 43.3% month-on-month, due to stable yields and year-end pressure. 	
- Call rates/ liquidity-adjustment facility	<ul style="list-style-type: none"> Interbank call WAR (weighted average rate) money rates averaged at 6.63% which is above the RBI's repo rate of 6.50% in February amid persistent liquidity deficit in the system. The RBI conducted several VRR and VRRR auctions during the month to manage liquidity in the system. 	

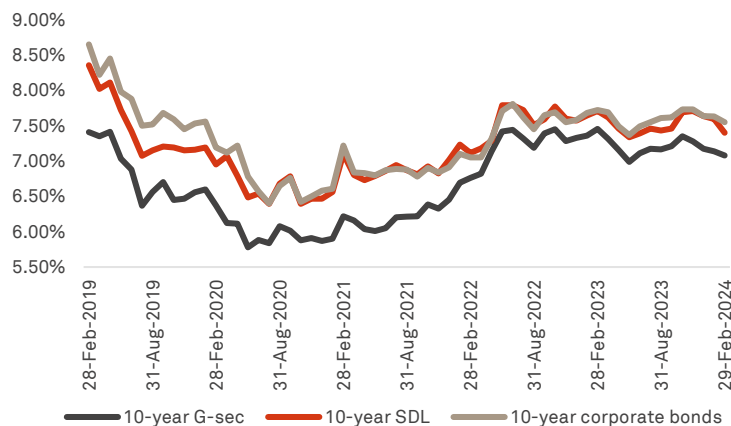
Month at a glance

10-year G-sec benchmark yield



Source: CRISIL MI&A Research

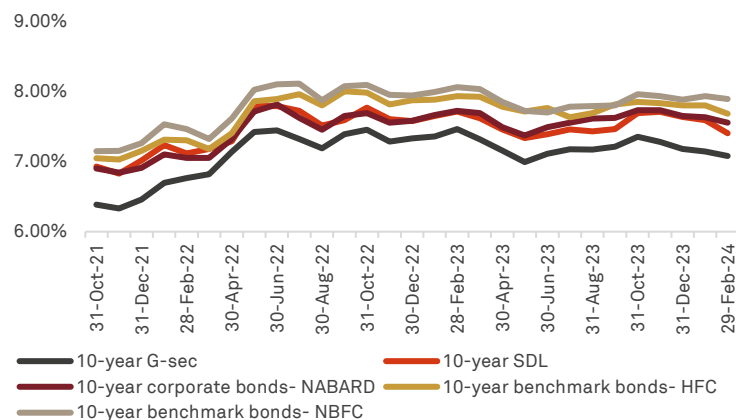
Benchmark yields ease across securities



Source: CRISIL MI&A Research

Yield on the 10-year benchmark G-sec closed February at 7.08%, down 6 bps from its January close, and that on the 10-year SDL was down 19 bps to 7.40% from 7.59%. Yield on CBs (10-year PSU FI) also eased 8 bps to close at 7.55%.

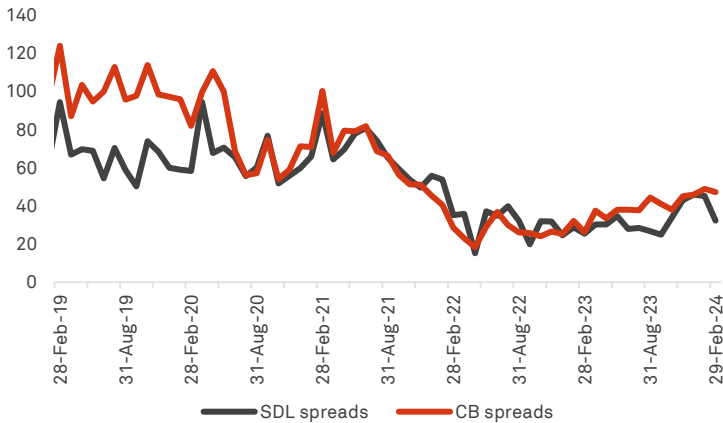
10-year G-sec/ SDL/CB benchmark yields



Source: CRISIL MI&A Research

Yield on the 10-year benchmark bonds for AAA-rated PSU bonds closed at 7.55%, down from January's 7.63%, and that on AAA-rated NBFCs eased 4 bps on-month to 7.89% in February. Housing-finance company bonds closed at 7.68% in February, down 12 bps from 7.80% in January.

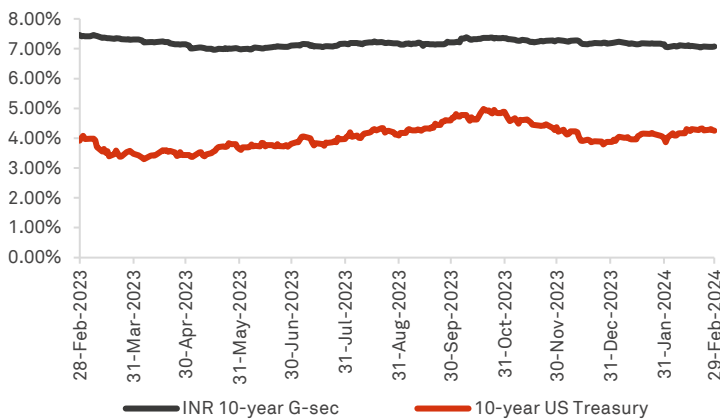
SDL spreads over 10-year benchmark G-sec eased



The spread on the 10-year benchmark SDL over the 10-year benchmark G-sec closed February at 32 bps, down from January’s 45 bps. The narrowing gap was due to lower cut-off yields at the primary auction. The spreads on the 10-year AAA-rated public sector CB narrowed from 49 bps to 47 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.

Source: CRISIL MI&A Research

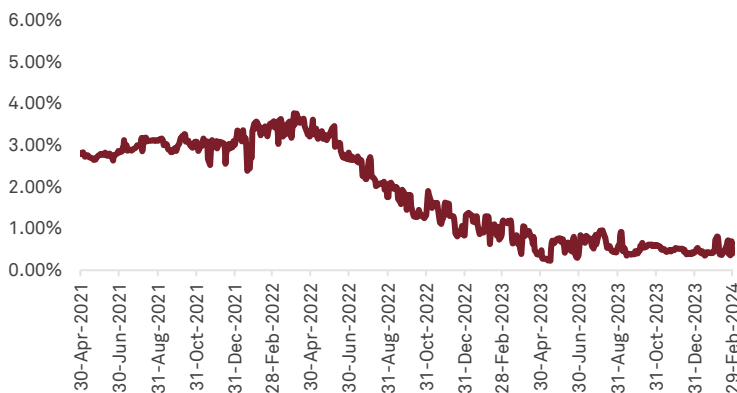
US Treasury yields harden



The 10-year Treasury yield closed February at 4.25%, up 26 bps from January’s 3.99% yields, due to a higher-than-expected US inflation print of 3.01% for January 2024. The monthly average spread between the domestic 10-year benchmark G-sec yield and the 10-year Treasury yield eased to 283 bps from 325 bps.

Source: CRISIL MI&A Research

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

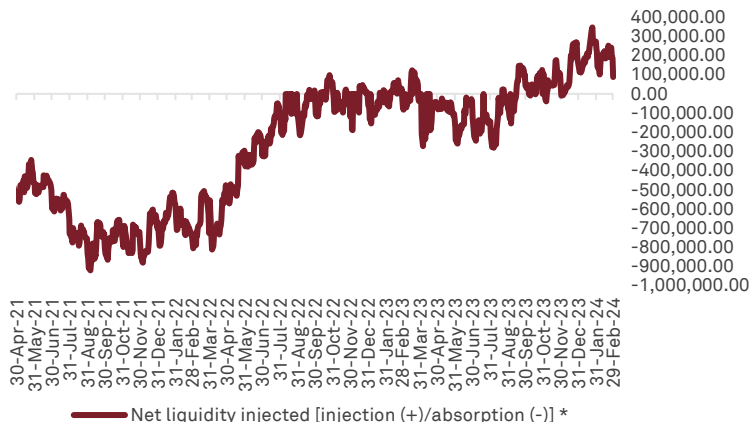


The average spread between the 10-year benchmark G-sec yield and the tri-party repos (TREPS) widened to ~55 bps in February from ~44 bps in January. The 12-month average spread was ~58 bps.

Source: CRISIL MI&A Research

Systemic liquidity

Net liquidity injected [injection (+)/absorption (-)]* (Rs crore)



Average deficit in systemic liquidity was ~Rs 1.89 lakh crore in February, as against ~Rs 2.09 lakh crore in January. The RBI conducted several VRR and VRRR auctions during the month to manage liquidity in the system.

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

Benchmark spreads over G-secs

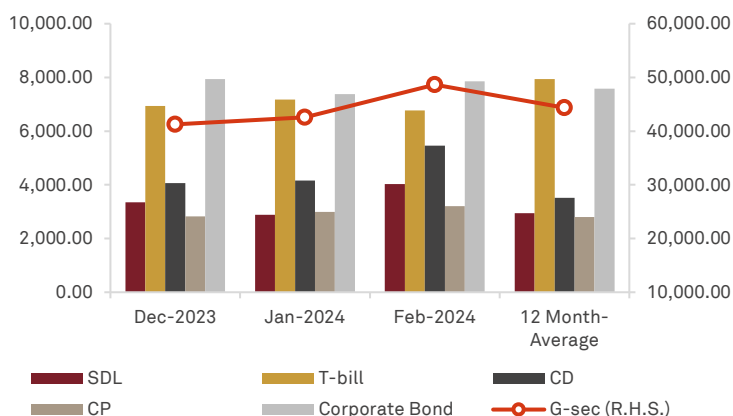
Spreads over G-Sec*

Rating category	Date	PSUs / Corporates	NBFC	HFCs
AAA	31-Jan-24	0.53%	0.94%	0.68%
	29-Feb-24	0.44%	0.88%	0.68%
AA+	31-Jan-24	0.86%	1.45%	1.26%
	29-Feb-24	0.79%	1.37%	1.18%
AA	31-Jan-24	1.19%	2.17%	1.84%
	29-Feb-24	1.15%	2.15%	1.93%
AA-	31-Jan-24	2.11%	3.64%	2.59%
	29-Feb-24	2.07%	3.34%	2.47%

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

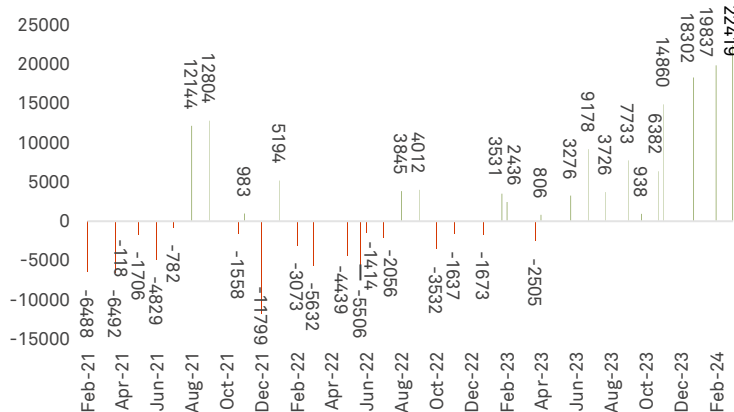
Monthly average trading volume (Rs crore)



In February, trading volume in G-secs increased 14.31% on-month and SDLs rose 39.44% after a 14% decline in January, While T-bills volume declined by 5.67%. Volume in commercial paper (CPs) and CDs increased 7.21% and 31.16%, respectively, while that in corporate bonds rose 6.51%.

Source: CRISIL MI&A Research

FPIs remain net buyers in debt (Rs crore)



Net FPI in debt was Rs 22,419 crore in February, compared with Rs 19,837 crore in January. 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 starting January 31, 2025, may attract further debt inflows. The momentum is anticipated to continue throughout 2024.

Source: CRISIL M&IA Research

Rating upgrades and downgrades in February 2024

Upgrades

Issuer name	Old rating	New rating
Arohan Financial Services Ltd.	CARE A-	CARE A
Jana Capital Ltd.	IND B-	IND BB-
Jana Holdings Ltd.	IND B-	IND BB-
Amrit Malwa Capital Ltd.	CARE BBB-	CARE BBB
Federal Bank Ltd. (BASEL III, TIER2)	IND AA	IND AA+
Fedbank Financial Services Ltd.	IND AA-	IND AA+
GMR Hyderabad International Airport Ltd.	IND AA	IND AA+
Inditrade Microfinance Ltd.	ACUITE C	ACUITE BBB-
Jhajjar Power Ltd.	IND AA-	IND AA
NeoGrowth Credit Pvt. Ltd.	[ICRA]BBB	[ICRA]BBB+
Delhi International Airport Ltd.	[ICRA]A+	[ICRA]AA-
GMR Goa International Airport Ltd.	CRISIL BBB+	CRISIL A-
Kogta Financial (India) Ltd.	[ICRA]A	[ICRA]A+

Downgrades

Issuer name	Old rating	New rating
NTC Logistics India Pvt. Ltd.	IVR BBB-	IVR BB+
NMDC Steel Ltd.	[ICRA]A	[ICRA]A-
Andhra Pradesh Capital Region Development Authority	BWR BBB(CE)	BWR BB+(CE)
Shrem Infra Structure Pvt. Ltd.	CARE AA	CARE AA-
Hella Infra Market Pvt. Ltd.	IND A	IND A-
Ashv Finance Ltd.	CARE BBB	CARE BBB-

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