Market Intelligence
& Analytics

CRISIL
An S&P Global Company

RateView

CRISIL's outlook on near-term rates

November 2024

Research

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October unease

The yield on the old 10-year benchmark G-sec (7.10% GS 2034) opened October at 6.73% and closed at 6.84%, up 9 basis points (bps) from its September close of 6.75% and above CRISIL's forecast range of 6.68-6.78%. The month also saw the introduction of 6.79% GS 2034 as the new 10-year benchmark.

The bond market opened the first week of the month on a positive note, tracking a decline in US Treasury (UST) yields. Firm demand at the state bond auction aided gilt prices to some extent. However, during the week, prices declined owing to a rise in crude oil prices amid heightened tensions in the Middle East. By the end of the week, prices further slumped because of foreign portfolio investor (FPI) sales amid escalating geopolitical tensions. With this, the old 10-year benchmark paper 7.10% GS 2034 closed the week at 6.83% and the new one at 6.79%.

At the start of the second week, domestic bonds traded with a negative bias, tracking a surge in UST yields. However, as the week progressed, the Reserve Bank of India's (RBI) buyback announcement and hopes of inclusion of Indian bonds in the FTSE Russell Index aided gilt prices to some extent. Prices rose as the RBI's Monetary Policy Committee (MPC) unanimously changed its policy stance to neutral. Also, traders remained cautious ahead of the US inflation data release. The rupee hit a record low of 84.07 against the dollar, due to which the market sentiment remained dull as FPIs sold. A rise in crude oil prices and mounting geopolitical tensions in the Middle East also weighed. The old 10-year benchmark yield closed at 6.79% and the new at 6.74%.

The third week started off on a positive note, tracking the buyback announcement. However, during the week, a higher-than-expected consumer price index (CPI)-based inflation print for September weighed on bond prices. Additionally, a surge in UST yields turned market sentiment a tad bearish. By the end of the week, prices fell further following the RBI governor's remarks that a policy rate cut at the present juncture is premature and risky. The old 10-year benchmark yield closed at 6.81% and the new at 6.77%.

In the fourth week, a decline in UST yields and lower-than-expected state borrowing aided bond prices in the beginning. For most of the week, bonds traded in a narrow price range amid a lack of firm domestic and offshore cues. However, prices declined later because of a rise in overnight index swap (OIS) rates and a disappointing cut-off at the weekly G-sec auction. The 10-year benchmark paper closed the month at 6.84% and the new one at 6.81%.

CRISIL's outlook

On interest rates

Benchmark	October 31, 2024 (A)	November 30, 2024 (P)	January 31, 2025 (P)
10-year G-sec yield*	6.84%	6.79% - 6.89%	6.72% - 6.82%
10-year SDL yield	7.11%	7.09% - 7.19%	7.02% - 7.12%
10-year corporate bond yield	7.26%	7.19% - 7.29%	7.12% - 7.22%

A: Actual; P: Projected (6.79 GS 2034)
Source: CRISIL MI&A Research

One-month view

In November, domestic G-sec yields are likely to be influenced by factors such as FPI inflows and outflows, crude oil price movements, the rupee-dollar equation and domestic inflows into the debt market.

Three-month view

The 10-year G-sec yield is expected to hinge on FPI flows, crude prices, global interest rates, the CPI inflation print, the policy decisions of the RBI's MPC and the Federal Open Market Committee (FOMC), 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, 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).

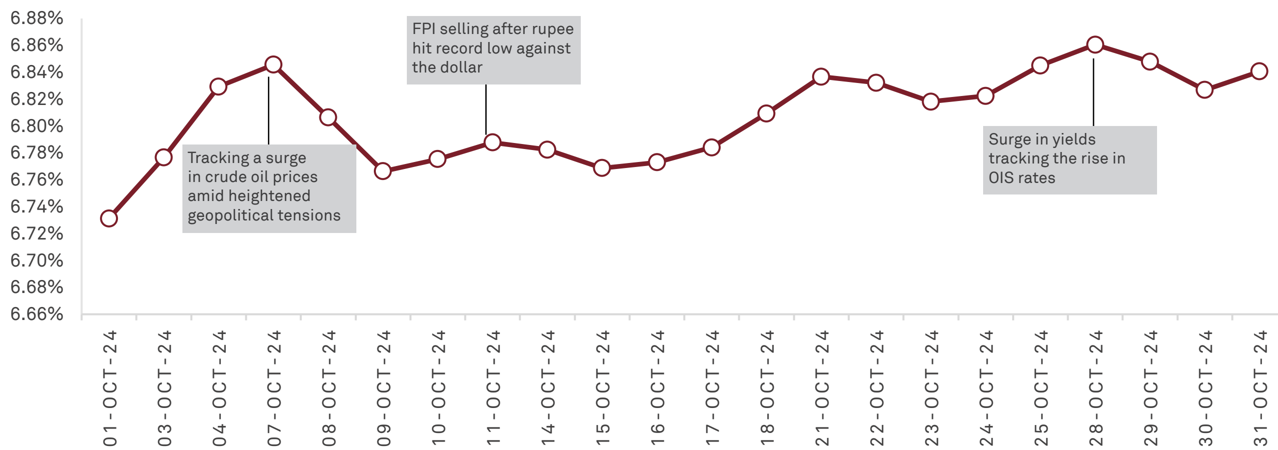
Note: All yields are volume-weighted averages during the last trading hour of that day.

Factors influencing the outlook

Economic parameter	Our view	Impact on yields
Gross domestic product (GDP) growth	• We expect real GDP growth to moderate to 6.8% this fiscal from 8.2% in the last fiscal. • High interest rates and lower fiscal impulse (owing to reduction in the fiscal deficit) will weigh on growth. But growth will become more balanced as agriculture and private consumption — last year's laggards — are poised to rise. High rural demand and easing food inflation are expected to lift consumption. • Real GDP growth moderated to 6.7% on-year in the first quarter this fiscal from 7.8% in the previous quarter.	↓
Consumer price index (CPI) inflation	• We expect CPI inflation to soften to 4.6% this fiscal from 5.4% last fiscal. • Food prices should start easing at least sequentially in the second half of this fiscal given the healthy monsoon season. Easing food inflation and benign non-food inflation is expected to bring down headline CPI inflation. • CPI inflation accelerated to a 14-month high of 6.2% in October from 5.5% in the previous month.	↓
RBI's monetary policy	• We expect the MPC to cut repo rate by 25 bps in December. • The MPC is waiting for food inflation to ease before cutting policy rates. Persistently elevated food inflation in September and October is a worry. The RBI will also monitor risks from geopolitical uncertainties and international commodity price movements. That said, the easing of food inflation by the end of this fiscal should initiate a rate cut. • The MPC kept policy rates unchanged in its October meeting but changed the stance to 'neutral' from 'withdrawal of accommodation'.	↓
Fiscal health	• The Union Budget has targeted a reduction in the Centre's fiscal deficit to 4.9% of GDP this fiscal from 5.6% last fiscal. • In the first six months of this fiscal, the fiscal deficit stood at 29.4% of the budget target, compared with 39.3% in the same period last year. Capital expenditure as a proportion of budget target has been lower relative to last fiscal. • Gross market borrowing is estimated at Rs 14 lakh crore for fiscal 2025, 9.2% lower on-year. The government plans to make 47.2% of the budgeted borrowings in the second half.	↓

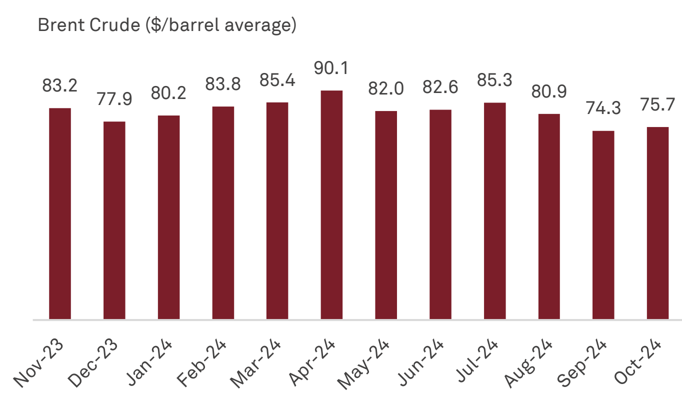
Economic parameter	Our view	Impact on yields
Crude oil prices	• We expect crude oil prices to average in the $80-85 per barrel range this fiscal compared with an average of $82.7 per barrel last fiscal. • Brent crude oil prices increased to $75.7 per barrel on average, 1.8% higher on-month but 16.9% lower on-year.	↔
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 this fiscal, are expected to widen the trade deficit and put some pressure on the 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 this fiscal vs a surplus of 0.5% of GDP in the previous quarter.	↑
US Federal Reserve's stance	• The Fed cut its policy rate 25 bps in November to 4.5-4.75%. The Fed's dot plot as of September indicates another 25-bps rate cut this year.	↓
Liquidity indicators **i) Demand & Supply**	**Supply:** • As per the Government of India's dated securities calendar. gross borrowing in the second half of the current fiscal has been pegged at Rs 661,000 crore, lower than that pegged for the first half (Rs 750,000 crore). • For October, the actual SDL borrowing was Rs 84,842 crore, compared with the budgeted borrowing of Rs 112,037 crore. • Buyback of G-secs worth Rs 25,000 crore resulted in the easing of short-term yields. **Demand:** • Demand for longer-tenure G-secs and SDLs from insurance and pension players has been increasing steadily.	↔
ii) Call rates/LAF (liquidity adjustment facility)	• Liquidity in the Indian banking system remained in surplus for most of October, in line with previous three months. • As the month ended, the variable rate repo (VRR) auction conducted by the RBI aligned the interbank weighted-average call rate for October with the repo rate at 6.50%.	↑

October at a glance



Source: CRISIL MI&A Research

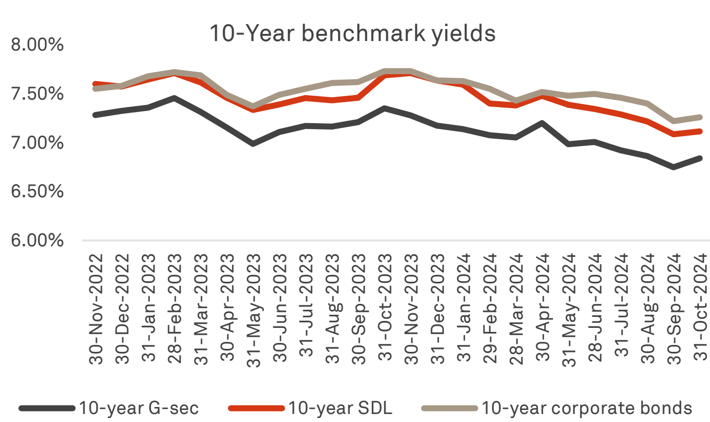
Crude oil prices rose in October



Source: CRISIL MI&A Research

Amid geopolitical tensions, brent crude prices increased to ~$76 per barrel on average in October, up 1.8% on-month.

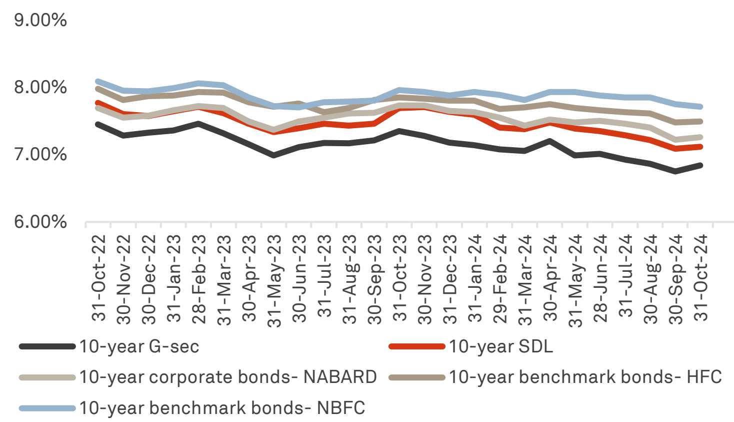
Benchmark yields harden for SDLs, G-secs and CB (NABARD)



Source: CRISIL MI&A Research

The yield on the 10-year benchmark G-sec closed at 6.84% in October, up 9 bps from the previous month's close. The yield on the 10-year SDL hardened 2 bps to 7.11% and that on the 10-year CB (10-year PSU FI) 4 bps to 7.26%.

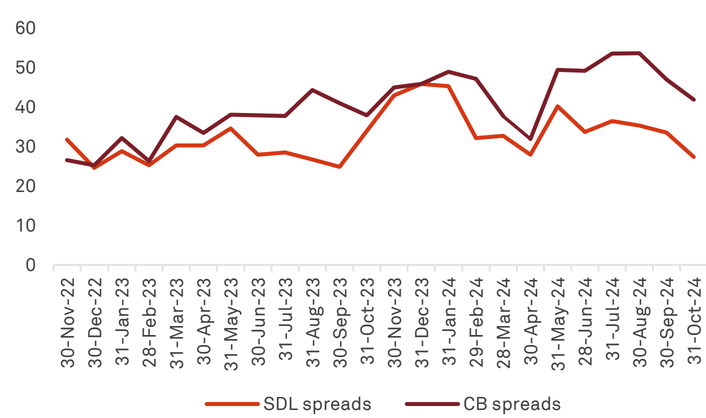
10-year G-sec/SDL/CB benchmark yields



Source: CRISIL MI&A Research

The yield on the 10-year benchmark AAA-rated public sector undertaking (PSU FI) bonds surged to 7.26% in October from 7.22% in September. The yield on housing finance company (HFC) bonds remained stable, closing at 7.49% against the previous month's close of 7.48%. The yield on AAA-rated non-bank financial company (NBFC) bonds closed at 7.71%, lower than the previous month's close of 7.75%.

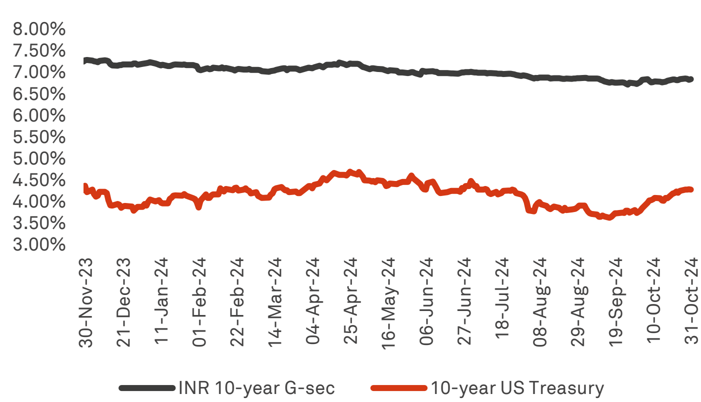
CB and SDL spreads over 10-year benchmark G-secs



Source: CRISIL MI&A Research

The 10-year benchmark SDL spread over the 10-year benchmark G-sec closed at 27 bps in October, down ~6 bps from the previous month's close. Meanwhile, the 10-year G-sec spread on the 10-year AAA-rated public sector CB (PSU FI) closed at 42 bps, down ~5 bps from the previous month's close. The 12-month average spreads of the 10-year benchmark SDL and CB over the 10-year benchmark G-sec were ~36 bps and ~46 bps, respectively.

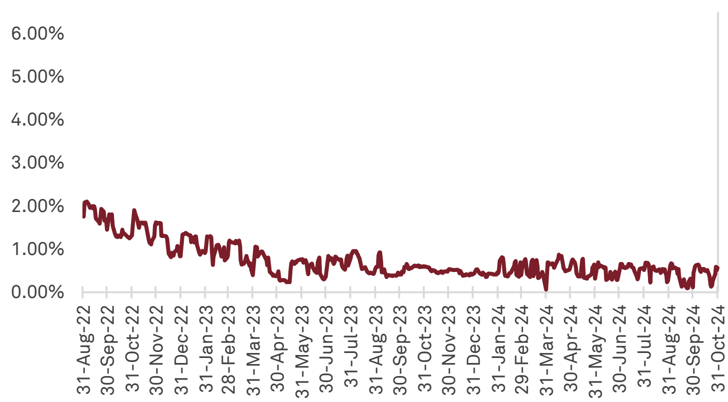
UST and G-sec yield trajectory



Source: CRISIL MI&A Research

UST yield closed the month at 4.28%, up 47 bps from the previous month's close. As a result, the monthly spread between domestic benchmark 10-year G-sec yield and the 10-year UST yield narrowed to 256 bps in October from 294 bps in September.

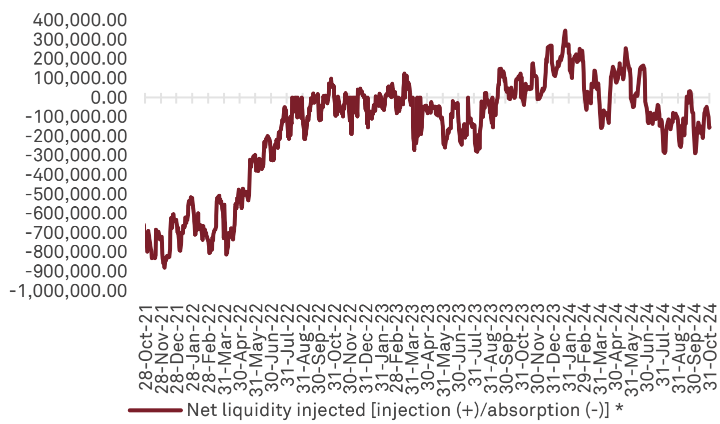
Term premium between 10-year benchmark G-sec and TREPS



Source: CRISIL MI&A Research

The average spread between the 10-year benchmark G-sec yield and the tri-party repo (TREPS) increased to ~46 bps in October from ~37 bps in the previous month. The 12-month average spread was ~50 bps.

Systemic liquidity



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

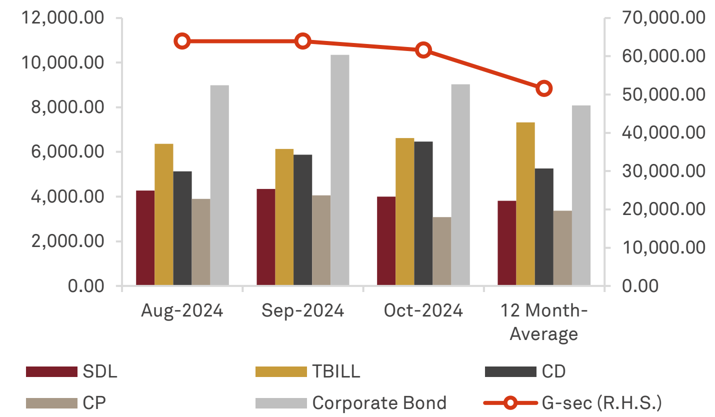
The average systemic liquidity surplus was ~Rs 1.47 lakh crore in October compared with ~Rs 0.98 lakh crore in September. The average liquidity over the past 12 months was Rs 0.18 lakh crore. The RBI also conducted several VRR auctions during the month to manage liquidity in the system.

Benchmark spreads over G-secs

Spreads over G-sec*				
Rating category	**Date**	**PSUs/ corporates**	**NBFCs**	**Housing finance companies**
AAA	30-Sep-24	0.58%	1.03%	0.84%
	31-Oct-24	0.53%	0.88%	0.65%
AA+	30-Sep-24	0.93%	1.52%	1.52%
	31-Oct-24	0.87%	1.36%	1.31%
AA	30-Sep-24	1.18%	2.45%	1.98%
	31-Oct-24	1.10%	2.27%	1.86%
AA-	30-Sep-24	2.10%	3.45%	2.84%
	31-Oct-24	2.01%	3.34%	2.76%

**Spreads are for five-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

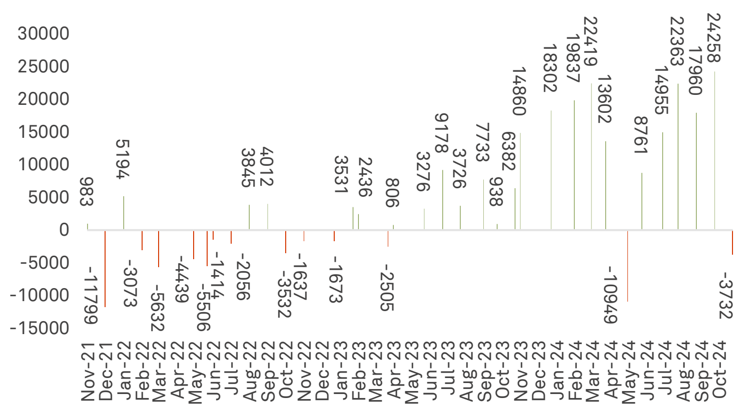
Trading volume decreases across securities, except T-bills & CDs



Source: CRISIL MI&A Research

In October, trading volume of G-secs decreased 3.72% on-month and that of SDLs 7.77%. Trading volume of T-bills and certificates of deposit (CDs) increased 7.92% and 10.04% respectively, while that of commercial papers (CPs) and corporate bonds (CBs) decreased 23.91% and 12.78%, respectively.

FPIs turn net sellers



Source: CRISIL MI&A Research

Net FPI outflow in debt was Rs 3,732 crore in October, compared with an inflow of Rs 24,258 crore in September. FPIs were overall net sellers during October.

Rating upgrades and downgrades in October 2024

Upgrades

Issuer name	Old rating	New rating
Hinduja Leyland Finance Ltd.	CRISIL AA	CRISIL AA+
Star Health & Allied Insurance Co. Ltd.	IND AA-	IND AA
Hinduja Housing Finance Ltd.	CRISIL AA	CRISIL AA+
Moneyboxx Finance Ltd.	ACUITE BBB-	ACUITE BBB
Godrej Industries Ltd.	CRISIL AA	CRISIL AA+
Godrej Housing Finance Ltd.	CRISIL AA	CRISIL AA+
Godrej Finance Ltd.	CRISIL AA	CRISIL AA+
Adani Ports & Special Economic Zone Ltd.	IND AA+	IND AAA
Bangalore International Airport Ltd.	IND AA+	IND AAA
UCO Bank	IND AA-	IND AA
Bangalore Airport Hotel Ltd.	IND AA+(CE)	IND AAA(CE)

Downgrades

Issuer name	Old rating	New rating
Bandhan Bank Ltd.	[ICRA]AA	[ICRA]AA-
Essel Lucknow Raebareli Toll Roads Ltd.	CARE BB+	CARE D
Mahanagar Telephone Nigam Ltd.	BWR AAA(CE)	BWR AA+(CE)
Pahal Financial Services Pvt. Ltd.	IND BBB	IND BBB-
IIFL Samasta Finance Ltd.	ACUITE AA	ACUITE AA-

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