



CareEdge

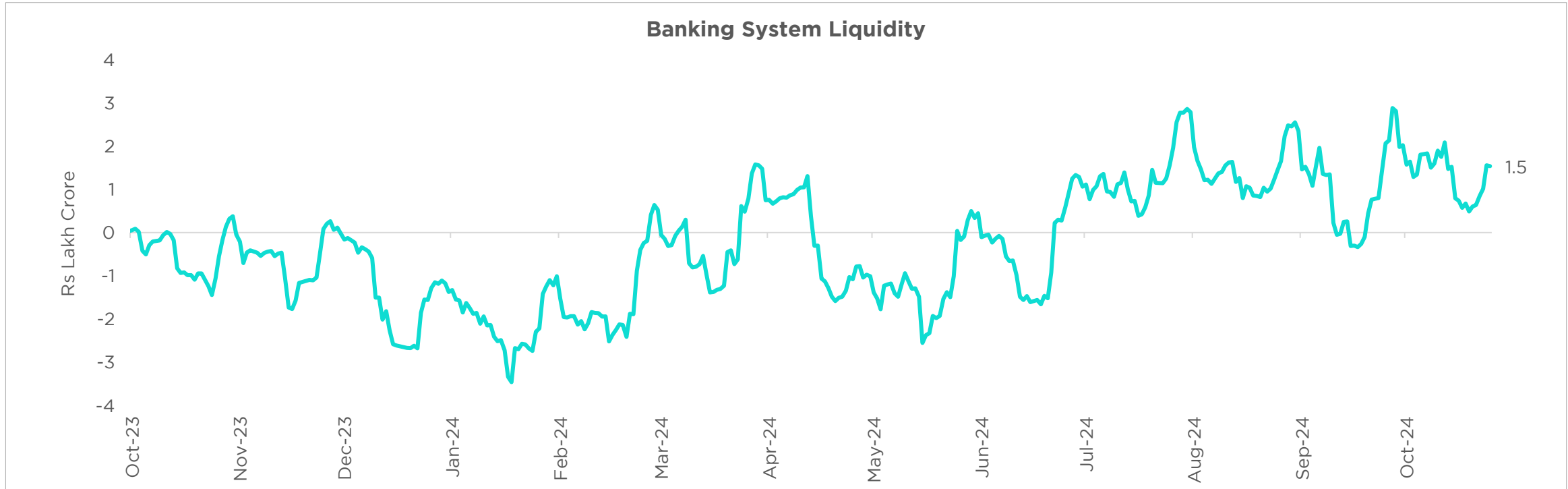
► Debt & Forex Market Update

November 2024

The background features a dark blue gradient with faint, semi-transparent financial data tables and charts. In the center, there are several stacks of silver coins of varying heights. A white line graph with an upward-pointing arrow is overlaid on the scene. On the right side, there are three horizontal teal-colored bars of different lengths, stacked vertically. The text 'Debt Market' is written in a bold, teal font, preceded by a white arrowhead pointing to the right.

▶ Debt Market

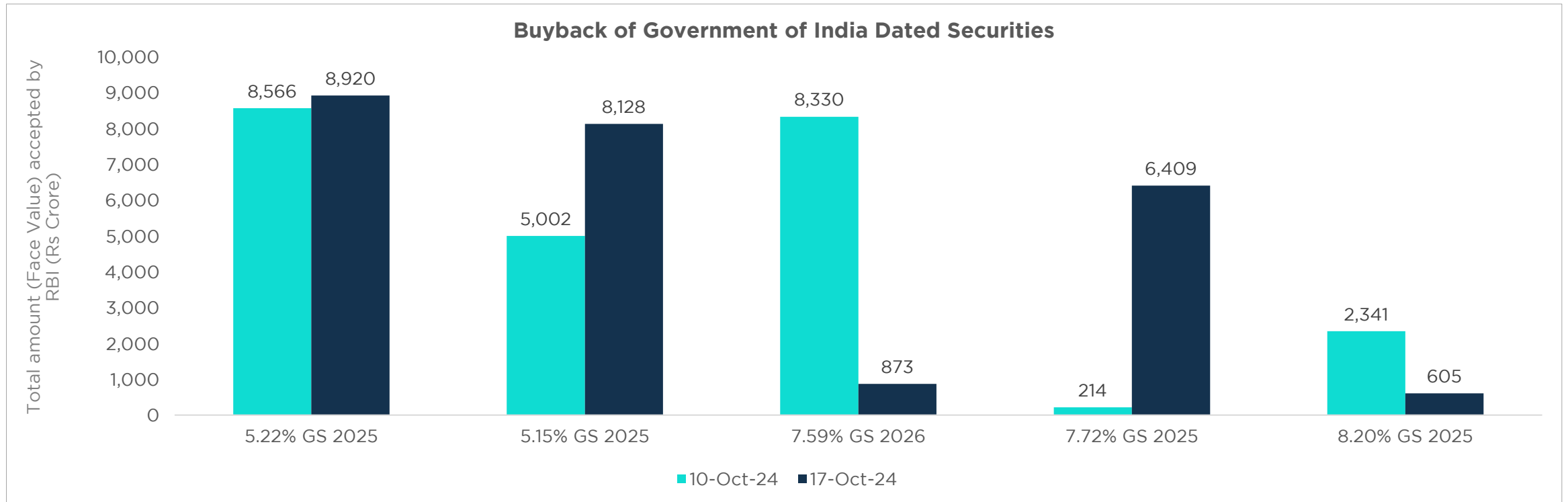
Liquidity Conditions Remain in Surplus



Sources: RBI, CEIC. Data as on October 31. Positive values denote surplus liquidity.

- Buyback of GSecs, amounting to Rs 49,388 cr, contributed to liquidity surplus in Oct.
- However, the liquidity surplus narrowed from Rs 2.8 lakh crore (1.2% of NDTL) at the beginning of the month to Rs 1.5 lakh cr (0.8% of NDTL) by month end.
- Record high FPI outflows in Oct resulted in narrowing of the surplus along with excise duty and GST outflows.
- Net OMO sales in Oct amounted to Rs 20 cr, significantly lower than Rs 5,815 cr in Sep. FYTD net OMO sales reached Rs 24,060 cr.
- RBI undertook both VRR and VRRR auctions to manage liquidity conditions.

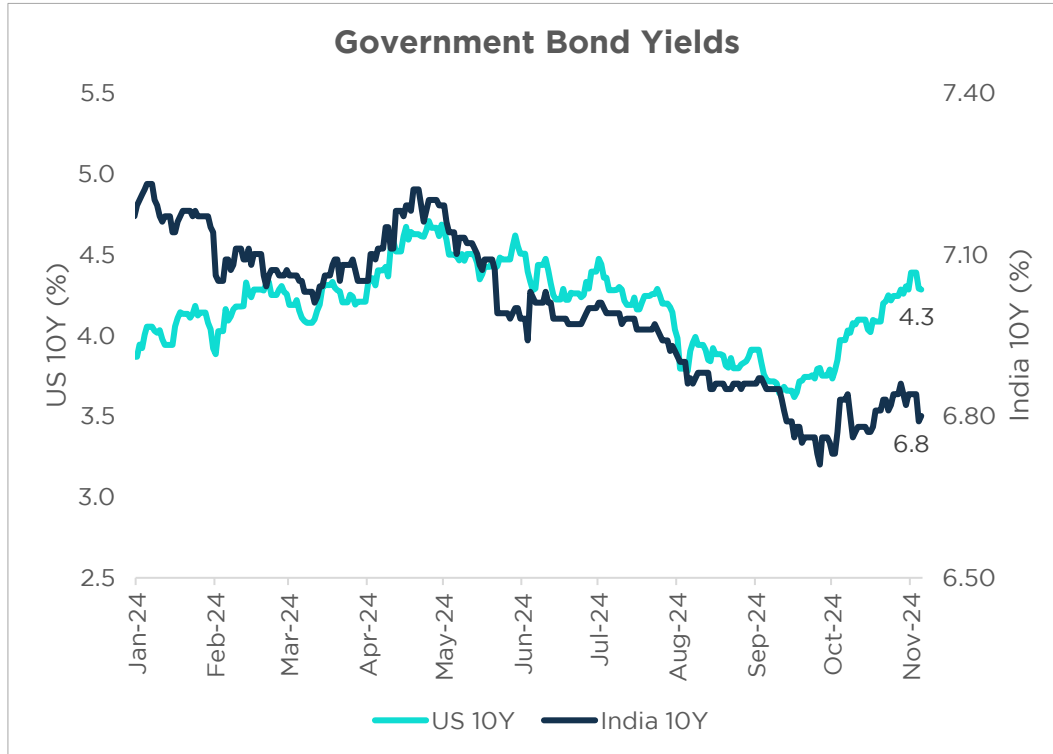
RBI Conducts GSec Buybacks in October



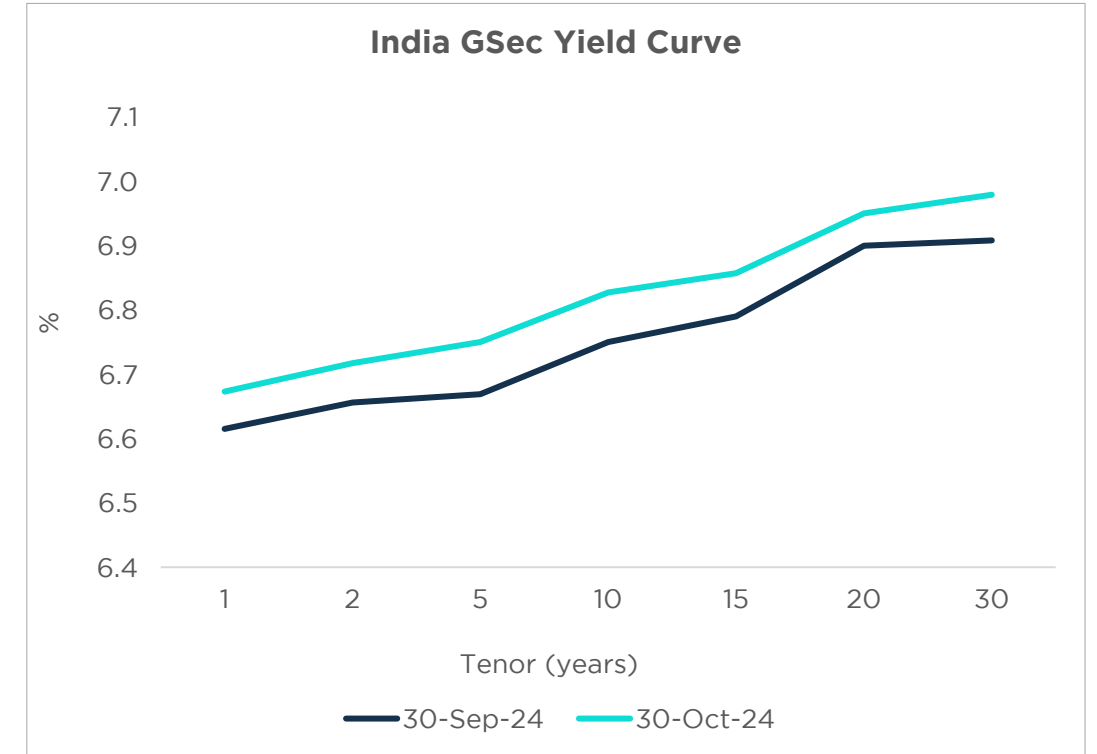
Source: RBI

- RBI conducted buyback auctions in May and Jun-24; however, the total amount accepted during these auctions was only Rs 28,177 cr, or 17% of the notified amount, due to lacklustre participation.
- Following that, RBI conducted two buyback auctions in Oct, which saw improved participation. Amount accepted at these auctions was Rs 49,388 cr (99% of notified amount).
- These buybacks contributed to banking system liquidity and helped lower outstanding short term government debt.

Domestic GSec Yields Track Rise in UST Yields



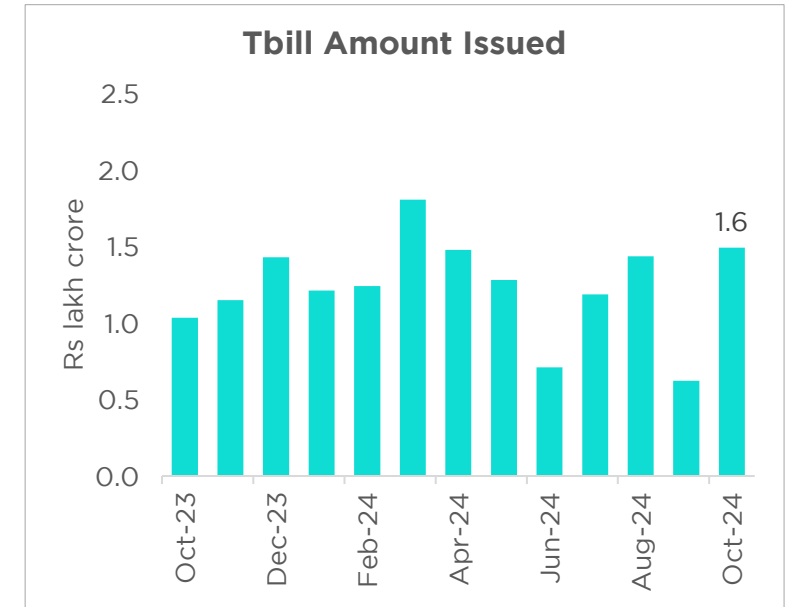
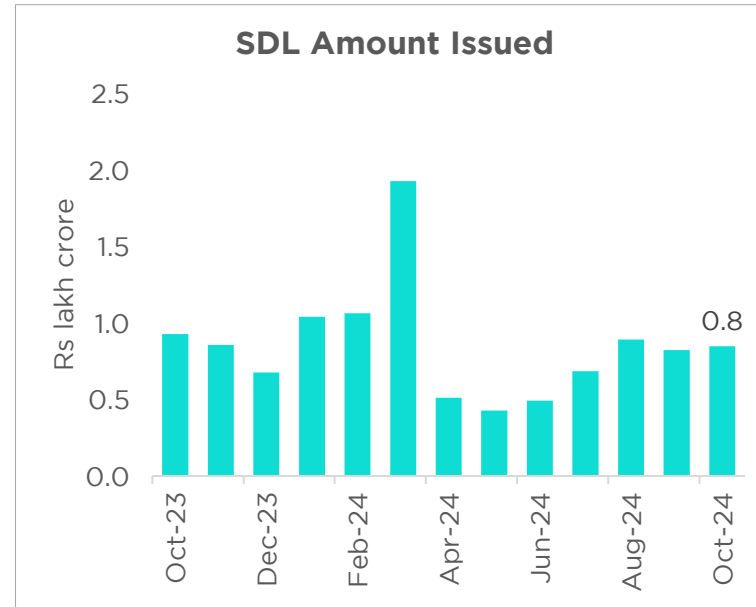
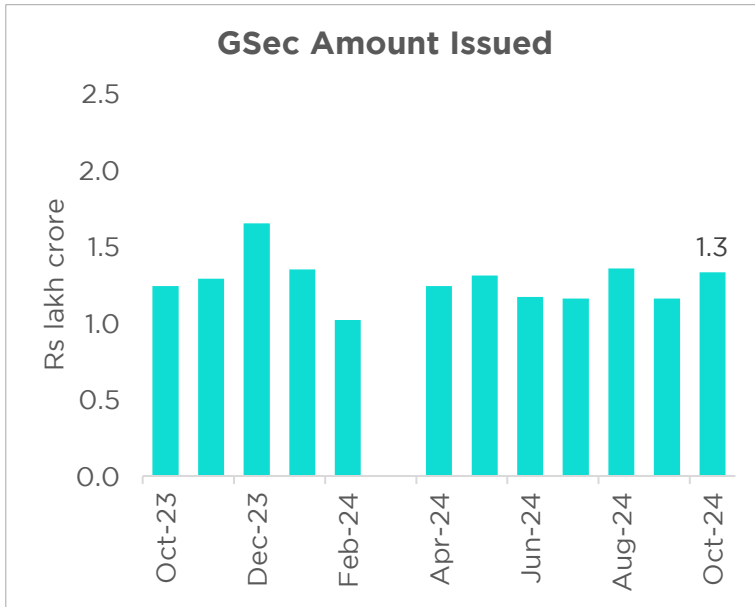
Source: Refinitiv. Data as on November 05.



Source: Refinitiv.

- 10Y UST yield rose by 50bps in Oct, reaching the highest level since Jul, as market participants pared back their expectations of Fed rate cuts. Strong US economic data and rising odds of a Trump presidency contributed to this shift in expectations, with policies under a Trump administration (e.g. higher tariffs, tax cuts and higher fiscal deficits) likely to be inflationary.
- Market is currently pricing in a 98% chance of a 25bps Fed rate cut in Nov, sharply contrasting with earlier expectations of an even chance for a 25bps or 50bps rate cut.
- Domestic yields have risen in response to the rise in UST yields, but by a smaller amount, with the 10Y GSec yield up 8 bps in Oct. FPI outflows from debt have also contributed to higher domestic yields.

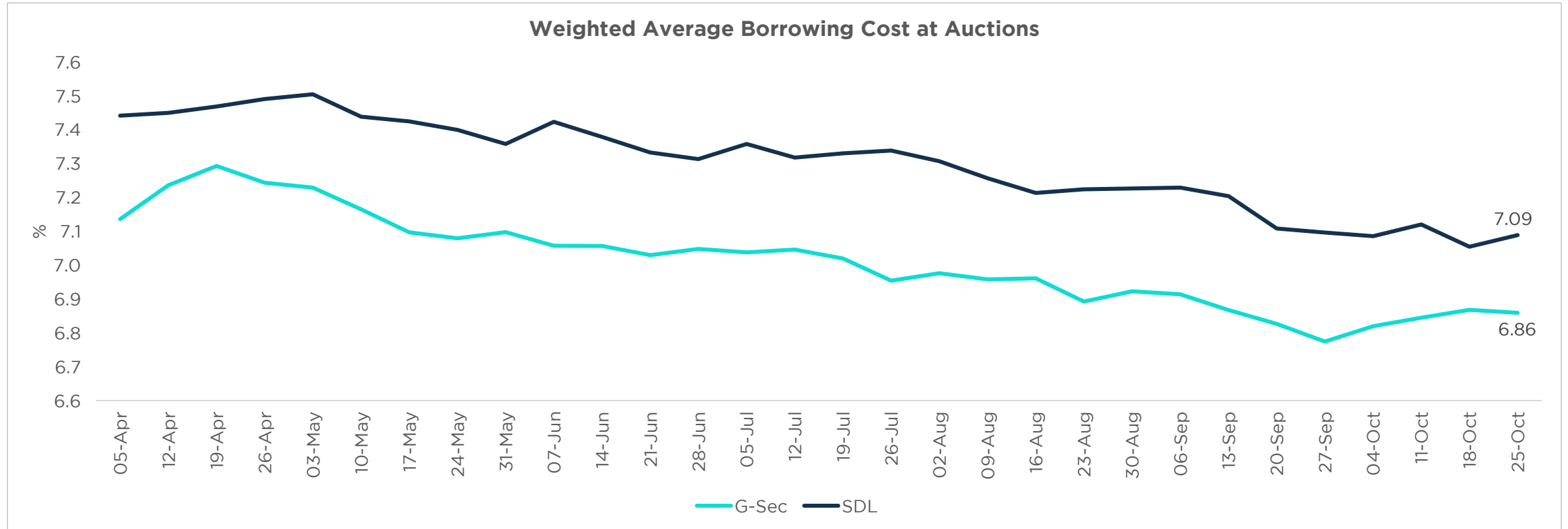
Government Borrowings Rise MoM in October



Sources: RBI, CMIE

- GSec issuances totalled Rs 1.3 lakh cr in Oct (up 15% MoM). On FYTD basis, they amounted to Rs 8.7 lakh cr, down 14% YoY, reflecting a lower fiscal deficit estimate of 4.9% for FY25.
- SDL issuances reached Rs 0.8 lakh cr in Oct (up 3% MoM), while FYTD issuances amounted to Rs 4.7 lakh cr (up 4% YoY).
- Tbill issuances totalled Rs 1.6 lakh cr in Oct (up 152% MoM). On FYTD basis, they were Rs 8.3 lakh cr, down 16% YoY, amidst substantial govt cash balances.
- Borrowing calendar highlights:
 - Govt to borrow Rs 6.6 lakh cr in H2FY25 via GSecs vs actual borrowings of Rs 7.4 lakh cr in H1FY25.
 - States to borrow Rs 3.2 lakh cr in Q3FY25 via SDLs vs actual borrowings of Rs 2.4 lakh cr in Q2 FY25.
 - Tbill borrowings indicated at Rs 2.5 lakh cr in Q3 FY25 vs actual borrowings of Rs 3.2 lakh cr in Q2 FY25.

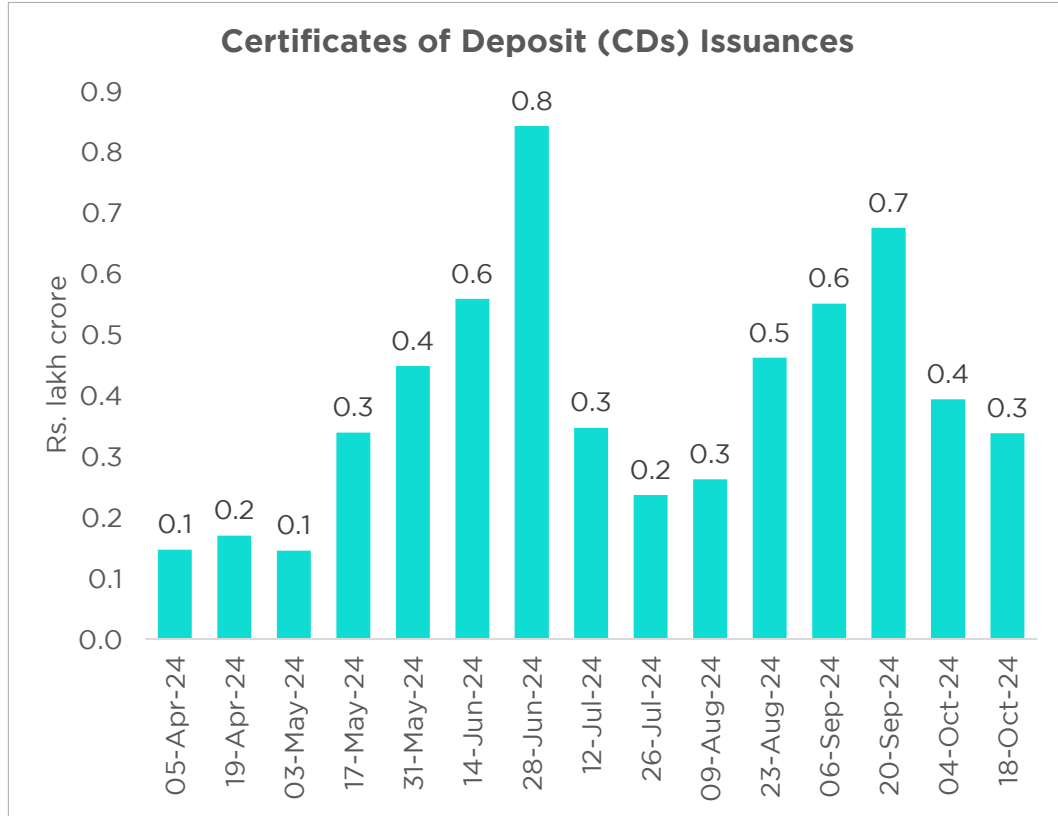
SDL Borrowing Costs Largely Stable in October



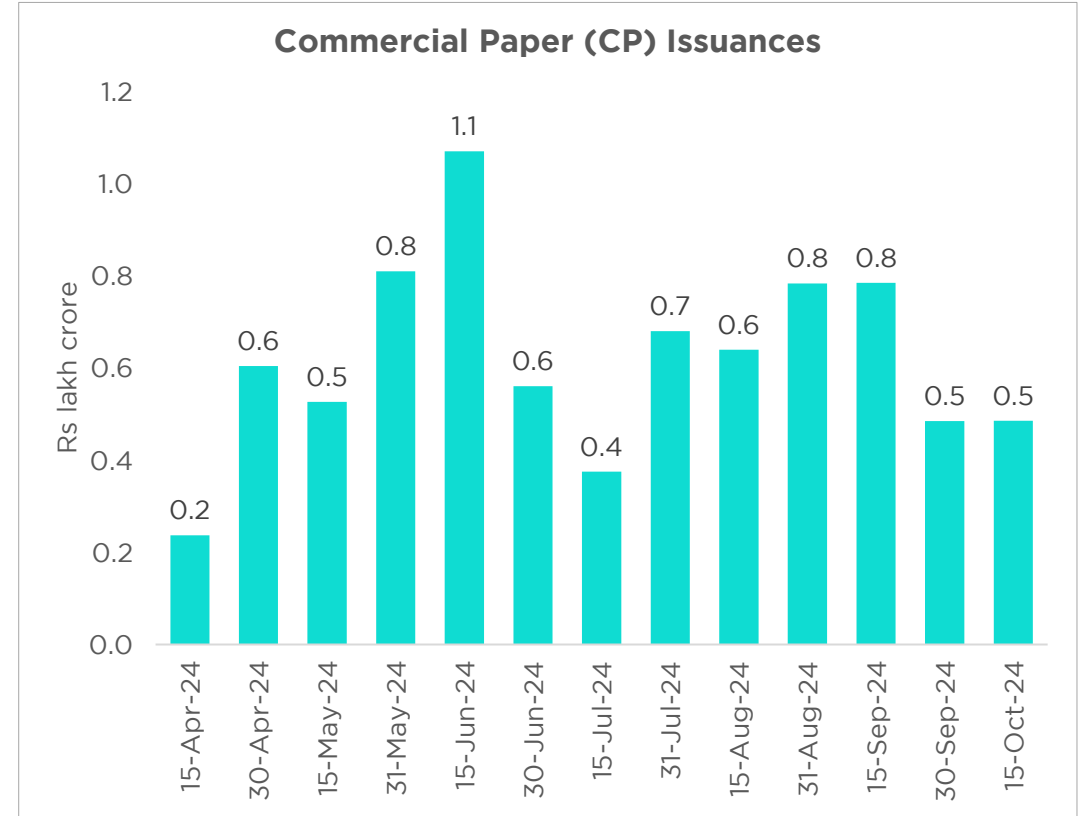
Sources: RBI, CareEdge. Data is for auctions in the corresponding week.

- While SDL issuances rose MoM in Oct to Rs 0.8 lakh cr, they were lower than the indicative calendar amount of Rs 1.1 lakh cr due to higher transfer from centre to states.
- Union Government released Rs 1.8 lakh cr in tax devolution to State Governments in Oct, including an advance instalment of Rs 0.9 lakh cr alongside regular instalment. The advance instalment was provided to support states during the festive season and enable increased capital spending.
- As a result, SDL weighted average borrowing costs at auctions remained largely stable in Oct.

CD and CP Issuances Increase Year-to-Date



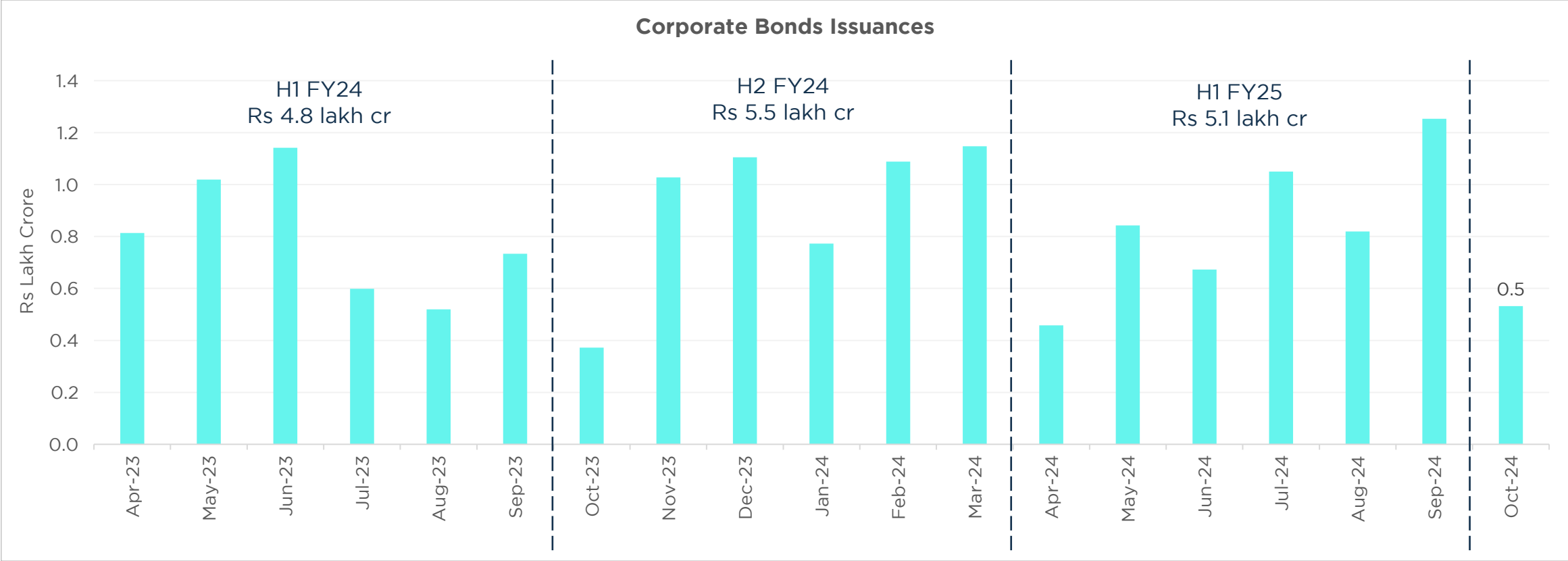
Sources: RBI, CMIE



Sources: RBI, CMIE

- CD issuances amounted to Rs 5.9 lakh cr during FY25 (up to Oct 18), a 61% YoY increase, with banks bridging funding gaps through CDs instead of raising deposit rates.
- CP issuances totaled Rs 8 lakh cr during FY25 (up to Oct 15), up 9% YoY, as NBFCs increased CP issuances to diversify funding sources after RBI increased risk weights on bank loans to NBFCs in Nov 2023.

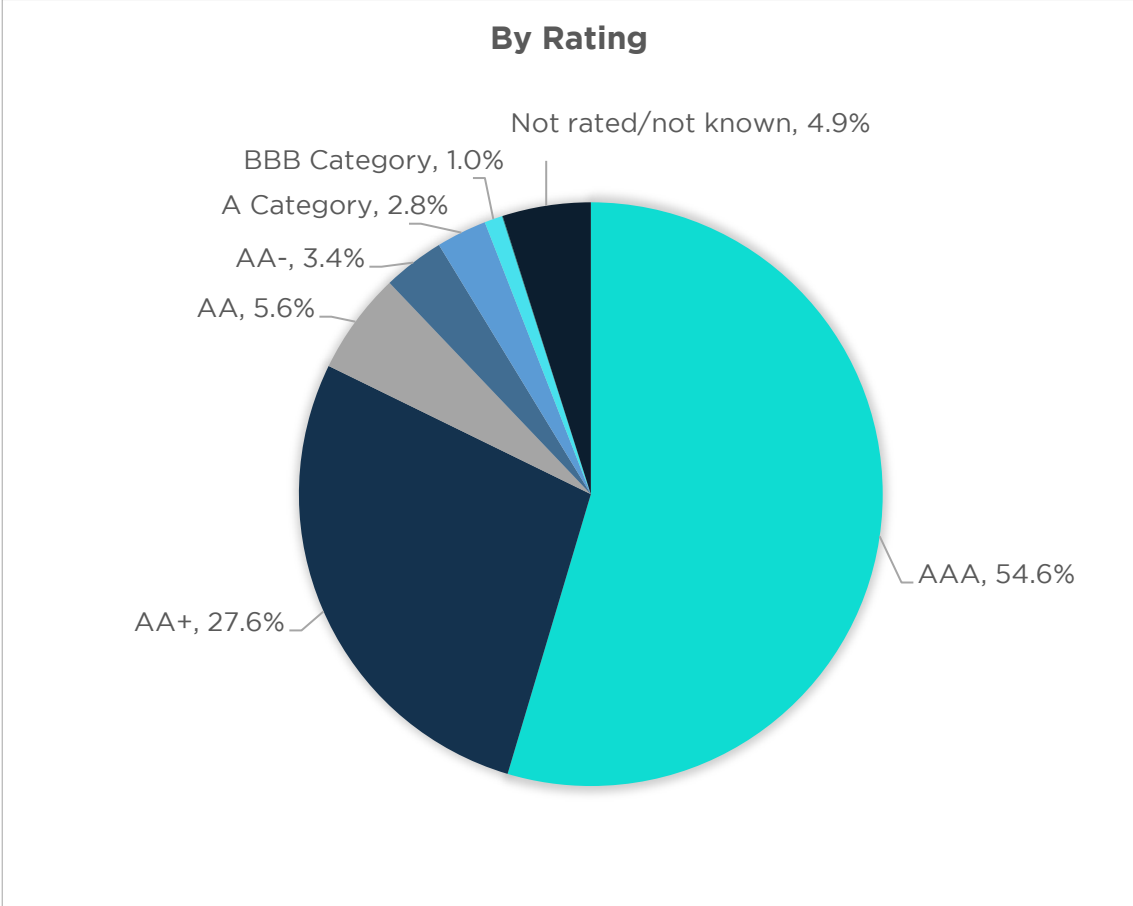
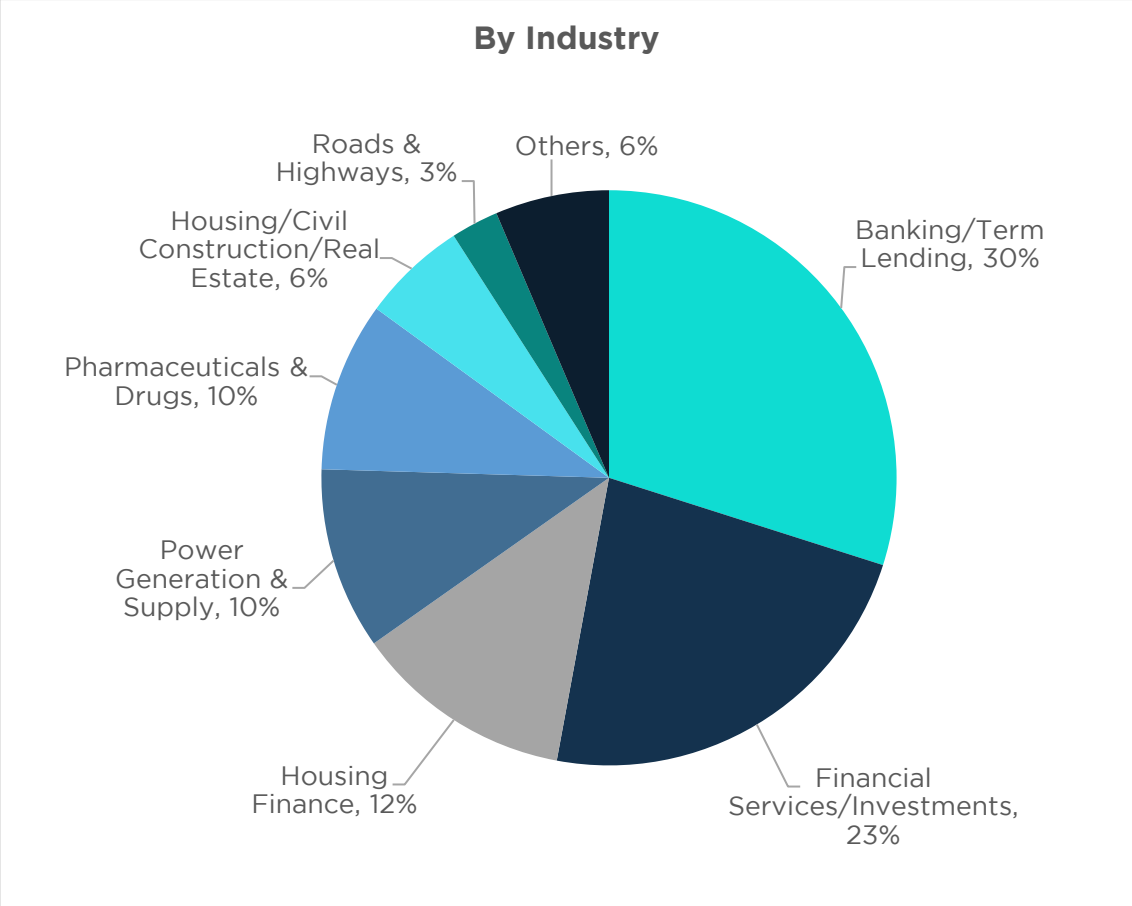
Higher Corporate Bond Issuances



Source: Provisional data from Prime Database. Data as on October 25.

- Corporate bond issuances in H1FY25 totalled Rs 5.1 lakh cr (up 6% YoY) in part due to higher NBFC borrowings after RBI increased risk weights on bank lending to NBFCs.
- Provisional data shows corporate bond borrowings in Oct (up to Oct 25) totalled to Rs 0.5 lakh cr, exceeding Rs 0.4 lakh cr recorded in the entire month of Oct-23.

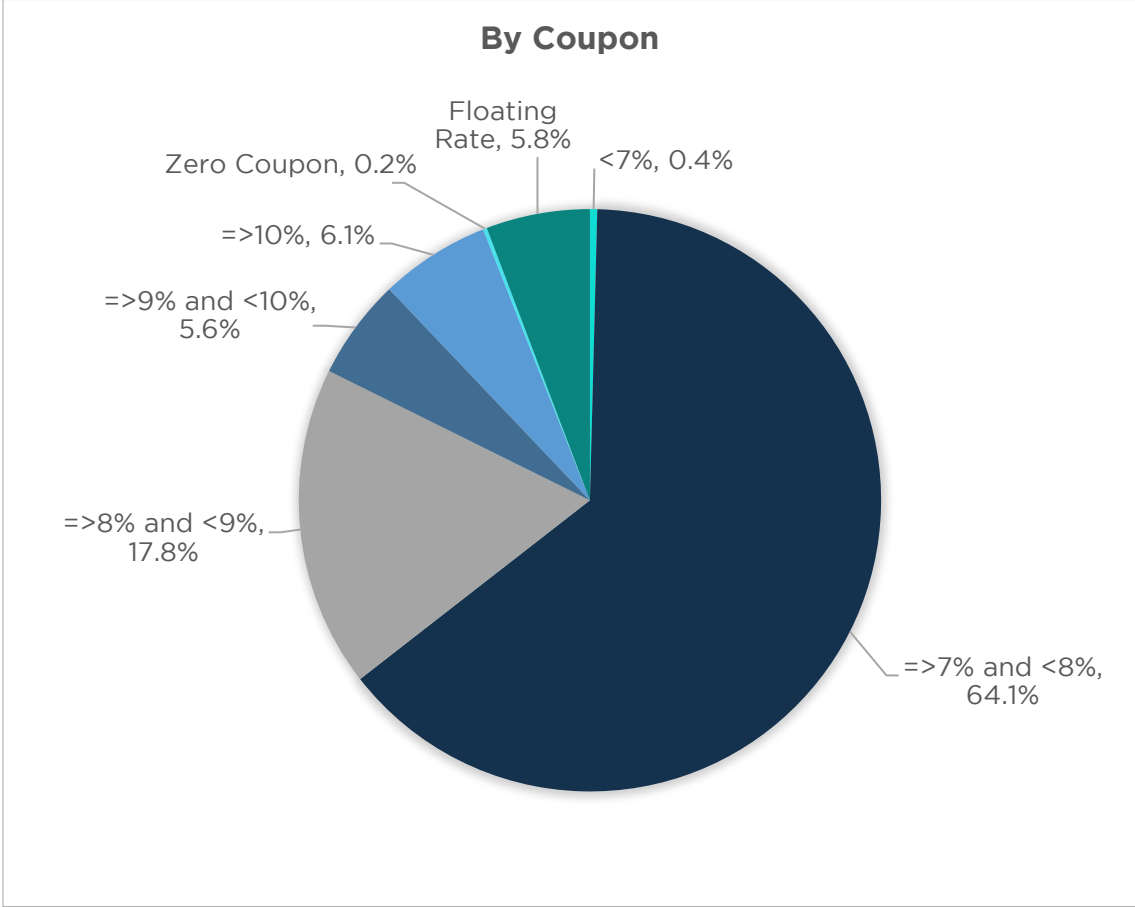
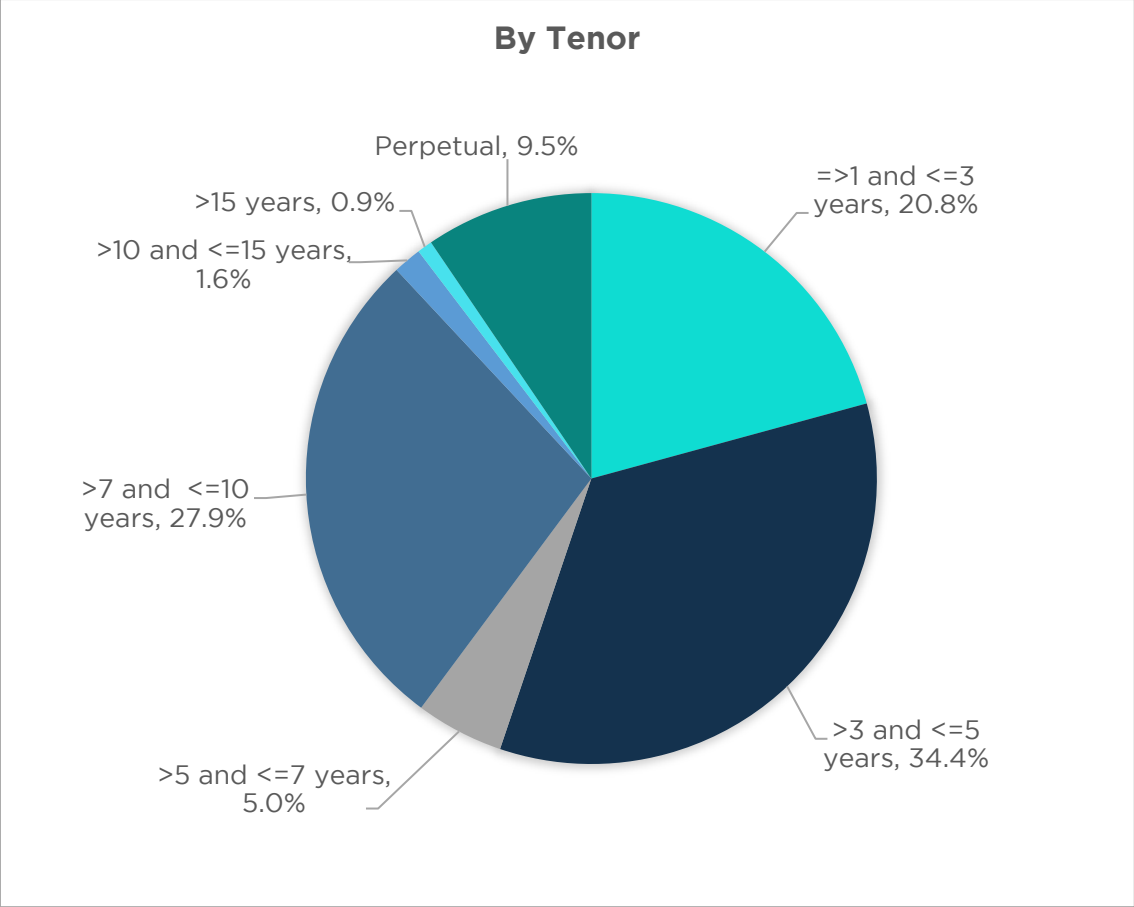
Overview of Corporate Bond Issuances in October (1/2)



Source: Prime Database. Provisional data (up to Oct 25). Represents share in amount issued.

- 65% of corporate bond issuances came from banking/term lending, financial services/investments and housing finance industries.
- 82% of corporate .bond issuances were by AAA and AA+ rated issuers.

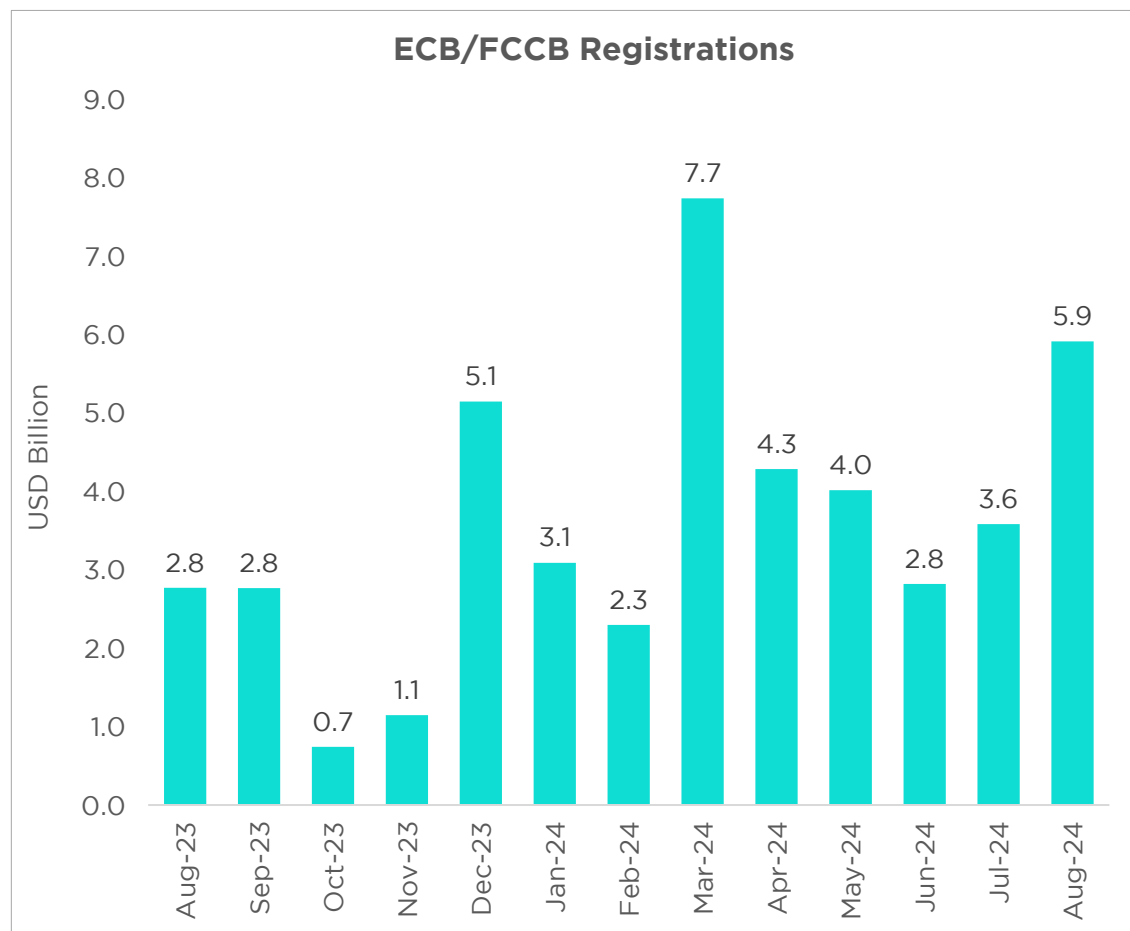
Overview of Corporate Bond Issuances in October (2/2)



Source: Prime Database. Provisional data (up to Oct 25). Represents share in amount issued.

- Majority of issuances (34%) were of tenors greater than 3 and up to 5 years, followed by those greater than 7 years and up to 10 years (28%) and those between 1 and 3 years (21%).
- 82% of issuances had a coupon rate between 7 to 9%.

ECB/FCCB Registrations Increase to 5-Month High in August



Sources: RBI, CMIE, CareEdge.

ECB: External Commercial Borrowings, FCCB: Foreign Currency Convertible Bonds

Registrations By Sector of Borrower (Apr-Aug FY25)	Share
Financial service activities, excl. insurance and pension funding	42.8%
Electricity, gas, steam and air conditioning supply	16.0%
Extraction of crude petroleum and natural gas	6.6%
Other professional, scientific and technical activities	4.3%
Warehousing and support activities for transportation	3.1%
Retail trade, except of motor vehicles and motorcycles	2.8%
Manufacture of other non-metallic mineral products	2.7%
Manufacture of computer, electronic and optical products	2.3%
Manufacture of food products	2.3%
Manufacture of chemicals and chemical products	2.1%
Others	14.9%

Registrations By Purpose (Apr-Aug FY25)	Share
On-lending or sub-lending	44.8%
New Project	15.2%
Refinancing of earlier ECB	11.6%
Modernisation	5.4%
Working Capital/General Corporate Purpose	5.3%
Refinancing of Rupee Loans	5.0%
Others	12.7%

- ECB/FCCB registrations rose 65% MoM to USD 5.9 bn in Aug. For Apr-Aug FY25, registrations amounted to USD 20.6 bn (down 22% YoY).

Movement in Key Interest Rates and Spreads

	Unit	Mar-24	Sep-24	Oct-24	1M Change (bps)
Repo Rate	%	6.50	6.50	6.50	0
Weighted Average Call Rate (WACR)	%	6.43	6.51	6.44	-7
3M Tbill	%	6.89	6.57	6.45	-12
10Y GSec	%	7.06	6.80	6.80	0
3Y AAA Corporate Bond Yield	%	7.75	7.39	7.40	1
5Y AAA Corporate Bond Yield	%	7.65	7.38	7.41	3
10Y AAA Corporate Bond Yield	%	7.58	7.43	7.42	-1
3Y AAA Corporate Bond Spread	bps	68.3	69.0	71.8	3
5Y AAA Corporate Bond Spread	bps	59.9	67.5	69.1	2
10Y AAA Corporate Bond Spread	bps	52.6	63.2	61.8	-1

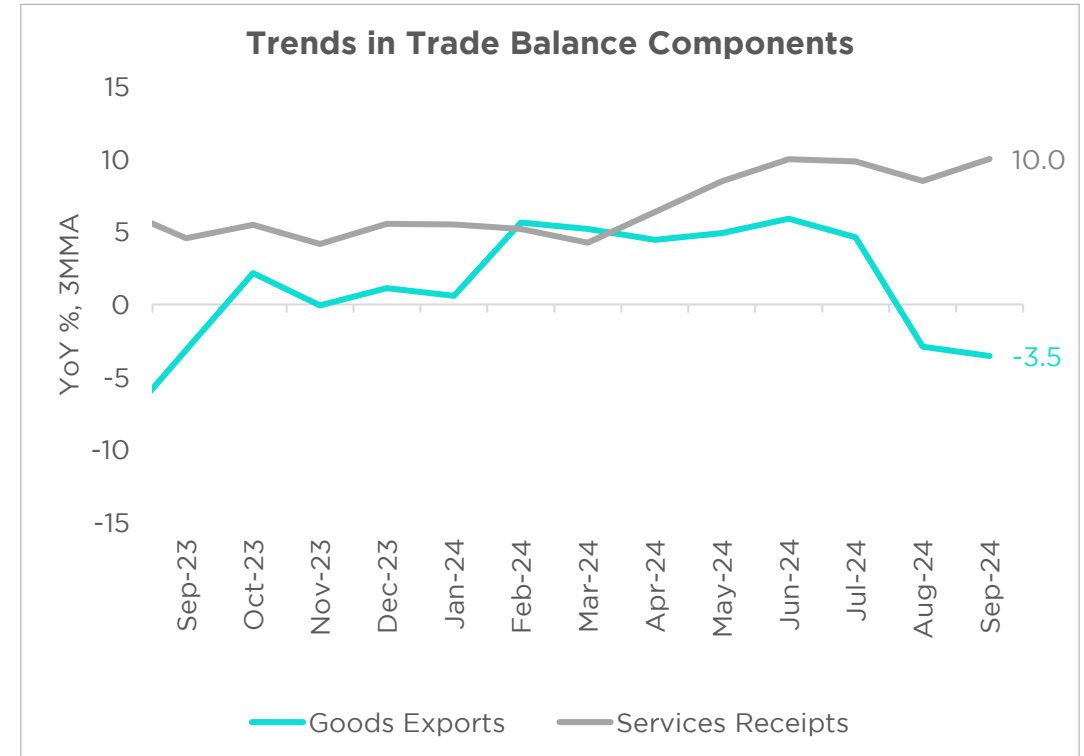
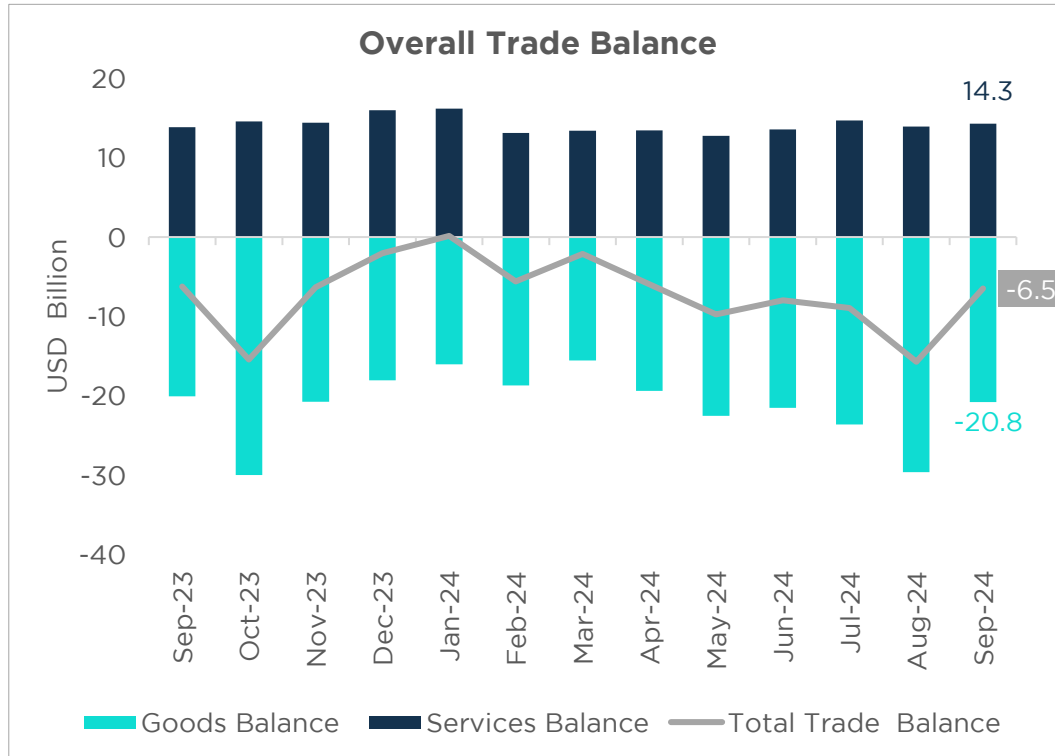
Sources: Refinitiv, RBI, CMIE. Data as on October 30 and is monthly average.

- RBI left policy rate unchanged in Oct but changed the policy stance to neutral from withdrawal of accommodation, raising market expectations that RBI rate cuts are near. We feel there are chances of RBI starting rate cut cycle in FY25, provided food inflation moderates.
- Markets are now focusing on the US elections. A Trump victory could imply higher UST yields and stronger dollar in the near term, putting some upward pressure on domestic yields and creating a depreciating bias for the INR.
- Domestic banking system liquidity may face pressure as the RBI tries to keep the rupee rangebound. However, an expected pick-up in govt spending in India should provide some support to liquidity conditions.
- Markets will also be watching the outcome of Fed's policy. The Fed is expected to cut rates by 25bps in Nov, with focus on Fed Chair Powell's speech for his guidance on future policy direction. Another key event will be China's Nov NPC meeting, where the government is expected to announce further stimulus measures.
- We expect the 10Y GSec to trade between 6.75-6.95% in the near term.

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► **Forex Market**

Goods Trade Deficit Narrows to 5-Month Low

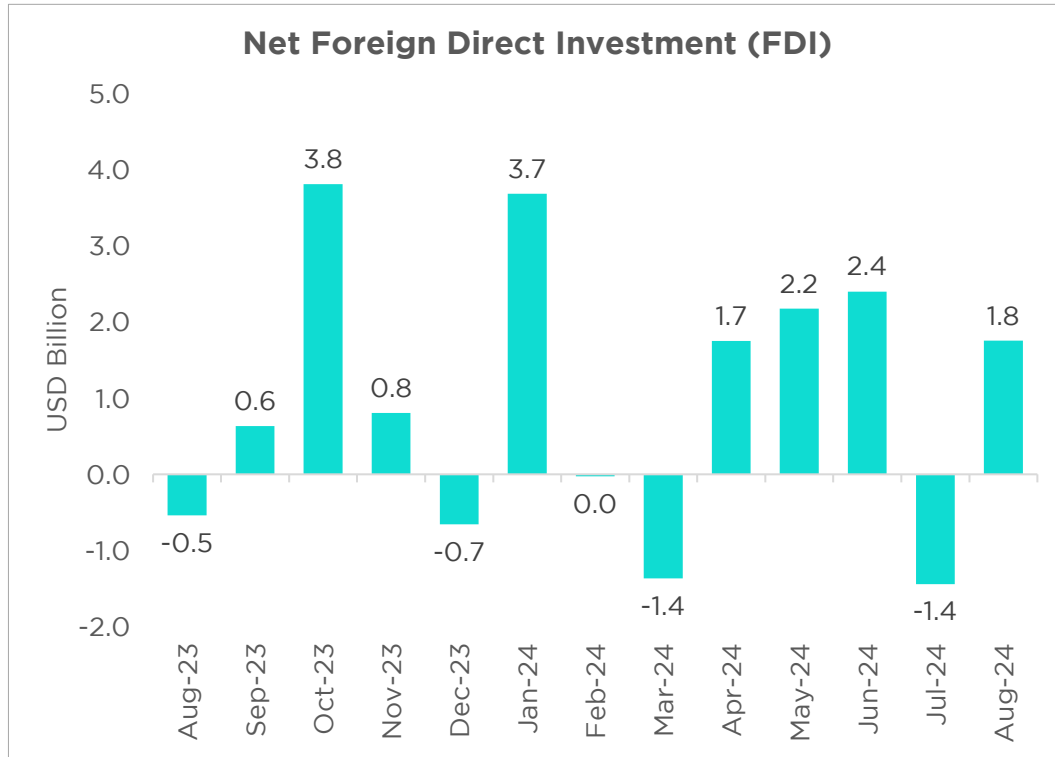


Sources: RBI, Ministry of Commerce and Industry, CMIE.
Total Trade Balance = Goods Balance + Services Balance

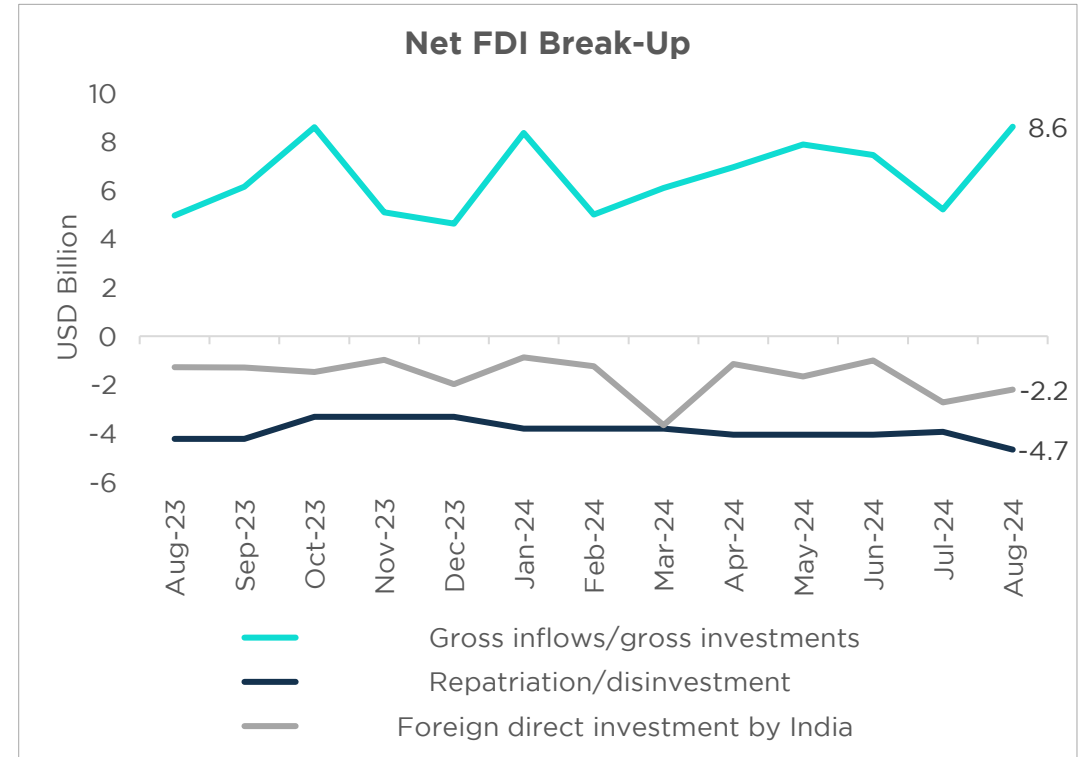
Sources: RBI, Ministry of Commerce and Industry, CMIE.

- Goods trade deficit narrowed to USD 21 bn in Sep as gold imports normalised after spiking to a record high in Aug due to festive demand and reduction in custom duty.
- For H1FY25, goods trade deficit widened to USD 137 bn from USD 119 bn a year ago as imports grew (6% YoY) faster than exports (1%).
- Services surplus increased 3% MoM to USD 14 bn in Sep, totalling USD 83 bn for H1FY25 (up 10% YoY).
- Total trade deficit (goods + services balance) widened to USD 55 bn in H1 FY25 from USD 44 bn a year ago.

Net FDI Recovers in August



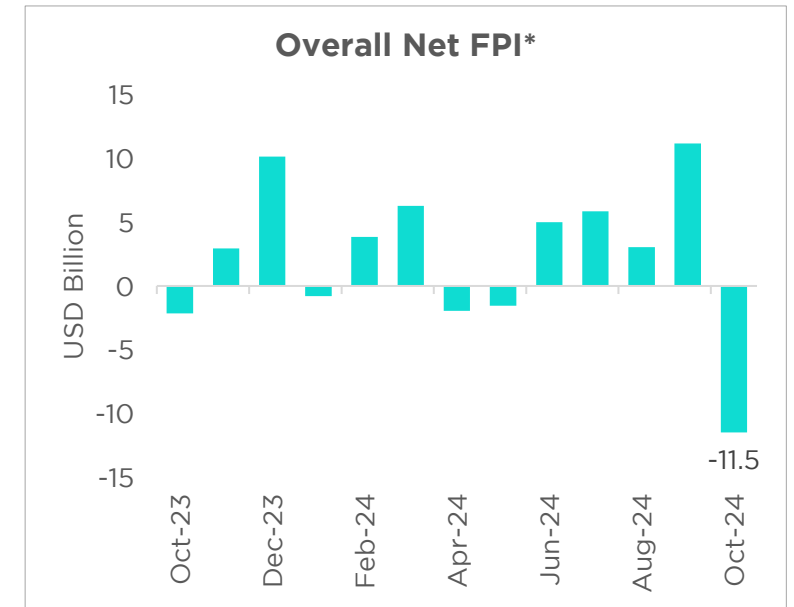
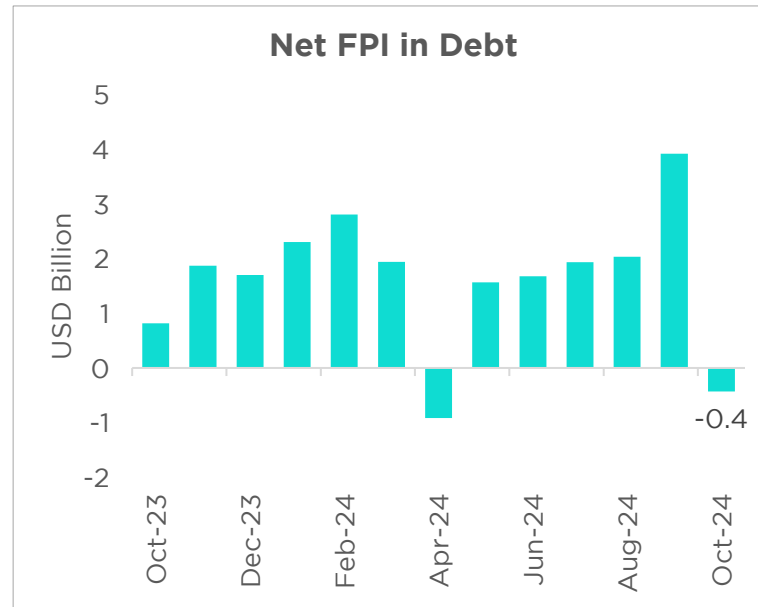
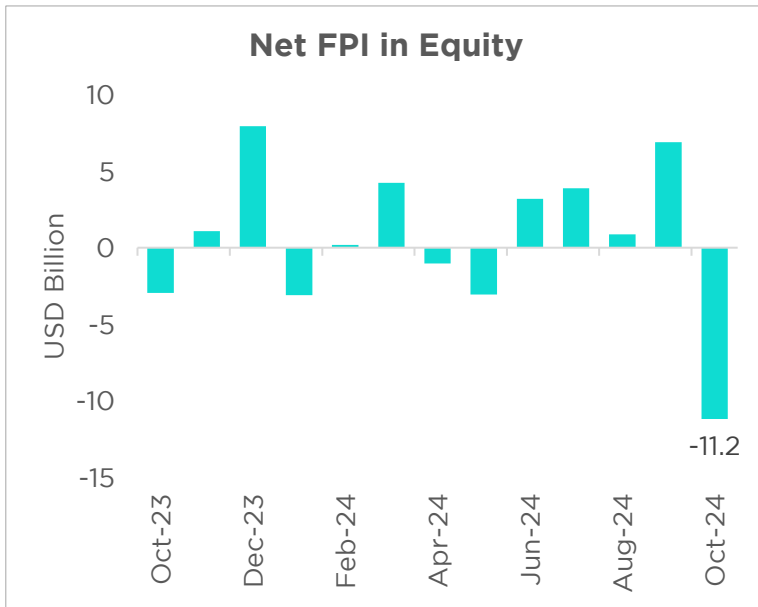
Sources: RBI, CMIE.



Sources: RBI, CMIE.

- Net FDI inflows in Aug amounted to USD 1.8 bn, driven by gross inflows/investments of USD 8.6 bn (a 10 month high) despite increased repatriation/disinvestment of USD 4.7 bn.
- From Apr-Aug FY25, net FDI inflows totalled USD 6.6 bn, double of USD 3.3 bn recorded during the corresponding period a year ago.
- Gross inflows/investments rose 32% YoY to USD 36 bn in the same period, while repatriation/disinvestment increased 10% to USD 21 bn.
- FDI by India amounted to USD 8.7 bn between Apr-Aug FY25, up 67% YoY.

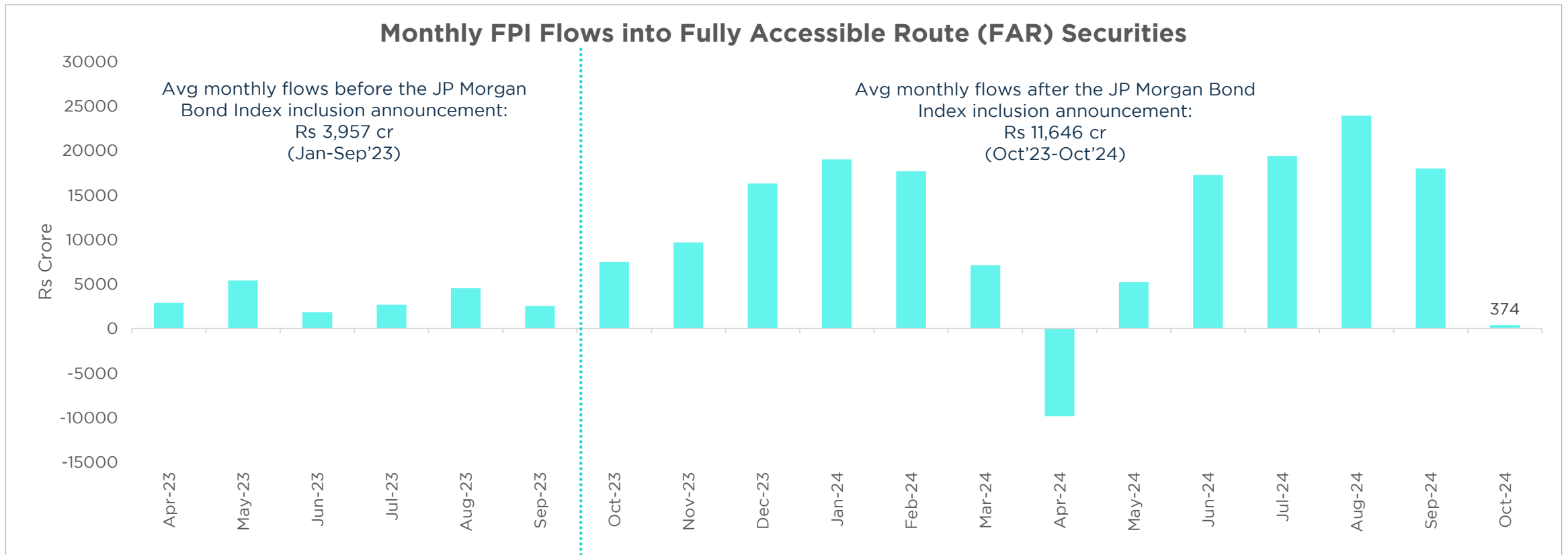
October Sees Highest Overall Net FPI Outflows in Four Years



Source: NSDL.
*includes FPI investment in hybrid, mutual funds and AIFs.

- FPI outflows from Indian equities reached a record USD 11 bn in Oct as investors shifted to Chinese stocks following announcement of new economic support measures. Other factors also resulted in outflows such as US elections related uncertainty, emerging domestic growth concerns, muted corporate results and high domestic valuations,
- FPIs turned net sellers in debt in Oct for the first time since Apr due to a narrowing India-US interest rate differential as UST yields rose.
- Between Apr-Oct FY25, net FPI outflows in equities totalled USD 0.5 bn, while net FPI inflows in debt reached USD 9.8 bn.
- Overall net FPI inflows for Apr-Oct FY25 amounted to USD 10 bn, down from USD 18.6 bn during the same period a year ago.

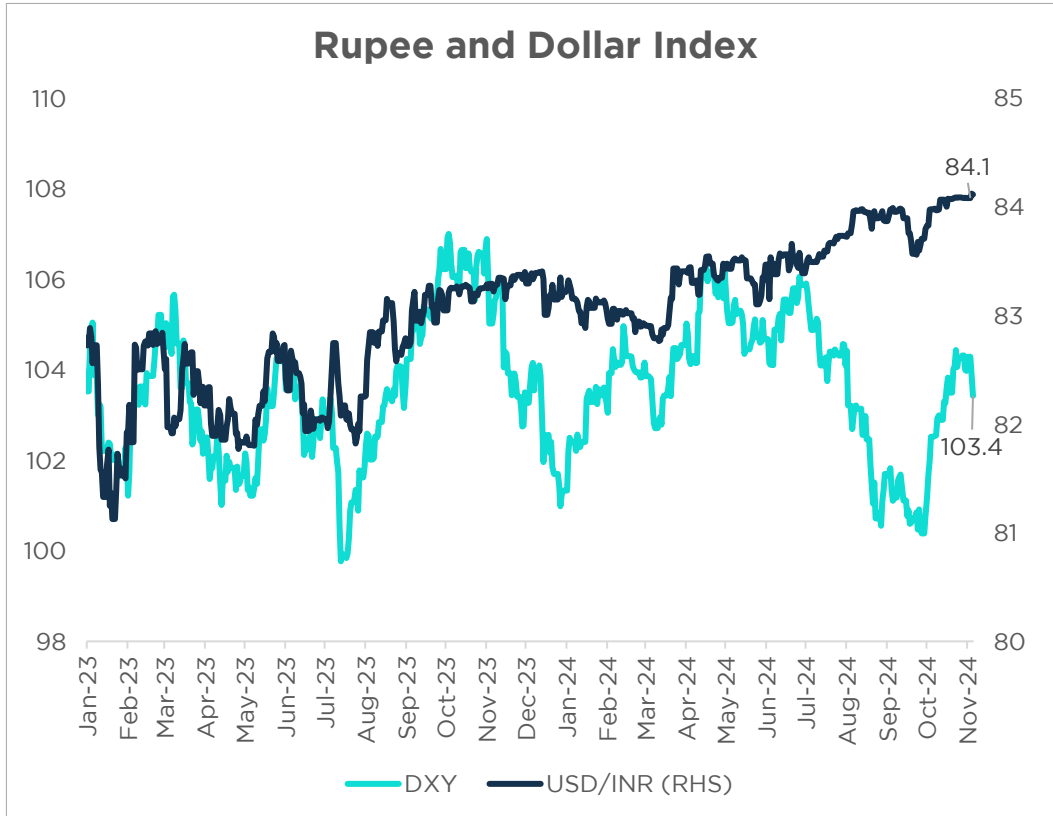
FPI Flows into FAR Securities Decline to Lowest Since April



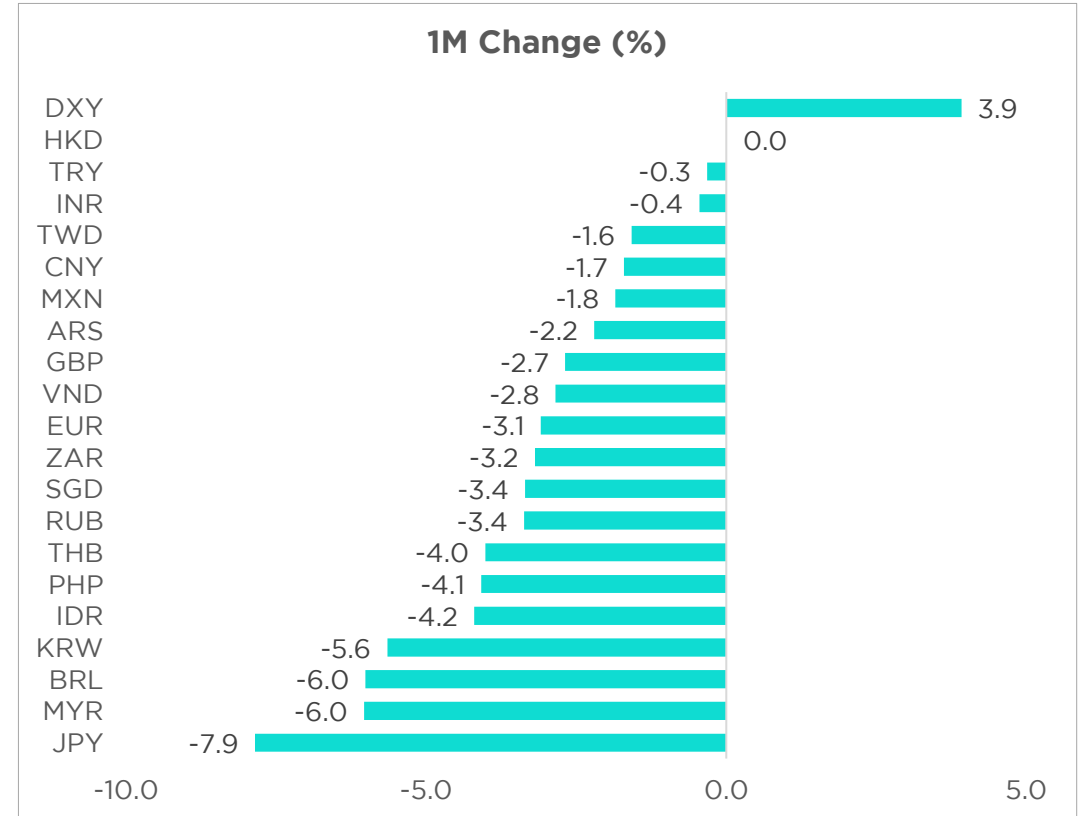
Sources: NSDL, CareEdge. Data computed using month-end indicative value of aggregate holding of FPIs.

- FPI flows into FAR securities declined in Oct amidst a narrowing India-US interest rate differential.
- In Oct-24, FTSE Russell announced it will include FAR eligible Indian government bonds in its Emerging Markets Government Bond Index (EMGBI) starting Sep-25, becoming the third global index provider to do so after JP Morgan (announced inclusion in Sep-23) and Bloomberg (announced inclusion in Mar-24),
- FPI inflows into FAR securities totaled Rs 1.5 lakh cr between Oct-23 and Oct-24, following the announcement of inclusion of Indian govt bonds in JP Morgan Bond Index.

Rupee Falls to Record Low...



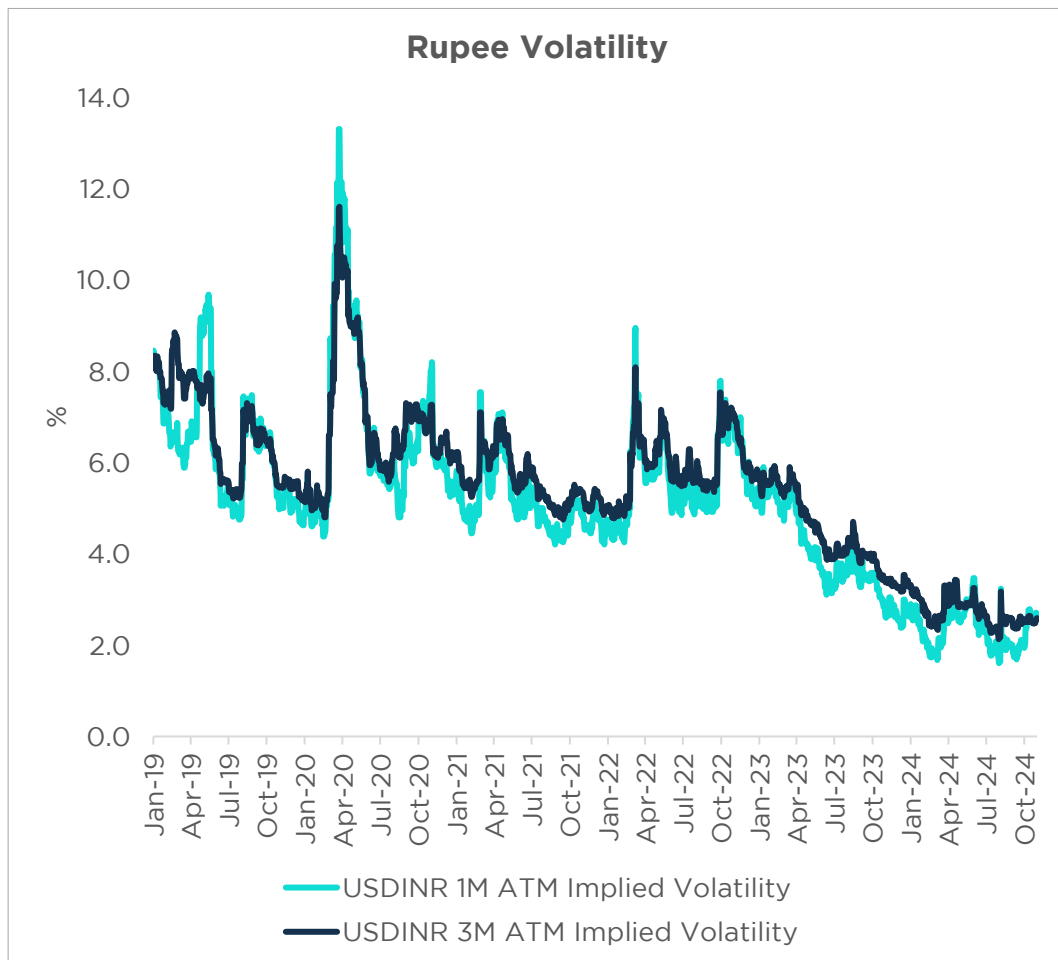
Source: Refinitiv. Data as on November 05



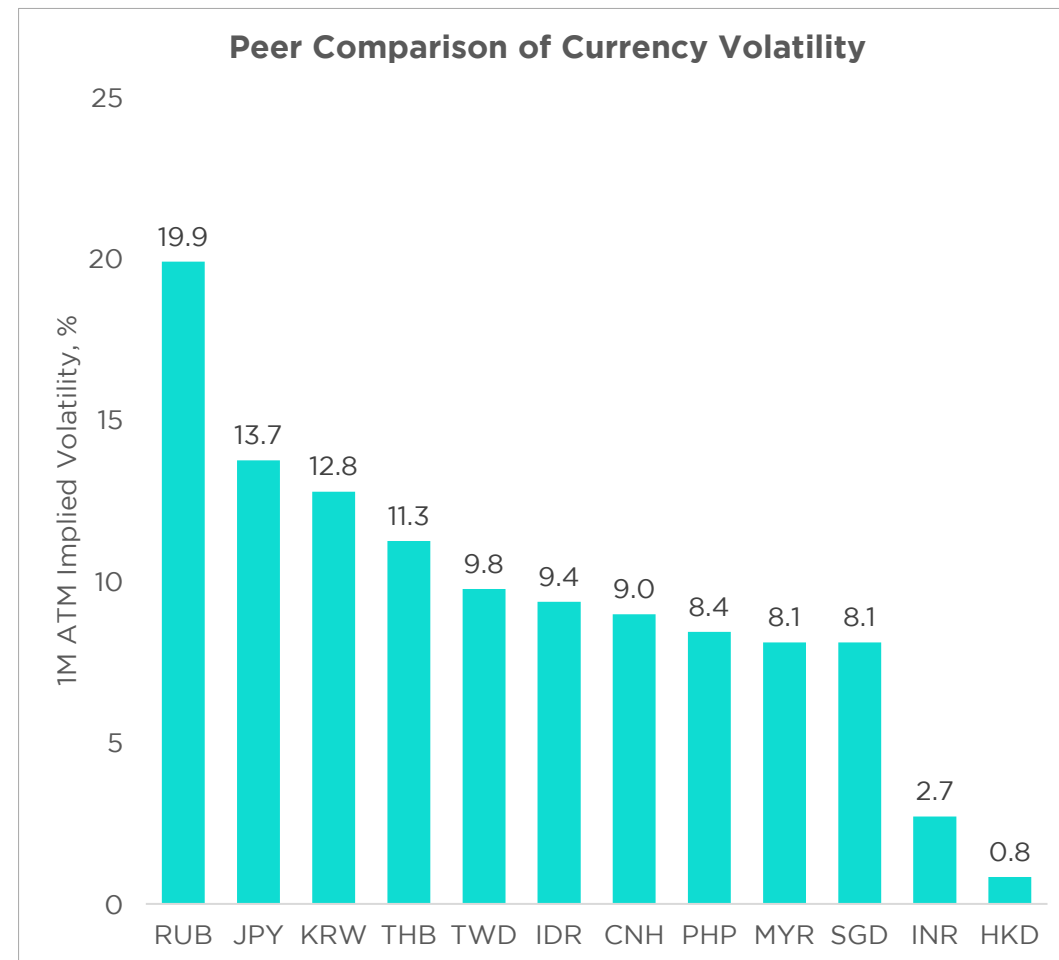
Sources: Refinitiv, CareEdge. Data as on October 29. Positive values imply currency has strengthened against USD (except for DXY, which measures dollar's strength against a basket of currencies).

- The rupee hit a record low, driven by FPI outflows and a stronger dollar index, which rose 3.9% MoM amidst rising UST yields.
- On a MoM basis, the rupee weakened by 0.4% against the dollar in Oct, lower than other Asian currencies such as CNY (1.7%), IDR (4.2%), KRW (5.6%) and JPY (7.9%).

...However, Rupee Remains Among the Least Volatile Currencies



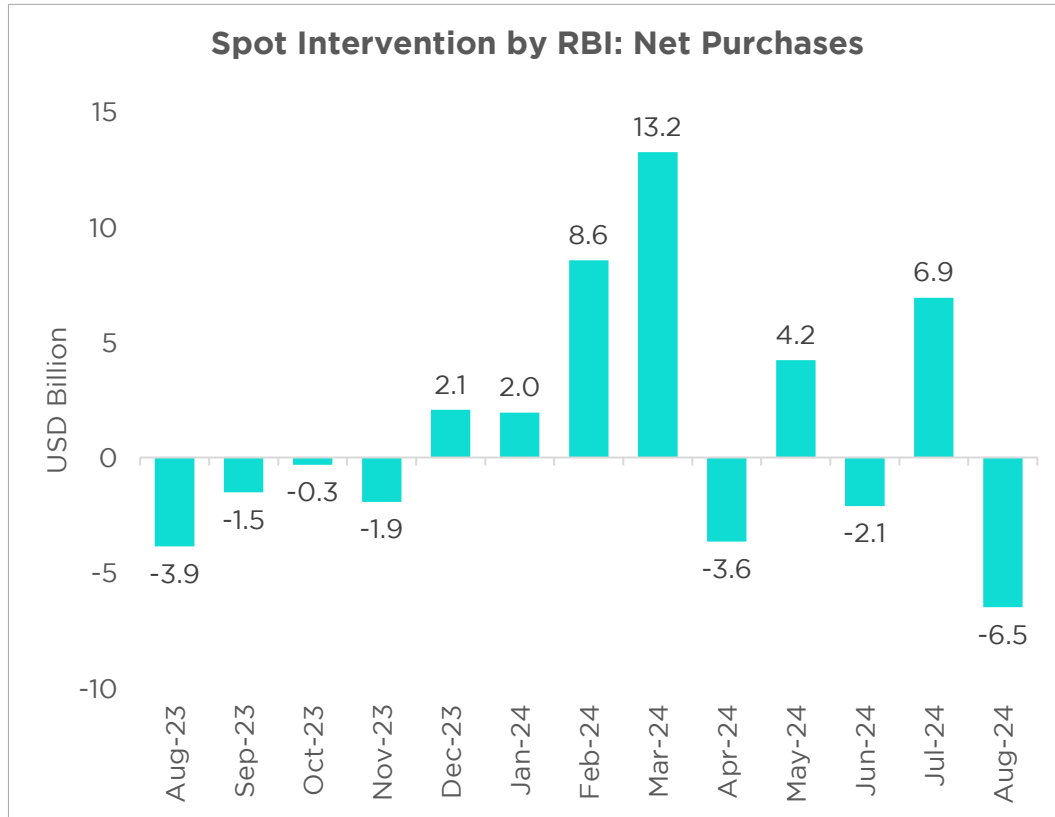
Source: Refinitiv. Data as on October 29.



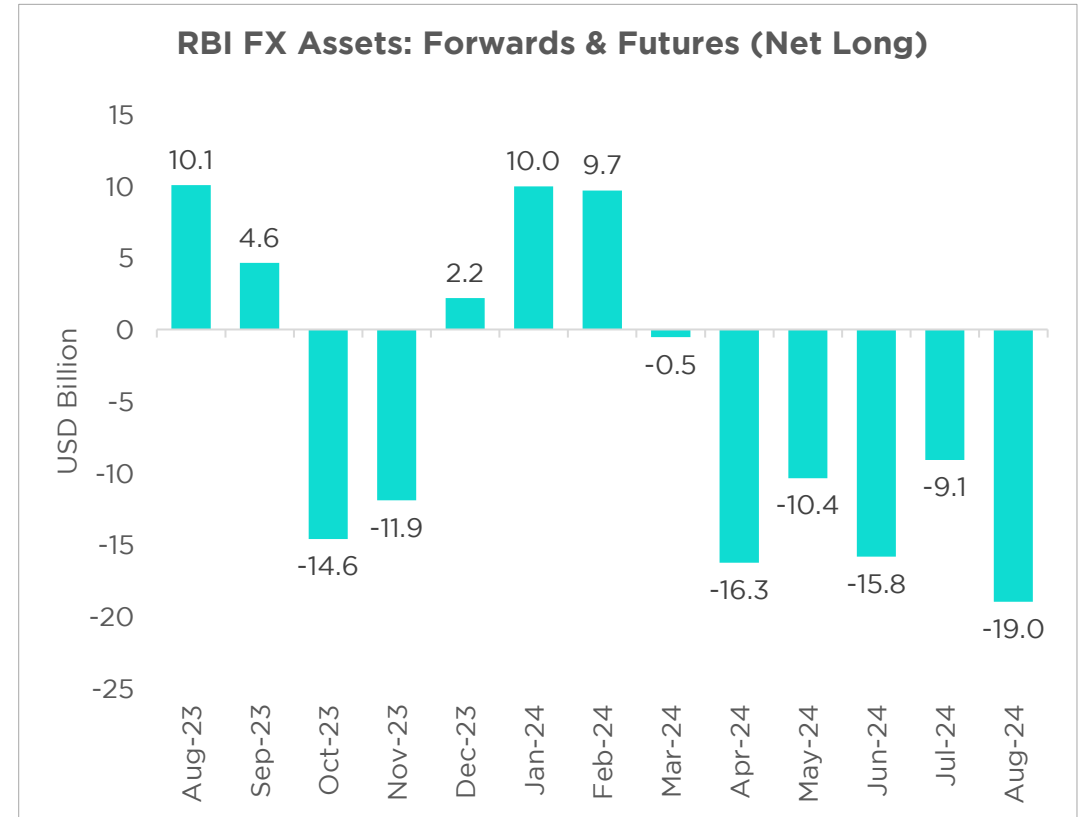
Source: Refinitiv. Data as on October 29.

- Rupee volatility remains low compared to historical levels and Asian peers, supported by RBI interventions.

RBI Intervening on Both Sides to Contain Rupee Volatility



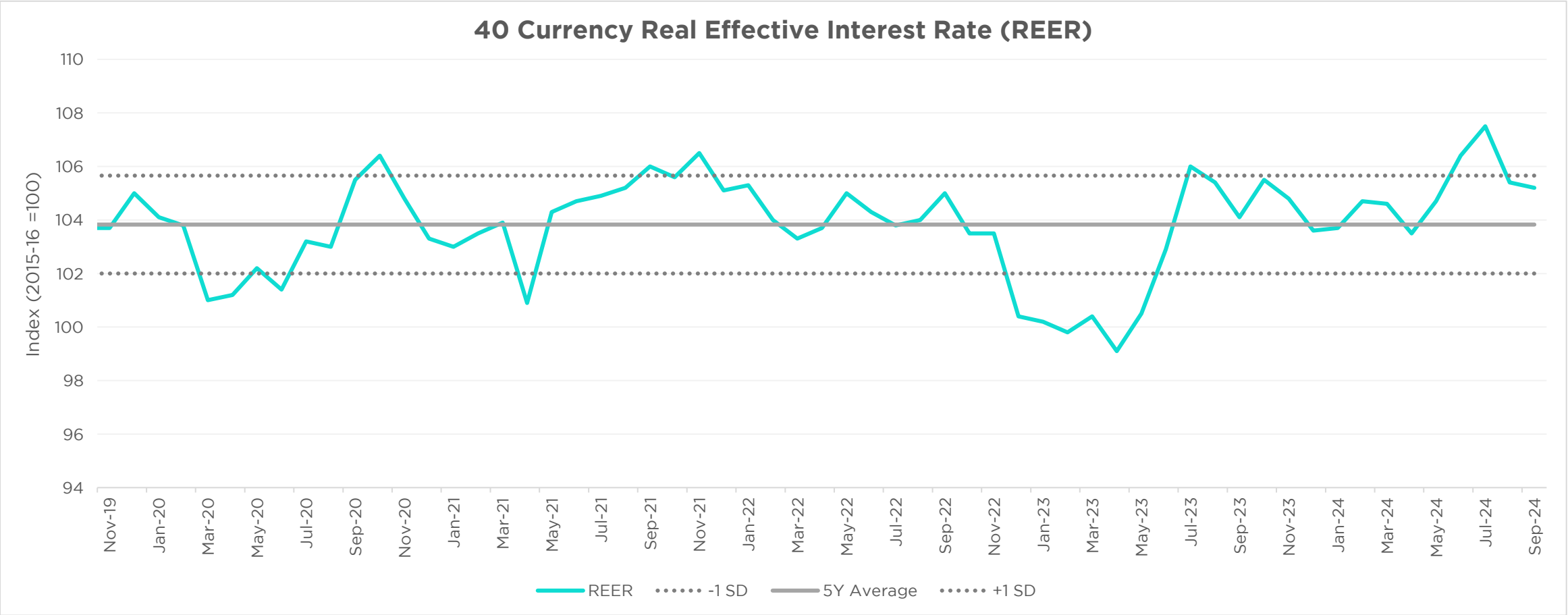
Sources: RBI, CEIC.



Sources: RBI, CEIC.

- In Aug, RBI's spot dollar purchases totalled USD 16.1 bn, while dollar sales reached USD 22.6 bn, resulting in net dollar sales of USD 6.5 bn.
- RBI's net outstanding forward dollar book stood at (-) USD 19 bn at the end of Aug compared to (-) USD 9 bn in Jul, indicating an increase in forward dollar sales.

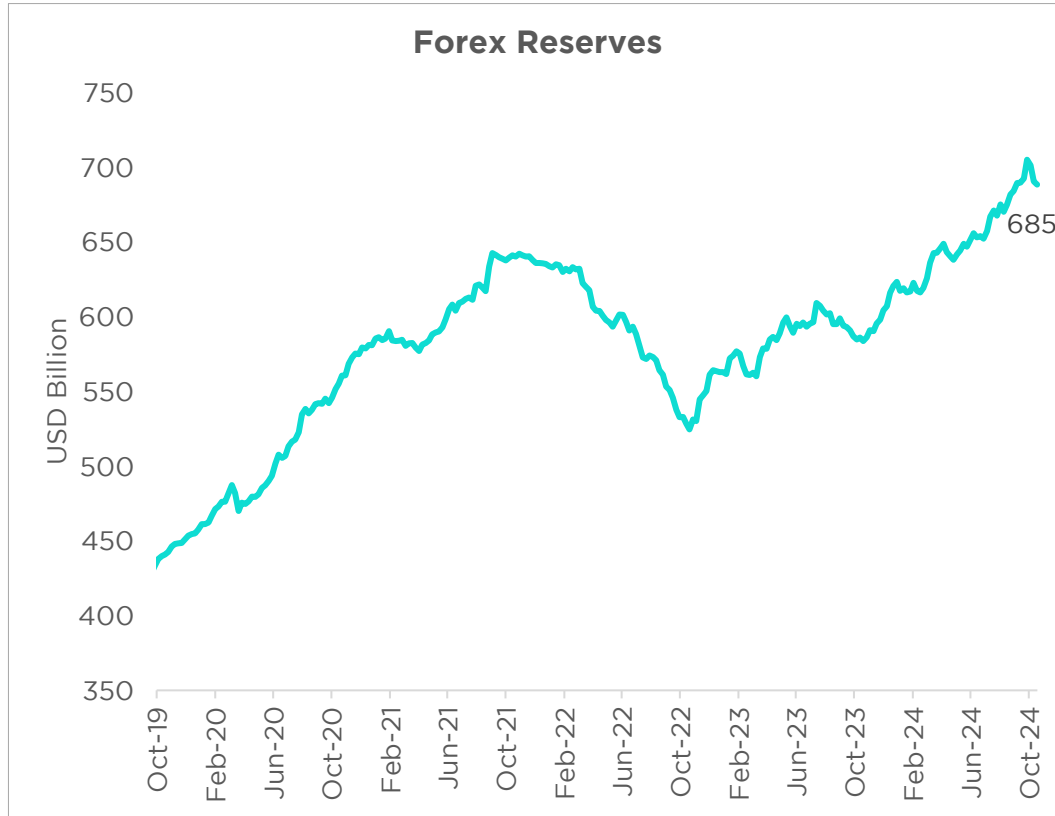
Rupee Depreciated 0.2% MoM in September on REER Basis



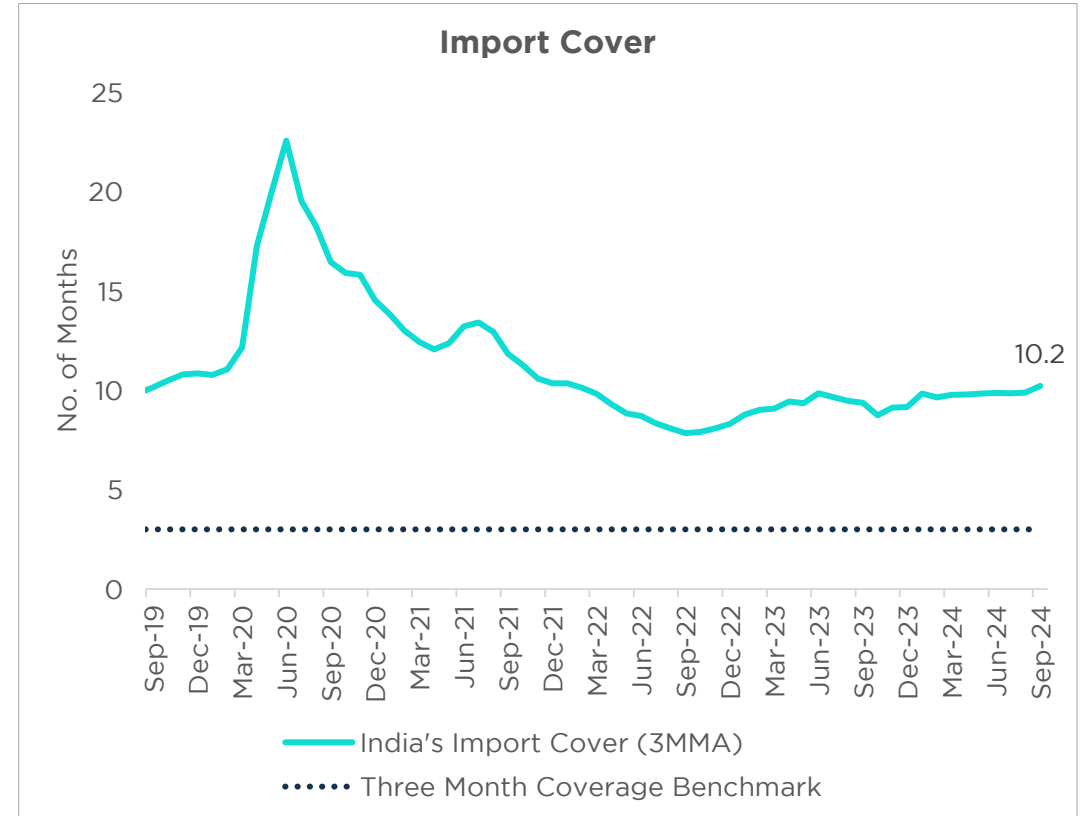
Sources: RBI, CMIE.

- On REER basis, rupee was 1.3% overvalued in September compared to its five year average.

India Has Strong Forex Reserves to Help RBI Manage Rupee Volatility



Sources: RBI, CEIC Data as on October 25.



Source: CEIC.

- India's forex reserves fell by USD 20 bn in Oct (up to Oct 25) from previous month, but still provide a comfortable import cover of around 10 months.
- Market focus is on the US elections. A Trump victory could lead to higher UST yields, a stronger dollar and a depreciation bias for emerging market currencies, including INR. A Trump win would particularly have negative consequences for China, putting pressure on the yuan. China's Nov National People's Congress (NPC) Standing Committee meeting will be closely watched for any meaningful stimulus announcements by the government.
- We expect USD/INR to trade between 83.90-84.50 in the near term, with the RBI likely to limit any rupee volatility.

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