PGIM
India Mutual Fund

Fixed Income Weekly Update

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Global monetary easing to pick up pace

Indian Markets:

Indian bond markets remained stable and range bound with the longer end of the curve outperforming as the yields at the longer end came down by 3 bps in an otherwise flat yield movement in other segments of the curve during the week.

Minutes of the MPC meeting were released which revealed the split between the RBI members who were more hawkish compared to the external members of the MPC. The minutes showed that RBI members continued to be worried about food inflation and did not believe that real policy rates are too high while the external members are of the view that there is a scope for boosting growth citing soft “core” inflation and weak private Capex. The tenure of the external members of the MPC has come to an end and new external members will be appointed before the next MPC meeting in October.

Monsoons have stabilised at a marginal surplus of 4% of long period average surplus. Spatial mix is weak in East with 12% deficit which is offset by a surplus of 21% in the South and 9% in the central regions. Reservoir levels are trending at above 10 year average though North regional levels are still in deficit. Sowing of paddy and pulses is higher than last year by 6%.

The liquidity in the banking system continued to be easy led by government spending and the short term money market yields remained stable.

FPI inflows into debt remain stable with more than USD 1.35 bn coming in till August 23, 2024.Cumulatively, the CYTD 2024 FPI inflows into debt have been USD 12.29 bn.

The OIS curve continued to flatten with the 1yr OIS ending the week flat at 6.53%, while the 5yr OIS was lower by 3bps ending the week at 6.08%. INR remained weak despite the weakness in Dollar Index. INR ended the week at 83.90 almost unchanged from last week’s closing of 83.95.

International Markets:

The international bond markets were buoyed by the FOMC minutes and the Fed chairman’s remarks at Jackson hole which have set the stage for monetary easing in US.The benchmark 10yr US bond yield ended the week 8 bps lower at 3.80%. US Bond markets are currently pricing in 100bps of rate cuts by the US Fed over the course of the remainder of FY25.

The Dollar Index slumped to 100.72. Brent also ended the week weaker at 79. Metals remain under pressure. The Governor of the Bank of Japan, in remarks to the Japanese parliament, kept rate hikes in play if the Japanese economy and inflation evolve in line with their expectations though he reiterated that BOJ will carefully watch the impact of the unstable financial markets on the Inflation outlook.

Our View

The US Fed is all set to start cutting policy rates from September onwards and in the backdrop of global monetary easing, Indian bonds remain attractive on back of strong and stable underlying macro-economic factors and favourable demand supply dynamics at play. The scope for rate cuts in India is on account of high real positive rates and the need to encourage private investment and there is a fair probability of rate cuts beginning from CY25 onwards.

Bond yields tend to move in advance of rate action and investors can look to increase allocation to Fixed Income at every uptick in yields. We expect long bond yields to continue to drift lower over the next couple of quarters.We expect the benchmark 10yr bond yield to go towards 6.50% by Q4 of FY25.

Investors with medium to long term investment horizon can look at Dynamic Bond Funds having duration of 6-7yrs with predominant sovereign holdings as they offer a better risk- reward currently. Investors having an investment horizon of 6-12 months can consider Money Market Funds as yields are attractive in the 1yr segment of the curve also.