

The week ended with fluttering Indian Flags across the streets of celebrating Team India's victory in Cricket T20 World Cup on 29th Jun'24. The previous week was remarkable in Indian Financial Market as well as India Government Bonds are now included in JP Morgan Bond Index effective 28th Jun'24. Post announcement of Bond Index inclusion in Sept'23, India has received INR 1.08 Lakh Crore during Oct'23 to Jun'24 under Debt Segment from FPIs. Based upon demand-supply dynamics in conjunction with positive FPI flows, we re-assert our Positive view on both G-Secs and INR (Please refer our report dated 30th May'24: [India: June a key month in focus](#)). Budget Fiscal numbers and Inflation impact due to deficit monsoon are key aspects to watch for continuity on being positive on both G-Secs and INR.

Inclusion of IGBs in JP Morgan Bond Index

- India has witnessed INR 68,625 Crore (~\$8.3 Bn) net inflows in Debt segment YTD 2024. This number is even higher if we take the last quarter of 2023 post the announcement of the index (Net Inflow of INR 1,08,169 Crore/~\$13.0 Bn). It was assessed that ~\$25-30 Bn of overall inflows are expected in the Indian Debt Market due to index inclusion.
- Further, the FPIs aggregate holdings via Fully Accessible Route (FAR) in government bonds increased from 2.41% in Sep-23 to 4.07% in Jun-24 (Fig-1).
- Jun-2024 has itself received an inflow of INR 14,955 Crore (~\$1.7 Bn) of net inflows in Debt Segment, which matches with an average expected inflow of ~\$2Bn thereby showing front running and investors not waiting till the last day.
- We expect inflows to continue over the coming months at the average pace of ~\$2Bn across FAR bonds and securities. Bond Index inclusion flows shall be consistently keeping yields on-check in the months to come.

India Yield Curve showing buoyancy despite foreign flows

- The benchmark yields have softened by 25-30 bps post announcement of IGBs inclusion in JP Morgan Bond Index since Sept'23 (Fig-2).
- Positive flows during Jun-24 have kept the benchmark yield near to 7% mark, with yield buoyancy thrusting upwards as the Bond Inclusion unfolds with populist budget expectations creeping in post formation of coalition government.
- Globally, US Treasury 10-year Yield has shown upward push despite dovish PCE Inflation data, as market started factoring Trump winning over Biden. Affirmation from Trump over higher tariffs would raise costs for consumers thereby triggering inflationary pressures.

Upshift in Supply of SDLs pointing towards populism

- In the calendar of T-Bills and SDLs issuances for the quarter ending September 2024, it is observed that T-Bills borrowing has been brought down as compared to previous quarter whereas for SDLs the borrowings notified is Rs.2.63 Lakh crore which is an increase of Rs.1.17 Lakh crore over previous quarter ended 30th Jun'24 (Actual SDLs issuance were Rs.1.45 Lakh crore against a calendar of Rs.2.54 Lakh crore for the Jun-24 quarter).
- This jump over previous quarters may be due to increased expectations of populist budget from the Central Government. Also, with widely discussed decision of allotting special status to Bihar and Andhra Pradesh still pending, the states may resort to traditional means of fund raising.

Liquidity and Budget to drive the yields in partnership with Bond Index flows:

- Liquidity was in deficit as government balance have swollen up post GST collections and is expected to ease post Budget scenario as government spending will increase. The soothing of liquidity may impact the ease at the shorter end of the yield curve.
- As per media reports, Budget is expected to be presented on 23rd or 24th Jul'24. Going forward, Budget expectations shall drive the longer end of the yield curve in the near term. The Fiscal space created (0.6% of GDP) due to RBI dividend bounty (0.4%) and reduction in Fiscal Deficit (0.2%) from 5.8% to 5.6%, shall be watched out keenly.
- The other macro trend under close watch is monsoon as June ended with 11% rain deficit. As per latest IMD report, there is an 80% probability of the country receiving normal to above normal rainfall in July. Normal monsoon could lead to softening of food inflation pressures over the course of the year helping to achieve RBI headline inflation target of 4.5% for FY25.

Fig-1: FPI Flows in debt segment via FAR route picked up post Bond Index Inclusion announcement

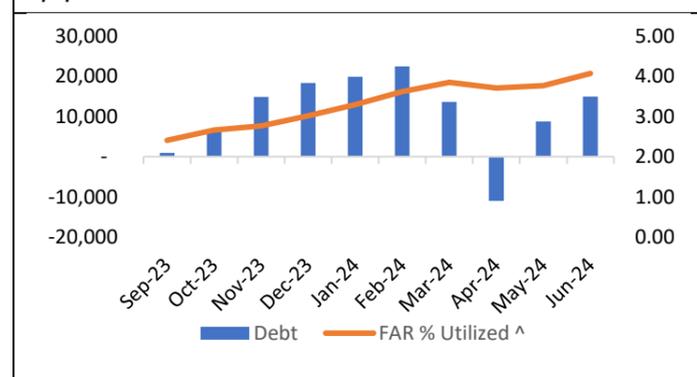
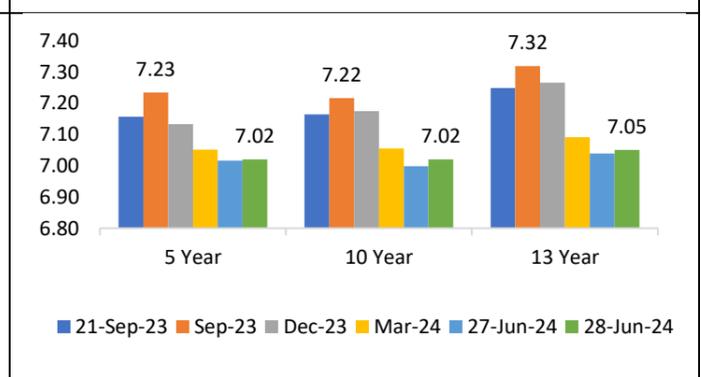


Fig-2: Yield Movement in 5 year, 10 year and 13 year tenure



^Only JP Morgan Bond Index eligible securities considered; Source: Bloomberg, NSDL, CCIL, UBI Research

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