

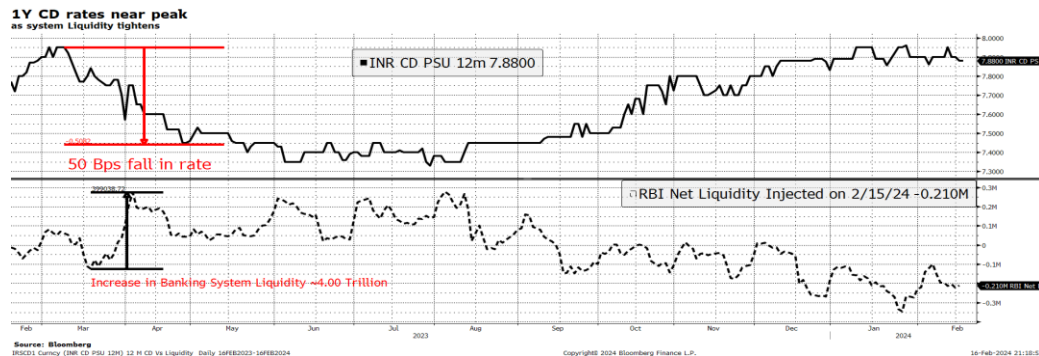
The Inside Yield Book (Feb 2024)

One Year Money Market Rates

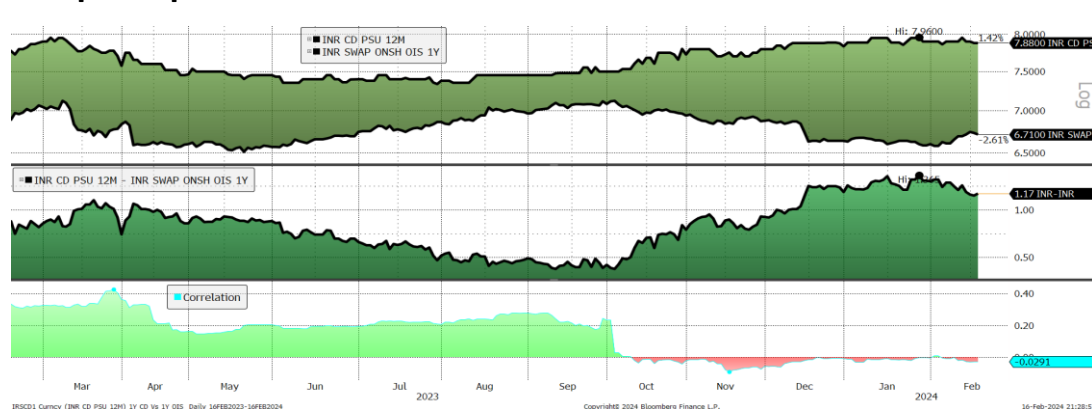
One Year CD rates have shot up and are near peaks, now at ~ 7.85%.

- In December 2023, with high credit -deposit ratios and tight system liquidity we had expected rates in this bucket to go up from 8.00 % to 8.25% but homogenous interest rate views among market participants, who have lapped up one-year issuances right from January 2024, has led to some stability in rates.
- Clearly market views spreads vs overnight rates as attractive and expects improvement in banking system liquidity in Apr-Jun 2024 Qtr with increase in Government expenditure.
- Last year this bucket witnessed 50 bps drop as system liquidity increased in April 23.
- This was when market participants were not sure of future policy rates as RBI had done 25 bps rate hike in Feb 2023 and inflation across world was still piping hot.
- This time though liquidity deficit & Credit deposit ratios are higher, but market is sure about no rate hikes and better liquidity in coming quarter.

Graph 1-One Year CD Rates and Banking system Liquidity



Graph 2- Spread: One Year CD Rates - OIS 1Y rate



Source: Bloomberg | CD = Certificate of Deposit, OIS= overnight index swap

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- It has dropped near to current repo rate as markets are pricing in largely stable policy rate ahead.
- The correlation between 1Y OIS and 1Y CD rates has turned negative as banking system liquidity deficit has increased since October 23. In other words, as OIS rate is pricing in stable policy rate expectation, but issuances and burgeoning system liquidity deficit has pushed up CD rates.
- As liquidity improves and issuances drop, there is very high probability of similar magnitude of drop in 1y CD rates as seen in April 23, if not bigger.

How to play this

Money Market Funds, among all categories in shorter duration funds are likely to carry maximum allocation to 1 year maturity bucket which will includes CDs and CPs.

Simple Scenario Analysis – (with number of very simplistic & practical assumptions compared to what actual investments are expose to, we can have a two pager on that itself yet have different outcomes)

There can be multiple scenarios as MF scheme are expose to market risk and in addition have unpredictable flows, yet this exercise gives a comparative view between possible HPRs in different schemes. The simplistic scenario below assumes current yields with likely asset allocation, bucketing, investment horizon of mid-March 24 to mid-April 24 and a bit of aggressive deployment assuming stability in March end Aum size.

Money Market Fund				
Asset	Current Yields	Allocation	Duration	1M Exp HPR
T-bill (6M)	7.07%	5%	182	7.51%
T-bill (1Y)	7.07%	10%	364	7.43%
CD (3M)	7.65%	10%	91	9.00%
CP (3M)	8.20%	10%	91	9.65%
CP (1Y)	8.15%	10%	300	9.53%
CD (1Y)	7.65%	55%	300	8.63%
Portfolio	7.67%	100%	258.7	8.68%

Liquid Fund				
Asset	Current Yields	Allocation	Duration	1M Exp HPR
T-bill	6.89%	20%	60	7.01%
CP/CD	7.75%	80%	60	8.38%
Portfolio	7.58%	100%	60	8.11%

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One Year Money Market Rates

Bajaj Finserv Liquid Fund

An open ended Liquid Scheme with relatively low interest rate risk and moderate credit risk

PRODUCT LABEL AND RISKOMETER

This product is suitable for investors who are seeking*:

- Regular income over short term.
- Investment in money market and debt instruments, with maturity up to 91 days.

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.



Bajaj Finserv Money Market Fund

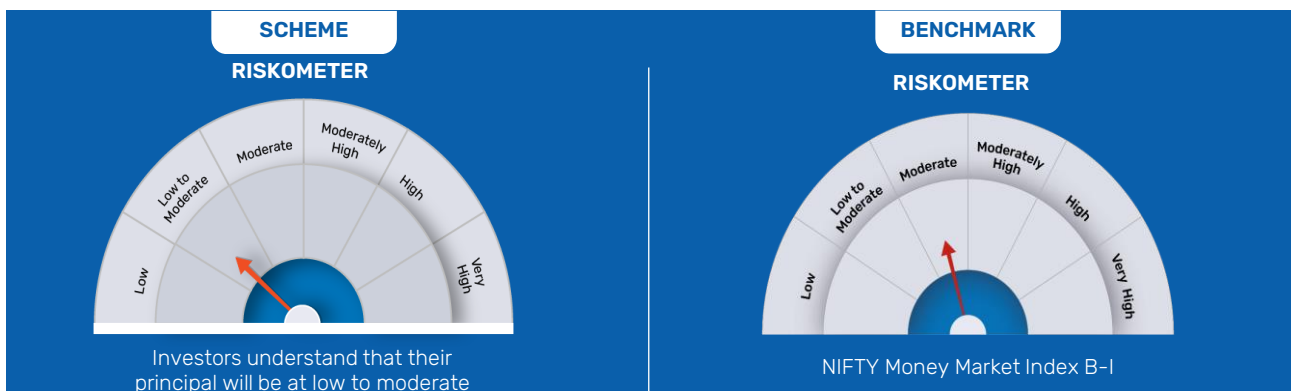
An open ended debt scheme investing in money market instruments with Relatively Low Interest Rate Risk and Moderate Credit Risk.

PRODUCT LABEL AND RISKOMETER

This product is suitable for investors who are seeking*:

- Income over short term.
- Investment in money market instruments that seeks to provide reasonable returns, commensurate with low risk while providing a high level of liquidity

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them



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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.