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# FIMMDA AGM Speech – 3rd September 2018

Y. B. Chavan hall, Rangswar, Mumbai 400 021.

Good afternoon ladies and gentlemen,

On behalf of the Board of Directors of FIMMDA and on my own behalf, I extend a warm welcome to all of you at the 20th Annual General Meeting of our association. I am extremely pleased that we have completed two decades of service to the industry.

The Directors report for the year 2017-18, and the related profit& loss statement and balance sheet were sent to the members, and with your consent, I shall take them as read.

 We had our last Annual Conference at New York and I elaborated on the developments in the market as well as the activities undertaken by FIMMDA till 31st March 2018. Before I move on to the activities undertaken by FIMMDA since March, I would like to talk about some recent market developments.

We just saw on Friday that the Indian economy is doing really well, with a growth of 8.2% in Q1 of the current fiscal year, the highest in over 2 years. Ofcourse the really low base from last year’s pre-GST implementation quarter helped. Manufacturing, which had grown at a negative 1.8% in Q1 last year, has grown by a solid 13.5% YoY this year in Q1. We are also the seventh largest economy in the world, surpassing France in the previous quarter to become a $2.6 trillion economy. Growth is expected to be strong post Q1 as well, with eight core sectors growing by 6.6% in July.

On the policy front, MPC voted 5-1 in favour of a 25 bps rate hike with Dr. Ravindra H. Dholakia voting against the decision.Overall stance of the MPC remains neutral despite a rate hike.

As per the MPC, inflation including HRA was projected at 4.6% in Q2, down from earlier projections, and 4.8% in H2 of 2018-19 (from 4.7% earlier) and 5% in Q1:FY2019-20. But RBI Governor later indicated that they hiked rates as inflation had remained above 4% target for many months. Now while CPI came at a 9-month low of 4.17% in July, Core CPI is still at 6.29%. With base effect likely to remain favourable over the next few months, inflation is expected to remain between 4-5%.

Meanwhile, crude prices continue to remain at elevated levels. Iranian sanctions and the situationin Venezuela have led to supply concerns, leading to continuing upward pressure on prices. The only hope in terms of crude prices is the continuing trade war between US and China as slower growth will dampen demand for crude and could bring down prices.

On the fiscal front, Government has kept a fiscal deficit target of 3.3% of GDP in 2018-19, down from the upward revised 3.5% of GDP in the previous year (revised higher from the original target of 3.2%). Higher than budgeted oil prices, rising interest rate scenario and pre-election spending could put pressure on the fiscal front this year, but as the Principal Economic Advisor said a few days back, the tax department has been hurrying up with the refunds this year, which means lower refunds in the second half of the year, combined with seasonal higher growth, could lead to significant improvement in tax revenues of the Government.

The other concern of course is coming from the Rupee front. Rupee has been the worst performing Asian currency in 2018 and has depreciated roughly 12% during this period. It is hovering at around 71 levels now with heavy depreciation seen in the last few days. Initial triggers came from a sharp depreciation in Turkish Lira, but it has become somewhat Rupee focused over the last few sessions. Current account deficit has also been widening lately with trade deficit coming at record high levels of $18bn last month as oil prices have shot up and other segments are not helping the deficit either. For FY19, current account deficit is expected to increase to 2.8% of GDP, up from 1.9% of GDP in FY18. The worry for bond markets is also because RBI MPC has indicated concerns related to imported inflation due to a depreciating Rupee.

Markets are already pricing in atleast one more rate hike in this fiscal year, with some chances of 2 hikes as well.

For bonds, US markets are a concern as well. US Fed is continuing to tighten monetary conditions by letting it balance sheet shrink slowly each month. Fed has plans to unwind its QE aided balance sheet by $420 bn in 2018, followed by $600 bn in each of the following years. At the same time US government has lowered corporate tax rates drastically, increasing the US Government’s borrowings to around $955 bn this year, up from just $519 bn borrowing seen last year. To top it off, US Fed is also raising interest rates, and is set to hike rates by 2 more time in the remaining months of 2018.

Combined with the sharp depreciation in Rupee, Fed’s actions and higher US Government borrowing could lead to outflows from Indian debt market, putting pressure on Indian Bond yields.

By pointing out the current concerns for the Indian bond markets, I didn’t mean to scare the treasury managers here. I read this somewhere, “When faced with challenges, we should think of ourselves as an arrow which is being pulled back, only to be launched ahead later”. At the same time, it’s important to narrate these concerns at as many forums as possible, so that the decision makers, the policy makers hear our concerns and keep them in mind when taking their decisions. As American Basketball player and coach John Wooden said, “Don’t let what you cannot do interfere with what you can do”. So at least we can keep raising our concerns.

6. Coming to FIMMDA’s activities during the year:

1**. Regular meetings and Con-Calls are** being held with market participants on important matters affecting the functioning of the markets and the synopsis is referred to RBI/Ministry Officials wherever required. We are also invited by RBI for pre-policy consultations twice every year. We take the opportunity to take the market views and convey them to RBI for their consideration.

 2. **Dispute Resolution mechanism**: DRC is working very well to stop erroneous trades on the NDS-OM platform as well as for reported deals. During April- August 2018, 10 cases worth Rs 24.47 Crores were solved by DRC. I take this opportunity to ask our trading community to be more careful and avoid erroneous trades rather than having to settle them through DRC. A new DRC committee will be formed shortly to take up matters for the year 2018-19 (Oct-Sept).

 3. **Financial benchmarks India Pvt Ltd:** FBIL, the joint venture with FEDAI and IBA has started publication of MIFOR, MIOIS wef April 2018. FIMMDA got a MLA and BLA drafted and it was implemented by the market participants. Thus, we fulfilled our promise of last year. RBI also asked FBIL to take over publication of reference rates. FBIL started publication of USD/INR Reference rate as well as reference rates for GBP,JPY and Euro wef 10th July 2018.

4. **Code of Fair practices**: In deference to the advice from RBI, we developed a Code of Fair practices for debt markets. The same was circulated along with a statement of Commitment to be signed by members which is displayed on our website. Till 30th August 2018, about 80 members have put up their commitment letters on our website confirming adherence to the Code by their respective institutions. We request the remaining 16 institutions to complete the exercise. We also requested RBI to make the Code mandatory for all participants of the Debt markets.

5. **Uniform Valuation methodology**: As per the recommendations in the Khan Committee report, SEBI had called FIMMDA and AMFI for discussions to have uniform methodologies for valuation of Corporate Bonds. They also circulated a consultation paper among the public to elicit the market views. We have given our data of security level valuations for some days for their perusal. Major issues highlighted in their consultation paper emanated from our submissions and the common points on which AMFI and FIMMDA agreed upon.

 6. **Corporate Bond Methodology**: In continuation of our efforts to bring in improvements, we are publishing daily corporate bond matrix wef April17, 2018. We have also developed in house expertise for providing security level valuations for about 4800 securities. The same is being published on trial basis wef April 2018. We are seeking views from the participants for making the system robust and reliable. This was our promise to the market and delivered.

7. **Interest rate Options**: Further to the issuance of fresh guidelines from RBI, we held some meetings with market makers. We cleared the products that the Exchanges want to introduce viz single bond options on lines with interest rate futures. The Core group is working on swaptions.

**Our future activities**: Going ahead, some of the important areas we want to focus upon are:

 1. Interest rate options: identifying underlying and other market conventions etc.

 2. Revision of Operational Guidelines on Certificates of Deposit.

3. Revision of handbook of market practices of April 2016 version.

4. Security level valuations for Corporate Bonds.

I thank the Ministry of Finance for talking to the association on all important matters.

I thank all the Senior executives and officers of RBI with whom FIMMDA worked closely for the betterment of the markets we represent. We thank the Senior officials of SEBI, IRDA, PFRDA for consulting the association on matters of importance.

I am thankful to CAFRAL, IIBF, Dun & Bradstreet for their role in providing knowledge, training and insights for our members.

My sincere thanks to CCIL and CDSIL for their help and assistance in interactions with our members and successfully running NDS-OM /Call platforms for our members.

My sincere thanks to the service providers M/S Thomson Reuters, M/S Bloomberg, M/S Cogenesis with whose help our member institutions function on a day to day basis.

I am thankful to our sister associations FEDAI, AMFI and IBA who are associated with our activities. I would like to thank and appreciate the services rendered by my esteemed colleagues on the Board and all employees of FIMMDA Secretariat for the efforts put in by them in keeping the association strong and responsive to the needs of the markets and its participants.

Finally, I request all the FIMMDA members to actively participate in the activities to enrich each other and to take FIMMDA to greater heights.

Wish you all the best till we meet next time. Thanks for listening.

Regards,

(G.Ravindranath)

Chairman.