

## Weekly Liquidity Report: 3 September– 7 September, 2018

10 September 2018 | Economics

The liquidity report presents an assessment of the liquidity scenario of India's banking and financial system for the week ended 7 September '18. An evaluation of various indicators such as repo and reverse repo transactions, call money rates, T-bills and G-Secs yields, government borrowings, bank deposit and credit growth and key global interest rates has been done here.

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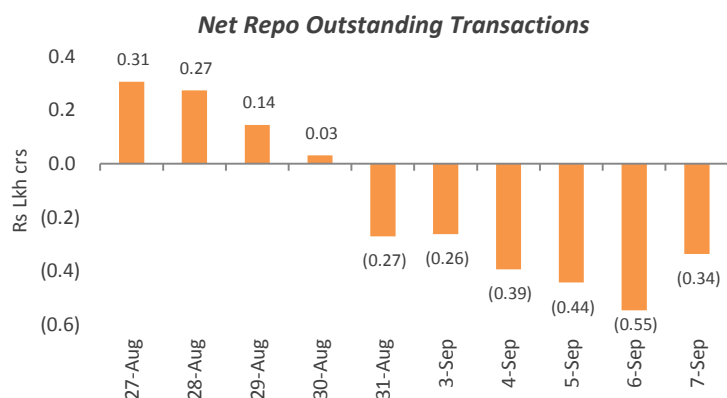
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### Key highlights for the week ended 7 September'18

- The banking system liquidity was in surplus during the week after witnessing a liquidity deficit for the previous two weeks (16-30 Aug). The liquidity surplus during the week was aided by lower repo borrowings and higher reverse repo transactions.
- The call money market rate rose by 9 bps in the start of the week, declined marginally for the next three days, following which it ended the week at 6.35%, 11 bps higher than the previous week close. The call money rate rose despite the overall banking system remaining in surplus during the week.
- The average call rate during the week remained unchanged compared with the average call rate in the previous week.
- The average daily call money market borrowings were lower at Rs. 15,631 crs during the week compared with the borrowings of Rs. 12,218 crs in the previous week.
- The benchmark 10 year GSec yields scaled a 4 year high of 8.06% on 6 Sep, following which it moderated 3 bps to end the week at 8.03%, 8 bps higher than the previous week close. The depreciation in the rupee (having weakened to 72/\$), elevated crude oil prices, widening current account, concerns over the impact of US interest rate hikes and fresh supply of government securities have helped push up yields. The overall banking system liquidity during the week capped the rise in the yields.
- The central and state government borrowed Rs. 22,238 crs during the week, compared with the borrowings of Rs. 14,200 crs in the previous week.
- There has been an increase in bank credit growth in the current fiscal. Bank credit offtake has registered a y-o-y growth of 12.9% as on Aug 17' 18, compared with 6% growth in the previous year. On an incremental basis (1 Apr- 3 Aug'18), bank credit growth rose by 0.6% compared with the (-)2%.
- Bank deposit growth as of 17 Aug'18 at 8.3% is 1.5% lower than year ago. On an incremental basis, bank deposit have grown by 0.7% (apr-Aug'18) compared with (-)1.2% growth last year.
- The 10 years US treasury yields ended the week at 2.94%, 8 bps higher than the previous week close. The yields rose on account of expansion in the US-manufacturing sector to a 14 year high, pick-up in the new orders, acceleration in the US job growth in Aug'18 and largest annual increase in wages since June 2009. However, weakness in emerging market currencies and widening US trade deficit on account of concerns over international trade (US-China & US- Canada) limited the rise.
- LIBOR rose from 2.32% to 2.34% in the first two days, following which it moderated to close at 2.33%.



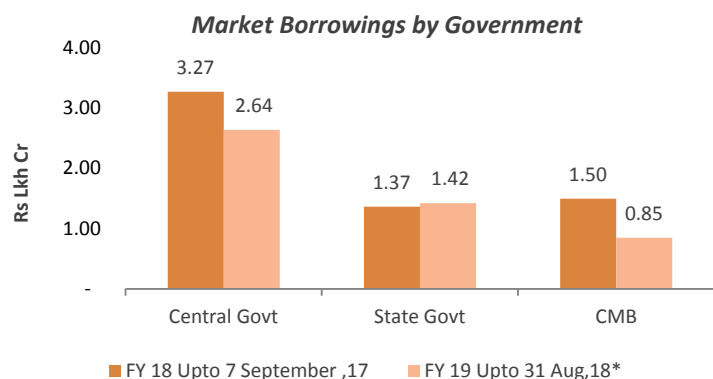
Source: RBI – \*Based on CARE's calculation

Net Repo Outstanding Transactions = Total Repo +MSF – Total Reverse Repo

Holiday on August 22

The banking system liquidity witnessed liquidity surplus during the week, after witnessing liquidity deficit for the previous two weeks. The banking system liquidity moved from a net liquidity deficit of Rs. 30,632 crs on 27 Aug'18 to a liquidity surplus of Rs. 33,620 crs on 7 Sep'18.

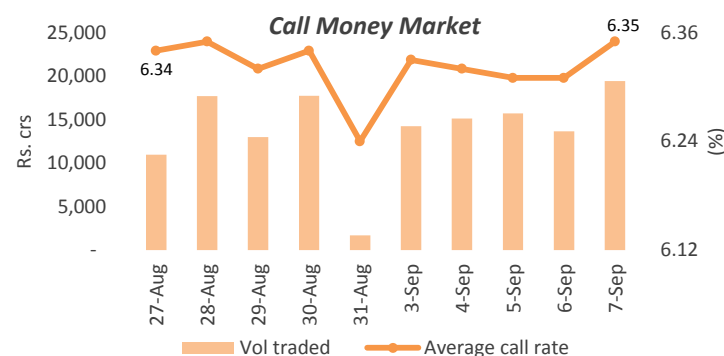
The total repo borrowings have declined from Rs. 75,898 crs on 27 Aug'18 to Rs. 40,617 crs on 7 Sep'18. On the other hand, the reverse repo transactions have increased from Rs. 45,266 crs on 27 Aug to Rs. 74,237 crs on 7 Sep'18. The total reverse repo transactions of Rs.1,09,575 crs was at a 1-month high on 6 Sept.



Source: RBI

\*Includes auction amount of Rs. 12,000 crs by the Central Government and Rs. 10,238 crs by the state governments during the week ended 7 Sept, 2018.

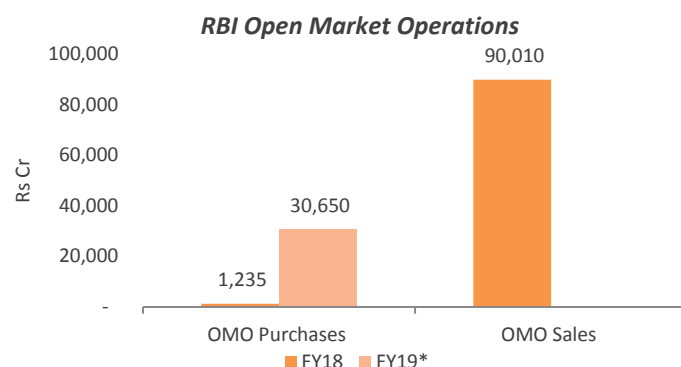
The central government auctioned securities worth Rs.12,000 crs on 7 Sept'18 while state government auctioned securities worth Rs. 10,238 crs on 3 Sept'18. On a year to date comparison, the central government has borrowed Rs 2.64 lakh crs vis-à-vis Rs. 3.27 lakh crs in the comparable period in the previous year. The state governments have borrowed Rs. 1.42 lakh crs so far in FY19 vis-à-vis Rs. 1.37 lakh crs in the comparable period previous year.



Source: RBI

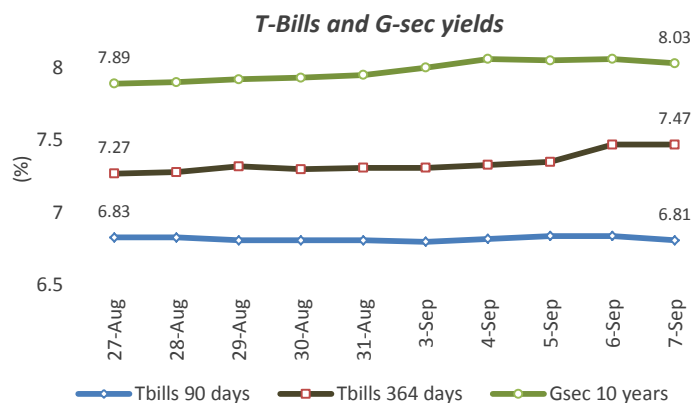
The average call money market rate at 6.32% was unchanged during the week compared with the average call rate in the previous week. The call money rate rose by 11 bps vis-à-vis the previous week close on account of higher borrowings in the call money market.

The average daily borrowings in the call money market during the week ended 7 Sep was higher by 28% at Rs. 15,631 crs from the average borrowings of Rs. 12,218 crs in the previous week.



Source: RBI

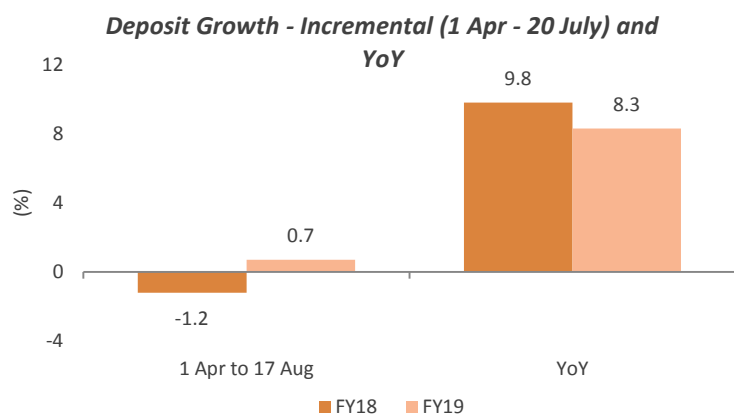
The RBI did not undertake any OMO operations during the week. The RBI has purchased securities amounting to Rs.30,650 crs by way of open market operation in the current fiscal (1 Apr-19 Jul), notably higher than the Rs. 1,235 crs purchased in FY18 in an attempt to improve the liquidity situation in the system. There have been no OMO Sales during this year.



Source: FBIL

T-bill yields for 91 day closed at 6.81% having reached a 27 months high at 6.84% on 5 Sep. T-bill yields for 364 days closed the week scaling a 3 year high at 7.47%, 16 bps higher than the beginning of the week.

The benchmark 10 year GSec yields ended the week at 8.03%, 8 bps higher than the previous week close. The yields scaled a 4 year high of 8.06% on 6 Sep. The depreciation in the rupee (having weakened to 72/\$), elevated crude oil prices, widening current account deficit in Q1-FY19 (2.4% of GDP), concerns over the impact of US interest rate hikes and fresh supply of government securities have worked towards pushing up yields.



Source: RBI

Incremental bank credit growth in FY19 (1 Apr-17 Aug) was 0.6% compared with the growth of (-)2% in the comparable period last year. Likewise, the incremental bank deposit growth was 0.7% in FY19 (1 Apr-17 Aug) compared with (-1.2%) in the comparable period in FY18. On a y-o-y basis, the deposit growth in FY19 has been at 8.3%, 1.5% lower than the growth in FY18,.

### Liquidity Outlook for the week 10–14 September, 2018

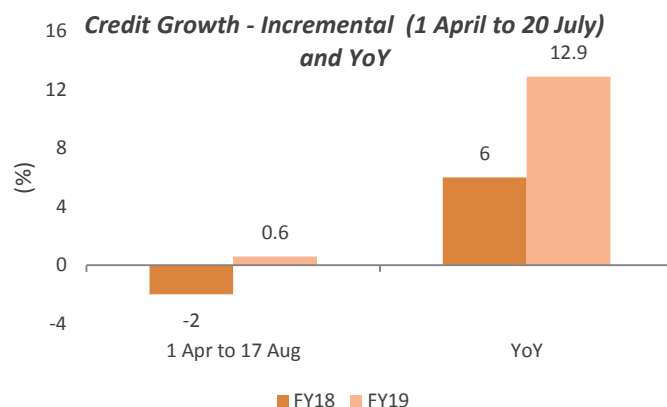
The overall liquidity situation in the banking system is likely to be pressured during the forthcoming week. The scheduled auction of state government securities (Rs. 8,650 crs on 11 September), fortnightly reporting of the scheduled commercial banks to RBI, weakness in the domestic currency leading to possible central bank intervention and increased festive demand for currency could pressurise liquidity in the banking system.

|                     | 22-Aug | 27-Aug | 31-Aug | 3-Sep | 6-Sep | 7-Sep |
|---------------------|--------|--------|--------|-------|-------|-------|
| 10 year US Treasury | 2.82   | 2.85   | 2.86   | *     | 2.87  | 2.94  |
| LIBOR 3 Month       | 2.31   | *      | 2.32   | 2.32  | 2.33  | NA    |

Source: CNN

\*Closed on account of public holiday

US treasury yields closed at 2.94%, 8 bps higher than the previous week close. The yields rose on account of expansion in the US-manufacturing sector to a 14 year high, pick-up in the new orders, acceleration in the US job growth in Aug'18 and largest annual increase in wages since June 2009. However, weakness in emerging market currencies and widening US trade deficit on account of concerns over international trade (US-China & US-Canada) limited the rise.



Source: RBI

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