Debt Market Review: January 2018

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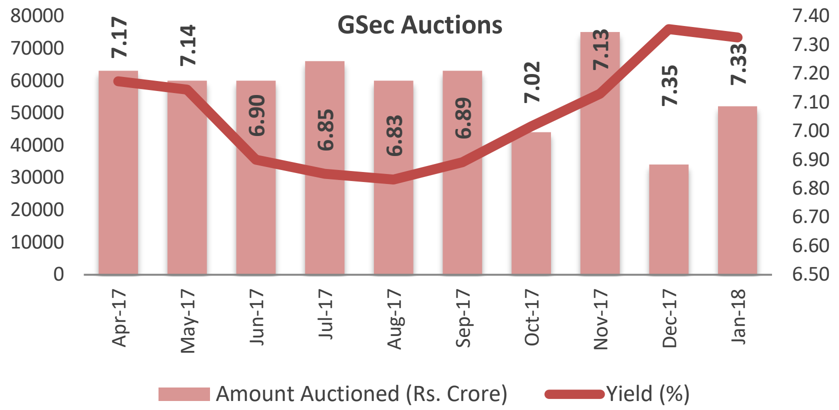
A. PRIMARY ISSUANCES

Central government borrowings:

In Jan’18, government securities aggregating Rs. 52,000 crore were auctioned, Rs. 18,000 crore or 53% higher than the auctions held in Dec’17 (Rs. 34,000 crore). The RBI cancelled 2 auctions amounting to Rs.8, 000 crs during the month, making it the 3rd cancelled auction since Dec’17. High cost of borrowings with the rise in GSec yields led to the cancellation of these auction. The RBI cancelled the auction of Rs.19,000 crs of Government securities during Dec’17 and Jan’18.

The average borrowing cost of the GSec auctions was recorded at 7.33% in Jan’18, 2 bps lower than the average cost in Dec’17.

During Apr’17-Jan’18, the central government borrowings aggregated to Rs. 5.77 lakh crore, Rs. 17,000 crore or 3.04% higher than the borrowings in the comparable period in the previous year (Rs. 5.60 lakh crore). The average cost of borrowing for these auctions was at 7.06%, 13 bps lower than the average of 7.20% in the corresponding period last fiscal.



Source: RBI

T-bill auctions: In Jan'18, auctions of treasury bills of various maturities amounting to Rs. 70,000 crore were undertaken, Rs. 26,000 crore higher than the auctions undertaken a month ago. The average yield of these auctions was rose to a 16 month high of 6.44%.

T-bill auctions during Apr'17-Jan'18 aggregated Rs. 6.09 lakh crore, Rs. 7,000 crore or 1.16% higher than the auctions of treasury bills during Apr'16-Jan'17 (Rs. 6.02 lakh crore).

Table 1: T-Bills Auctions

Month	Amount (Rs. Cr.)	Yield (%)
Apr-17	56,000	6.20
May-17	70,000	6.39
Jun-17	56,000	6.34
Jul-17	66,000	6.27
Aug-17	82,000	6.20
Sep-17	66,000	6.18
Oct-17	44,000	6.16
Nov-17	55,000	6.19
Dec-17	44,000	6.28
Jan-18	77,000	6.44

Source: RBI

State Government Borrowings: The borrowings of the various state governments by way of State Development Loans (SDLs) aggregated Rs. 3.24 lakh crore in Apr'17-Jan'18 compared with the Rs. 2.98 lakh crore borrowings in the corresponding period last year. In terms of state-wise quantum of borrowings in the current fiscal, Maharashtra has borrowed the highest at Rs. 36,631 crore, followed by Tamil Nadu (Rs. 34,265 crore) and Uttar Pradesh (Rs. 33,800 crore).

In January'18, 27 states raised funds by way of SDLs amounting to Rs. 48,665 crore, which was 22% (Rs. 8,813 crore) higher than the amount raised by various states in the previous month. During the month, the average borrowing cost of the states rose to 20 month highs of 7.91%. On a month-on-month basis it rose by 22 bps.

Table 2: State Development Loans

Month	No. of States	Amount Raised (Rs. Cr.)	Weighted Average yield (%)		
			Avg.	Min	Max
Apr-16	12	14,080	7.98	7.96	8.02
May-16	11	18,525	7.99	7.95	8.01
Jun-16	18	22,175	8.03	7.96	8.08
Jul-16	11	21,625	7.74	7.69	7.77
Aug-16	18	28,350	7.57	7.50	7.61
Sep-16	17	29,175	7.27	6.97	7.46
Oct-16	23	38,475	7.15	6.98	7.24
Nov-16	24	48,633	7.06	6.82	7.38
Dec-16	21	34,318	7.13	6.91	7.25
Jan-17	23	42,539	7.16	7.02	7.24
Feb-17	21	46,494	7.65	7.50	7.75
Mar-17	22	37,591	7.75	7.60	7.95
Apr-17	10	16,450	7.62	7.59	7.70
May-17	17	21,625	7.51	7.41	7.55
Jun-17	16	26,880	7.19	7.10	7.24
Jul-17	19	33,263	7.21	6.93	7.31
Aug-17	22	38,487	7.26	7.02	7.32
Sept-17	21	41,235	7.40	7.28	7.50
Oct-17	19	34,520	7.56	7.29	7.66
Nov-17	21	31,068	7.55	7.11	7.73
Dec-17	20	39,852	7.69	7.35	7.82
Jan-18	27	48,665	7.91	7.76	8.07

Source: RBI

Table 3: State wise SDLs (Rs. Cr.)

State	FY17 (Apr-Jan)	FY18 (Apr-Jan)
Andhra Pradesh	16,500	19,900
Arunachal Pradesh	325	400
Assam	3,090	5,247
Bihar	10,000	4,500
Chhattisgarh	1,200	5,100
Goa	1,020	1,350
Gujarat	22,120	18,000
Haryana	10,700	11,744
Himachal Pradesh	2,000	3,800
Jammu & Kashmir	1,900	5,200
Jharkhand	3,500	5,500
Karnataka	18,500	22,098
Kerala	14,400	16,000
Madhya Pradesh	11,500	13,000
Maharashtra	40,000	36,631
Manipur	550	525
Meghalaya	640	740
Mizoram	170	274
Nagaland	685	700
Odisha	5,700	6,938
Puducherry	500	600
Punjab	11,600	13,400
Rajasthan	10,900	17,500
Sikkim	744	995
Tamil Nadu	30,250	34,265
Telangana	17,961	18,200
Tripura	990	1,137
Uttar Pradesh	33,750	33,800
Uttarakhand	4,700	4,300
West Bengal	22,000	22,000
Total	**2,97,895**	**3,23,844**

Source: RBI

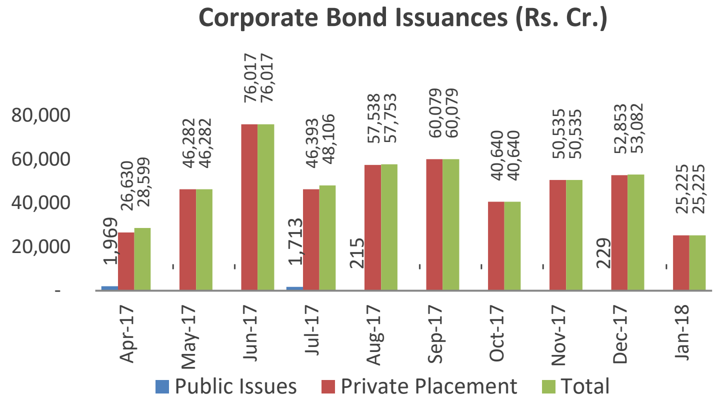
Corporate Issuances: In the month of January'18, the total corporate bond issuances aggregated to Rs. 25,225 crore, which is nearly half of the issuances in the previous month (Rs. 52,853 crore in Dec'17). During the month, the entire issuances were raised by way of private placements, the 6th month in the current fiscal. On a cumulative basis, the corporate issuances totaled to Rs. 4.86 lakh crore during Apr'17 to Jan'18, 13% lower than the issuances in the corresponding period in the previous year (Rs. 5.58 lakh crore).

During Apr'17-Jan'18, the financial services sector accounted for the highest share of issuances (26%), followed by banking/term lending (23%) and housing finance (19%).

Table 4: Sectoral composition of Corporate bonds

Industry	Jan'18 Issue amount (Rs. Cr.)	Apr'17-Jan'18
Banking/term lending	8,036	1,12,808
Consumer electronics	1,370	1,370
Diversified	2,000	24,700
Electronics-consumer & media		1,345
Financial services	5,526	1,26,791
Housing finance	4,627	90,574
Housing/ civil construction/ real estate	627	10,606
Personal care		1,500
Pharmaceuticals & drugs		3,110
Power generation & supply	690	33,454
Roads & highways	545	24,565
Textiles	60	1,824
Trading(incl.exports)	800	2,497
Others	945	7,874

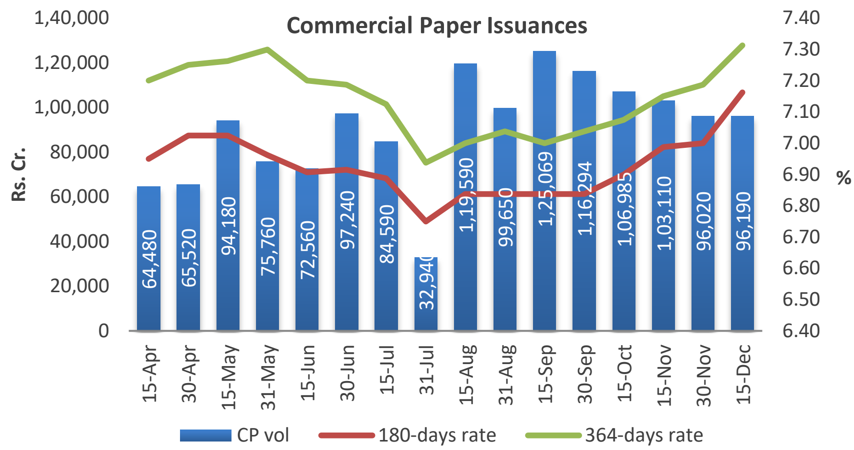
Source: Prime Database



Source: Prime Database.

Commercial paper (CP) issuances: As of mid-January'18, the commercial paper issuances by corporates in the first 10 months of the ongoing fiscal year (Apr'17-Jan'18) aggregated to Rs. 17.69 lakh crore, 27% higher than the CPs issued in the comparable period in the last fiscal (Rs. 13.91lakh crore).

There has been a notable decline in yields across maturities in the current fiscal year. The year-on-year comparison of average yield for the 10 month period (Apr-Jan) shows that the yield on 90-day CPs at 6.75% was 49 bps lower, while that of 180-days CPs at 6.98%was 56 bps lower and that of 364-days CPs at 7.19% was 59 bps lower. There has however been a firming up of yields since mid-Nov'17. Yields across maturities have risen by an average 60 bps in the 3 month period and were at the highest levels since Aug'16.



Source: RBI

In terms of sectoral bifurcation, during the month, the majority of the issuances were by banks (58%) and NBFCs(34%).

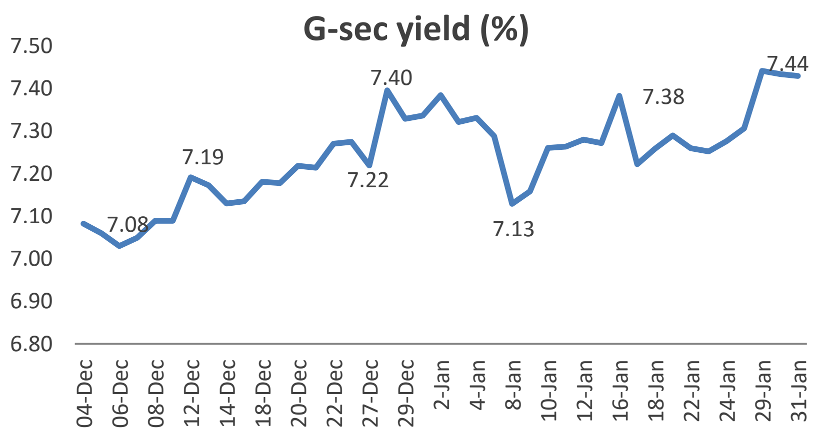
Table 5: Industry-wise CP issuances at face value (Rs. Cr.)

Issuer Type	Jan-18		
	91 Day CPs	180 Days CPs	364 Days CPs
Banks and Financial Institutions - Private Sector	2,210	0	0
Banks and Financial Institutions - Public Sector	2,150	0	0
State Financial Institutions	0	0	0
Public Sector Undertakings	0	0	0
State Level Undertakings	0	0	0
Private Sector - NBFCs /Financial Services	2,525	250	25
Private Sector - Manufacturing/Services	550	0	0
Power generation & supply	500		
Travel/transportation/courier(passenger/cargo)	50		

Source: Prime database

B. SECONDARY MARKETS

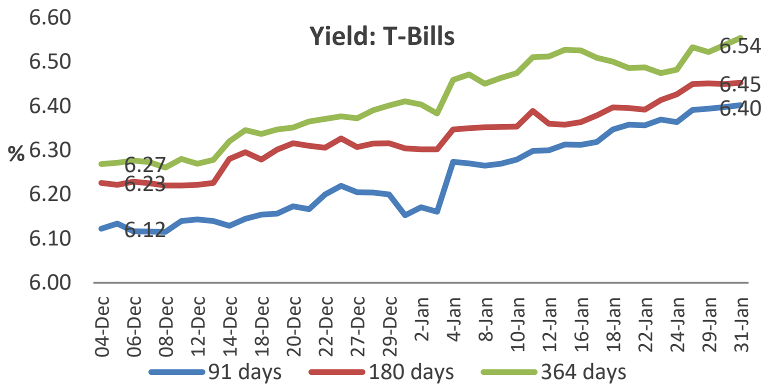
G-Sec yields: The average yields on 10 year government securities rose further in Jan'18. The average yield stood at 7.30%, 12 bps higher than the average yield of 7.17% in December'17, and ranged between 7.13% and 7.44% during the month.



Source: FIMMDA

The concerns over increasing inflation rates, government's announcement of additional borrowings leading to expectations of fiscal slippages, widening trade deficit as well as easing liquidity conditions in the market coupled with decline in demand from banks who have been faced with mark-to market losses impacted overall demand for these securities during the month..

Treasury bill yields: Following the trends in the yields of Government Securities, the yields on treasury bills also indicated upward movement during the month. Compared with the average yield in Dec'17, the 91-day T-Bill yields rose by 15 bps to 6.31% in Jan'18. Similarly, the average yields on the 180-days and 364-days T-Bills at 6.38% and 6.49%, was 11 bps and 16 bps higher respectively than the average yields recorded in the previous month.



Source: FIMMDA

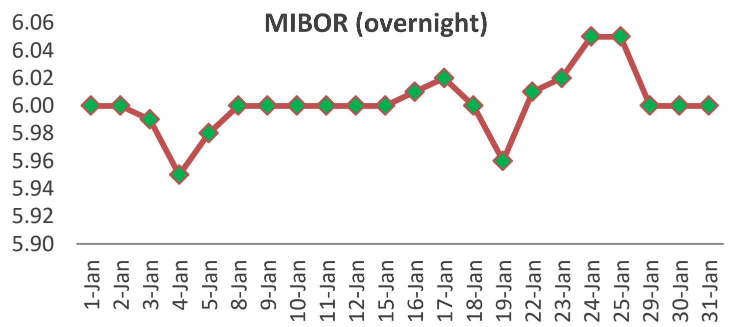
Corporate bond spreads: The spread of AAA rated corporate bonds over G-secs indicated a mixed picture in Jan'18. While compared with the average spread of the previous month, the average spreads on the 1 year and 10 year corporate bond widened by 14 bps and 11 bps respectively while that of 3 year and 5 year corporate bond narrowed by 17 bps and 10 bps respectively.

Table 5: AAA corporate bond spread

Date	1-yr	3-yr	5-yr	10-yr
14-Jul	50	68	77	106
31-Jul	47	66	71	94
14-Aug	52	65	74	87
31-Aug	62	60	73	84
15-Sept	49	58	40	76
29-Sept	59	52	35	73
13-Oct	65	58	35	64
31-Oct	63	47	34	56
15-Nov	56	45	36	53
30-Nov	62	47	45	49
15 Dec	77	52	41	56
29-Dec	81	53	49	42
15-Jan	89	44	35	65
31-Jan	96	26	34	56

Source: FIMMDA

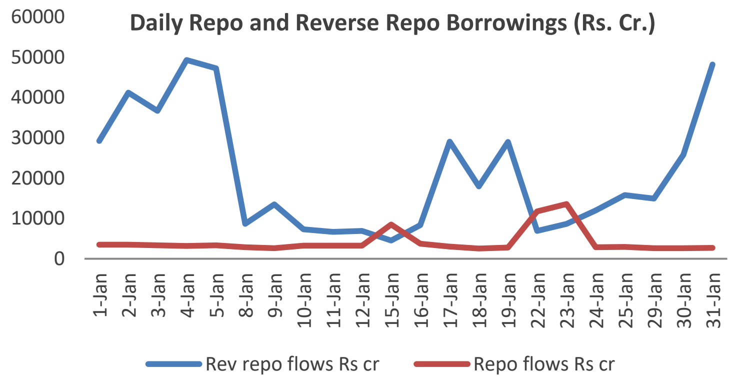
MIBOR: The Mumbai Interbank Offer Rate (MIBOR) declined in Jan'18. The average MIBOR for the month at 6% was 4 bps lower than the average rate in the preceding month). and ranged between 5.95% and 6.05%. The MIBOR has recorded a near sustained decline since Jul'17, the average monthly rates having fallen by 23 bps during the 6 months to Jan'18.



Source: FIMMDA

Liquidity Conditions

The liquidity surplus in the system in the aftermath of demonetization has been shrinking. The increase in currency in circulation and credit offtake has been led to a progressive reduction in the liquidity surplus in the system in recent months, which is reflected in the drop in outstanding term reverse repo from an average Rs.3,89,525 cr in Apr'17 to Rs.76,593 crs in Jan'18.



Source: RBI

Liquidity in the system eased in Jan'18 compared to month ago levels. The daily average repo borrowings by the commercial banks, which had increased considerably in Dec'17 by 124% to Rs. 10,718 crore mainly owing to the advance tax outflows, fell by 61% to Rs. 4,158 crore in Jan'18. The average daily reverse repo borrowings also increased by 11.5% to Rs. 21,265 crore compared with the Rs. 19,063 crore in Dec'17.

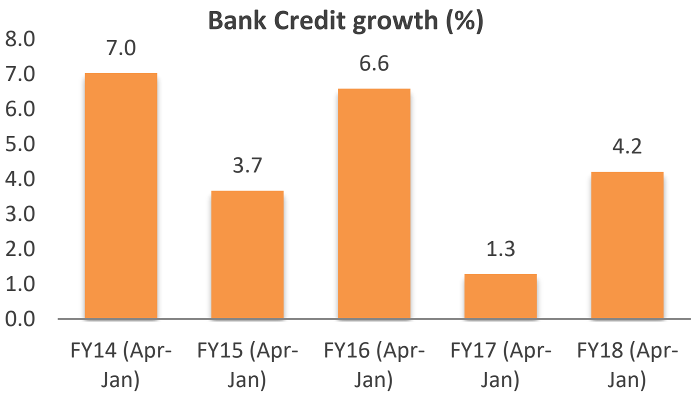
In Jan'18, the repo auctions declined by 44% to Rs. 1.30 lakh crore compared with repo auctions to the tune of Rs. 2.35 lakh crore in the previous month. The average yield for these auctions was recorded at 6.03%, 2 bps higher the weighted average yields in Dec'17. Reverse repo auctions aggregating to Rs. 3.57 lakh crore were undertaken, 59% higher compared with Rs. 2.25 lakh crore auctions held a month ago.

Banking

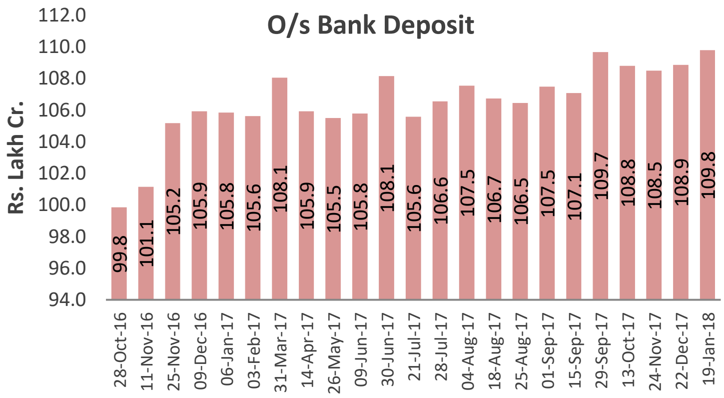
Bank deposits: The growth in bank deposits in the current fiscal year (FY18) is at multi-year lows. As of January 19, 2018, the aggregate bank deposits stood at Rs. 109.8 lakh crore, a growth of a mere 2% in incremental deposits (during Apr'17-Jan'18) compared with the growth of 12% in the comparable period last year. The lower growth in FY18 in on account of the normalization in bank deposits following demonetization which led to an influx of bank deposits last year. The increase in currency in circulation with the public, which grew by 31% since Apr'17 (and 82% since Jan'17), has also led to lower deposit growth.

Bank Credit: Bank Credit growth in the ongoing fiscal year has exceeded deposit growth for the first time since FY11. Incremental credit growth for the FY18 as of January 19, 2018 improved to 4.2%, compared with the 1.9% growth in the corresponding period last year. As on January 19, 2018, the outstanding bank credit has been recorded at Rs. 81.71 lakh crore. Bank credit growth has turned positive since end Sept'17 after recording a contraction in growth rates in the preceding 6 months.

Although, bank credit growth has registered a pickup, the credit offtake has not been broad-based. It continues to be supported by the retail sector, which has seen a growth of 10.8% during the 9 month period Apr-Dec'17. The credit disbursement to industry continues to register negative growth (since May'16). There has however been an improvement in the same with credit growth improving to (-)1.7% during Apr- Dec'17 compared with the growth of (-)5.6% in the corresponding period of the previous year. The credit growth of the services segment at 0.5% in FY18(Apr-Dec) is lower than the 2.5% growth of last year.



Source: RBI



Source: RBI

Within the industrial sector, 11 out of 19 industries recorded negative credit growth as on end Dec'17 with the highest contraction being registered by petroleum and crude products (-21%). Other sub-segments of industry registering contraction are chemical and chemical products (-7.3%), paper and paper products (-5.1%), mining and quarrying (-3.3%), cement and cement products (-2.2%). During this period, construction (4.8%), rubber and related products (4.1%), textiles (2.2%) and leather and leather products (2.1%) have registered positive growth.

Table 6: Sectoral distribution of credit

Sector	O/s Dec 22, 2017 (Rs.lkh.cr)	Dec'16 / Mar'16 (% Growth)	Dec'17/ Mar'17 (% Growth)
Gross Bank Credit	72.63	-0.1	1.8
Food Credit	0.24	-35.1	-40.7
Non-food Credit	72.39	0.5	2.0
Agriculture & Allied Activities	9.98	3.2	0.6
Industry	26.34	-5.6	-1.7
Services	18.12	2.5	0.5
Personal Loans	17.95	8.4	10.8

Source: RBI

Credit Rating of Fresh Debt Issuances & Borrowings

There was a marked increase in the credit rating of fresh debt issuances & borrowings in January'18 by the various credit rating agencies (CRAs). Fresh debt issuances & borrowings amounting to Rs. 54,373 crore were rated during the month, 48% higher than the Rs. 36,655 crore worth of debt issuances rated in Dec'17. It was however 31% less than the fresh debt issuances rated during Oct'17. In FY18 (Apr-Jan), the freshly rated debt instruments totalled Rs. 5.06 lakh crore, an 8% increase over the comparable period in FY17 (Rs. 4.68 lakh crore).

In terms of sectors whose fresh debt issuances were rated, financial services including NBFCs accounted for the highest share at 49% followed by construction (20%), public sector banks (15%) and telecom (11%). Other sectors, whose fresh debt issuances were rated by the various CRAs included power, textile, trading, electric equipment, logistics and plastic products.

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