

## 9 July 2018 | Economics

### Weekly Liquidity Report: 2 July – 6 July, 2018

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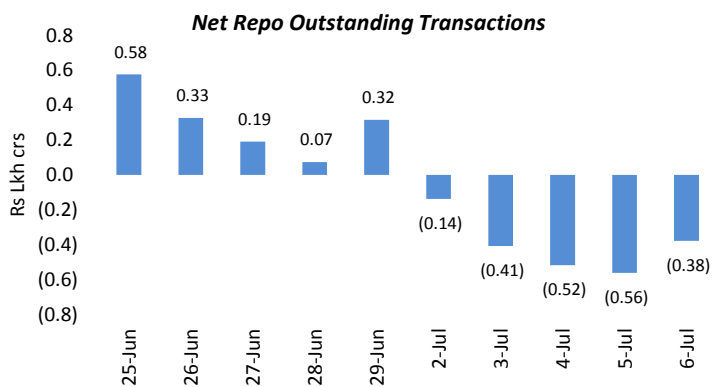
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The liquidity report presents an assessment of the liquidity scenario of India's banking and financial system for the week ended 6 July'18. An evaluation of various indicators such as repo and reverse repo transactions, call money rates, T-bills and G-Secs yields, government borrowings, bank deposit and credit growth and the global interest rates has been undertaken here to help indicate the underlying system level liquidity scenario.

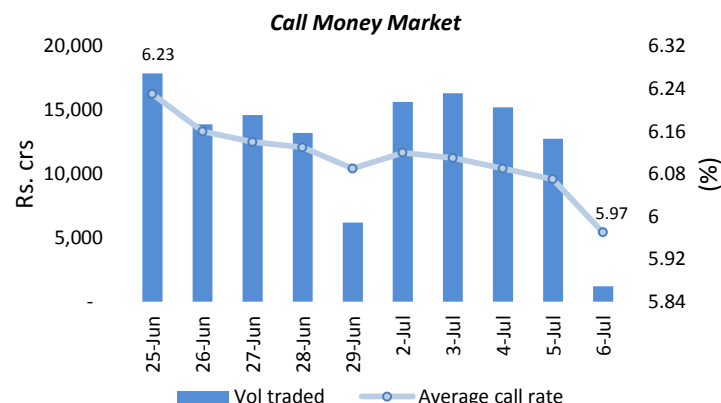
#### Key highlights for the week ended 6 July'18

- The banking system witnessed an overall liquidity surplus during the week after facing liquidity deficit in the previous two weeks. The average daily liquidity surplus for the week of 2-6 July'18 was Rs. 39,972 crs compared with an average daily liquidity deficit of Rs. 29,715 crs in the preceding week.
- Daily repo borrowing declined and reverse repo operations rose during the week resulting in the banking system witnessing a sustained surplus liquidity position. The recent open market operations (purchase) by the RBI (Rs. 10,000 crs on 21 June) can partly be attributed to the easing liquidity situation in the system.
- The call money rates touched a 4-week low of 5.97% as it declined further by 15 bps during the week, reflective of the easing liquidity pressures faced by certain segments of the banking system.
- GSec and T-bills yields declined during the week. The benchmark 10 year GSec yields ended the week 4 bps lower at 7.87%. The increased buying by banks with easing banking liquidity conditions helped lower yields G-sec yield during the. Concerns over inflation with high crude oil prices and the rise in MSP, the depreciation in the rupee and fresh auctions of government securities however limited the fall in yields.
- Government borrowings, central and state governments amounted to Rs. 18,129 crs during the week.
- RBI did not undertake open market operation (OMO) during the week. There has been an improvement in the bank credit off-take in the current fiscal year. On a year-on-year (y-o-y) basis, as of 22 June'18, bank credit off-take has grown by 12.8% in FY19 compared with the 5.6% growth in FY18 and deposit inflows have risen by 7.6% in the current fiscal year compared with the 10.6% growth a year ago.
- US treasury yields declined to a 5-week low and ended the week at 2.82%, 3 bps lower than the close of the preceding week. Increased safe haven buying amid the sell-off in equity markets with intensifying trade conflicts and the political divisions in the euro zone over, migration policy supported the decline in yields.
- LIBOR moved marginally during the week but remained unchanged at the end of the week.



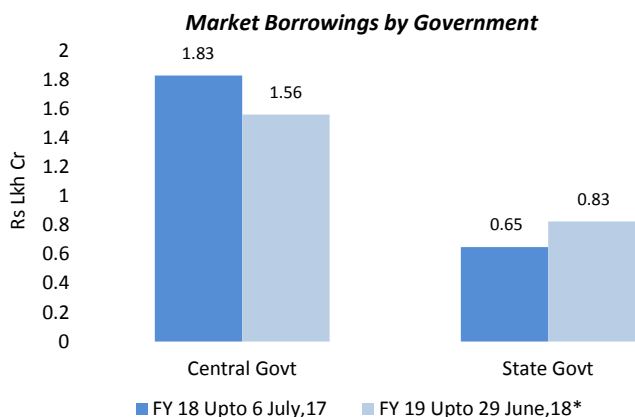
Source: RBI – \*Based on CARE’s calculation  
Net Repo Outstanding Transactions = Total Repo +MSF – Total Reverse Repo

The average liquidity surplus for the week of 2-6 July was Rs. 39,972 crs compared with an average liquidity deficit of Rs. 29,715 crs in the previous week. The average daily repo transactions (including repo, term repo and MSF) at Rs. 72,564 crs was Rs.10,262 crs lower than that in the previous week while the average daily reverse repo transactions at Rs. 1,12,536 crs was Rs 59,425 crs higher than in the previous week.



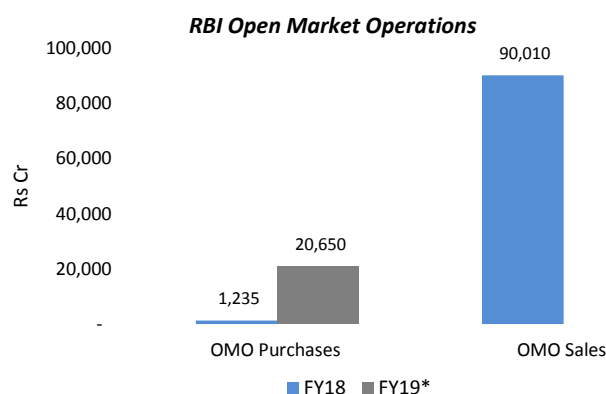
Source: RBI

The average call money rate for the week was 8 bps lower from that in the preceding week and average daily volume traded was 7% lower at Rs.12,227 crs. The average volumes traded in the call money market have decreased on account of net liquidity surplus in the system. The call money rate has declined in the last two weeks and has touched a level of 5.97% in the week ended 6 July.



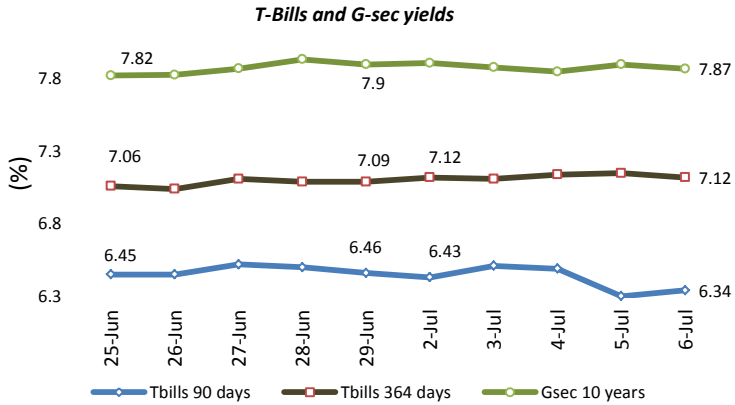
Source: RBI  
\*Includes auction amount of Rs. 12,000 crs by the Central Government and Rs.6,129 crs during the week ended 6 July, 2018. Does not include the issue of cash management bill totalling Rs 65,000 crs from 4 Jun-25 Jun'18.

The central government auctioned securities worth Rs.12,000 crs on 6 July'18, while 7 state governments auctioned a total of Rs.6,129 crs via state development loans (SDLs) on 3 July'18.



Source: RBI

The RBI did not undertake any OMO operations during the week ended 6 July'18. The RBI has purchased securities amount to Rs.20,650 crs by way of open market operation in the current fiscal, notably higher than the Rs. 1,235 crs purchased in FY18.



	20-Jun	25-Jun	29-Jun	2 Jul	5-Jul	6-Jul
10 year US Treasury	2.94	2.88	2.85	2.87	2.83	2.82
LIBOR 3 Month	2.33	2.34	2.34	2.34	2.34	

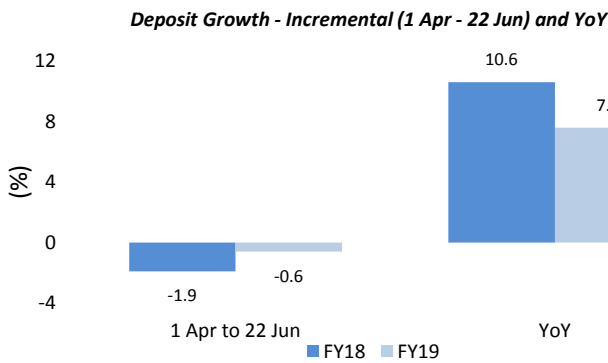
Source: CNN

Source: FBIL

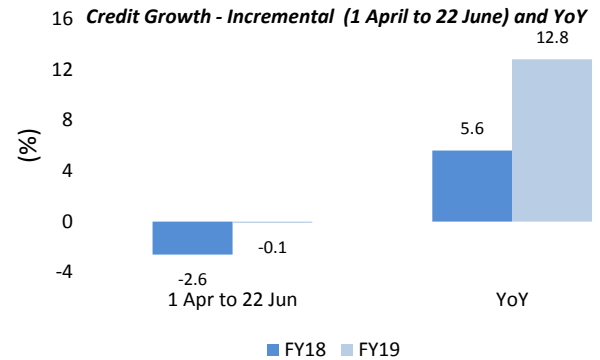
T-bill yields for 91 days have declined by 9 bps and T-bill yields for 364 days has marginally moved but remained unchanged at the end of the week. T-bill yields (364 days) touched a 27 month high at 7.15% (on 5 July) during the week.

The improved net liquidity position (surplus) during the week pulled down the GSec yields. However, fresh supply of government securities, depreciating rupee and announcement of increase in MSP of kharif crops by an average of 25% than the previous year limited the decline in yields.

Benchmark 10 year Treasuries declined during the week on increased safe haven buying with the sell off in equity markets.



Source: RBI



Source: RBI

Incremental bank credit growth in FY19 (1 Apr-22 Jun) is (-) 0.1% compared with the growth of (-)2.6% in the comparable period last year. Likewise, the incremental bank deposit growth is (-0.6%) in FY19 (1 Apr-22 Jun) compared with (-1.9%) in the comparable period in FY18.

### Liquidity Outlook for the week 10 July – 15 July, 2018

The surplus banking system liquidity could see a moderation in the week of 10-15 July'18 with the scheduled auction of state government securities auction of Rs. 10,500 crs (10 July'18) and the anticipated central government borrowing of Rs. 12,000 crs as per the half yearly borrowing calendar. In addition, the accounting of the fortnightly reporting of cash reserve ratio (CRR) and measures by RBI to limit the depreciation of the Rupee by selling dollar could also pressure bank liquidity.

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