Weekly Liquidity Report: 29 October – 2 November, 2018

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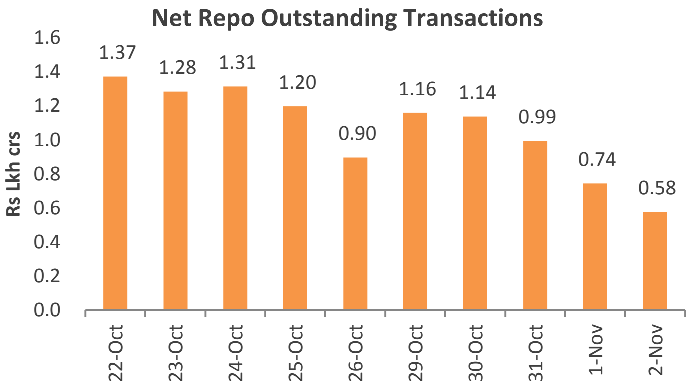
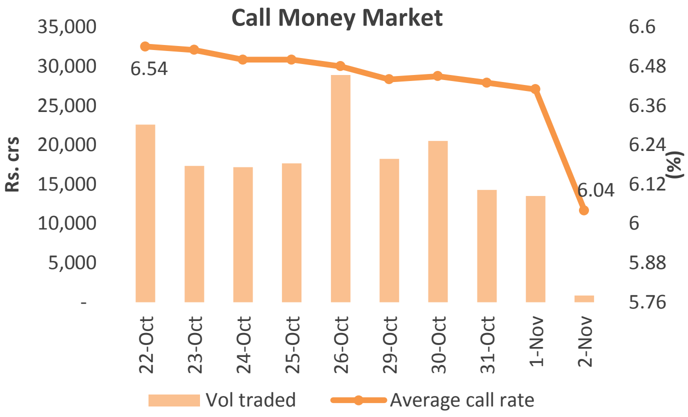
The liquidity report presents an assessment of the liquidity scenario of India's banking and financial system for the week ended 2 November, 2018. An evaluation of various indicators such as repo and reverse repo transactions, call money rates, T-bills and G-Secs yields, government borrowings, bank deposit and credit growth and key global interest rates has been undertaken here to help illustrate the underlying system level liquidity scenario.

Key highlights for the week ended 2 November, 2018

- The banking system liquidity continued to be pressured and was in deficit for the fourth consecutive week. There was however a moderation in the liquidity deficit in the week of 29 Oct-2 Nov'18, which can in large part be attributed the OMO purchases undertaken by the RBI in recent weeks (Rs. 36,000 crs in Oct'18 and Rs. 12,000 crs in the first week of Nov'18).
- The average daily net liquidity deficit in the banking system for the week ended 2 Nov '18 moderated to Rs. 92,188 crs compared with the Rs. 1,21,280 crs average daily net liquidity in the previous week.
- The continued liquidity pressure can be attributed to the stressed liquidity conditions in the NBFC segments, high festive demand and forex sales by the RBI (and consequent liquidity removal) to limit the rupee depreciation.
- The call market rate declined marginally by 3 bps during the first four days of the week following which there was a steep decline by 37 bps on 2 Nov'18, which took the call money market rate to a 11-weeks low of 6.04%. The average call market rate for the the week of 29 Oct-2 Nov'18 was 6.35%, 16 bps lower than the average call market rate of the previous week, reflective of the moderation in the liquidity deficit in the banking system. The average call market rate for the first four days of the week was 6.43%.
- The average daily call money market borrowing during the week was lower at Rs. 13,471 crs compared with the borrowings of Rs. 20,731 crs in the previous week.
- The benchmark 10 year GSec ended the week at a 11-weeks low of 7.78%, 10 bps lower than the previous week close. The decline in yields can be attributed to RBI's OMO purchase to the tune of Rs. 12,000 crs during the week and decline in crude oil prices which ebbed inflationary concerns. However, the persistent weakness in the Indian rupee and prevailing tight liquidity conditions in the banking system limited the fall in the yields.
- Government market borrowings (central and state) totalled Rs. 17,800 crs during the week, compared with the borrowings of Rs. 19,597 crs in the previous week.
- There has been an uptick in bank credit offtake in the current fiscal. On an incremental basis (1 Apr- 12 Oct'18), bank credit growth is 4.3% in the current fiscal compared with the 0.3% growth in the comparable period in the previous year. On a year-on –year basis, bank credit offtake at 14.4% as on 12 Oct' 18 is double compared with the 7.2% growth in the previous year.
- Incremental bank deposit growth (1 Apr – 12 Oct) at 3.2% during the current fiscal (FY19) is significantly higher than the 0.6% growth in the corresponding period of the previous year. On a (y-o-y) basis, the bank deposit growth as on 12 Oct'18 is marginally lower at 8.9% compared with the 9.2% growth a year ago.
- US treasury yields rose during the week to close at 3.2%, 12 bps higher than the previous week close. Robust macroeconomic data in the form of rising consumer confidence, strong October wage growth data and steady unemployment rate which reinforced expectations of interest rate hikes by the Federal Reserve, pushed yields higher.
- LIBOR rose from 2.51% to 2.58% during the week.



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

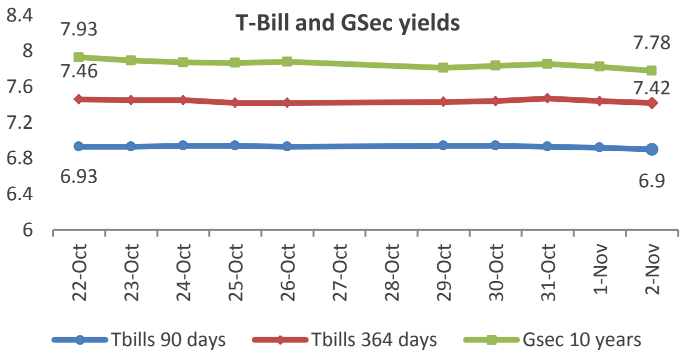


Source: RBI

The banking system liquidity deficit witnessed a moderation in the week ended 2 Nov'18 but continued to be pressured for the fourth consecutive week, despite the OMO purchases to the tune of Rs. 36,000 crs undertaken by RBI in Oct'18 and Rs. 12,000 crs in the first week of Nov'18. The liquidity deficit in the banking system can be attributed to the higher fund requirements for meeting the festive season demand, liqudity concerns witnessed in the NBFC sector and increased forex sales (and consequent liquidity removal) to stem the rupee depreciations.
The total repo borrowings (repo, term repo and MSF) have declined from Rs. 1,46,102 crs on 22 Oct'18 to Rs. 1,27,869 crs on 2 Nov'18. On the other hand, the reverse repo transactions have increased sharply from Rs. 8,952 crs on 22 Oct'18 to Rs. 70,196 crs on 2 Nov '18.

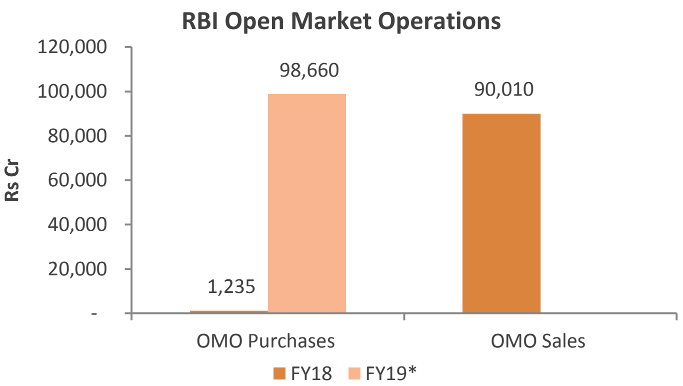
The call money market rate declined during the week to close at 12-weeks low at 6.04%, 44 bps lower than the previous week close. The average call rate for the first four days of the week was 6.43% and the sharp decline in the call rate on 2 Nov'18 by 37 bps pulled the average call rate lower for the week at 6.35%. The decline in the average call rates can be attributed to the moderation in the liquidity deficit in the banking system.

The average daily borrowings in the call money market during the week ended 2 Nov'18 was 35% lower at Rs. 13,471 crs from the average borrowings of Rs. 20,731 crs in the previous week.



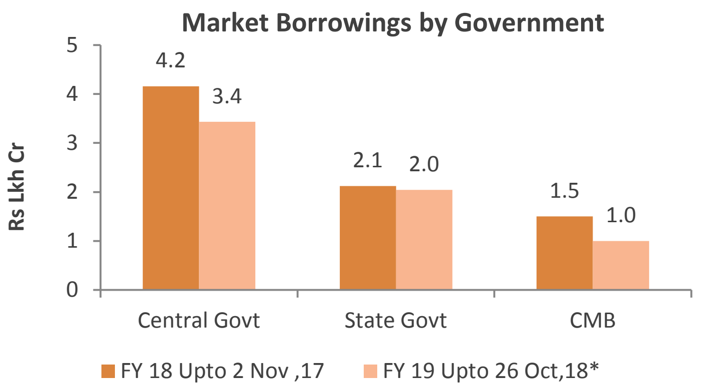
Source: FBIL

T-bill yields for 91 day closed the week at 6.9%, 3 bps lower than the previous week close. T-bill yields for 364 days rose by 4 bps during the first 3 days of the week following which it declined by 5 bps to close the week at 7.42%, to remain unchanged from the previous week close.
The benchmark 10 year GSec ended the week at a 11-weeks low of 7.78%, 10 bps lower than the previous week close. The decline in yields can be attributed to RBI's OMO purchase to the tune of Rs. 12,000 crs during the week and decline in crude oil prices which ebbed inflationary concerns. However, the persistent weakness in the Indian rupee and prevailing tight liquidity conditions in the banking system limited the fall in the yields.



Source: RBI

The RBI undertook OMO purchases to the tune of Rs. 12,000 crs on 1 Nov'18, which is the first OMO purchases undertaken in the month of Nov'18. The RBI plans to inject durable liquidity via OMO purchases to the tune of Rs. 40,000 crs in the month of November'18. The RBI has so far this fiscal (Apr-2 Nov) purchased securities amounting to Rs.98,660 crs by way of open market operation, of which Rs. 56,010 crs have been in Sept-Oct'18 to meet high festive season liquidity demand. Out of the total OMO purchase during the year, Rs 660 crs were not via auctions.



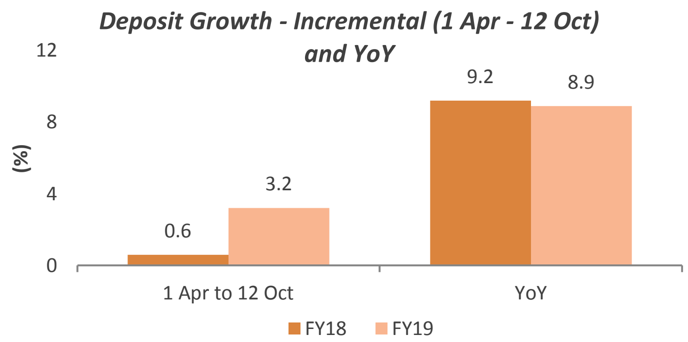
Source: RBI
*Includes auction amount of Rs.11,000 crs by the Centre government and Rs. 6,800 crs by the State governments during the week ended 2 Nov, 2018.

	17-Oct	22- Oct	26-Oct	29-Oct	1-Nov	2-Nov
10 year US Treasury	3.21	3.20	3.08	3.09	3.13	3.20
LIBOR 3 Month	2.45	2.49	2.52	2.53	2.58	NA

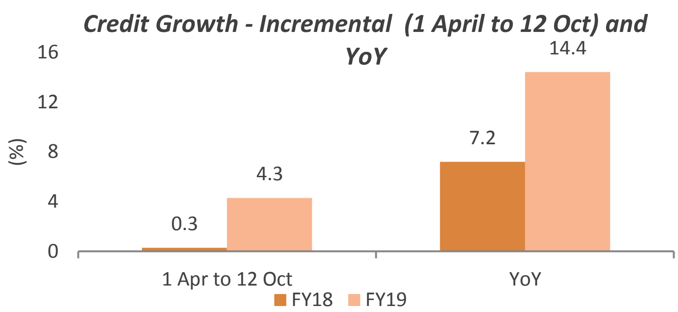
Source: CNN

The central government auctioned securities worth Rs. 11,000 crs on 2 Nov’18 while state government auctioned securities worth Rs. 6,800 crs on 30 Oct’18. The central government borrowings have been lower so far this fiscal when compared with a year ago. On a year to date comparison (1 Apr- 19 Oct’18), the central government has borrowed Rs 3.4 lakh crs vis-à-vis Rs. 4.2 lakh crs in the comparable period previous year. The borrowings of state governments have been marginally lower so far this fiscal when compared with a year ago. The state governments have borrowed Rs. 2.0 lakh crs in the current fiscal compared with Rs. 2.1 lakh crs in previous fiscal.

US treasury yields rose during the week to close at 3.2%, 12 bps higher than the previous week close. Robust macroeconomic data in the form of rising consumer confidence (to a 18 year high), strong October wage growth data (largest annual gain in 9.5 years) and steady unemployment rate at a 49 year low reinforced expectations of interest rate hikes by the Federal Reserve, pushing yields higher.



Source: RBI



Source: RBI

Incremental bank credit growth in FY19 (1 Apr-12 Oct) was significantly higher at 4.3% compared with the growth of 0.3% in the comparable period last year. Likewise, the incremental bank deposit growth was 3.2% in FY19 (1 Apr-12 Oct) compared with 0.6% in the comparable period in FY18. On a y-o-y basis, the deposit growth in FY19 has been at 8.9%, 0.3% lower than the growth in FY18, indicative of investors moving towards other financial instruments like mutual funds.

Liquidity Outlook for the week 5 November to 9 November, 2018

Although the RBIs OMO purchases to the tune of Rs. 40,000 crs in November'18 could provide some liquidity comfort,the overall liquidity in the banking system would continue to be pressured/in deficit in the current week . Higher festive season demand, prevailing liquidity constraints in NBFCs, fornightly reporting requirements by the Scheduled Commercial Banks (SCBs), scheduled government borrowings (central government: Rs 11,000 crs and state governments: Rs. 11,500 crs on Nov 5) and likely forex sales by the RBI to support the rupee could pressure system liqudiity .

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