Fixed income weekly: Range-bound trading as year-end nears

- **Centre raised INR 280bn as planned on 23 December, with no devolvement on Primary Dealers. Gross issuances for FYTD23 stood at INR 11.2tn, up 14.6% YoY**
- **States raised INR 120.3bn with no greenshoe issuances or devolvement. Issuances in FYTD23 stood at INR 4.34tn, lower by 1.8% from last year (INR 4.39tn). T-bill issuances during FYTD23 stood at INR 12.29tn (vs. INR 12.15tn last year)**
- **FX reserves fell by USD 0.6bn to USD 563.5bn mainly due to a fall of USD 0.5bn in foreign currency assets. RBI FX intervention explain this as INR depreciated 0.7% in the week ended 16 December**
- **Indian bond yields are expected to remain range bound amid a light calendar, with focus on month-end fiscal data and global cues.**

Borrowing:

G-sec: Global yields to drive sentiment amidst lack of domestic cues

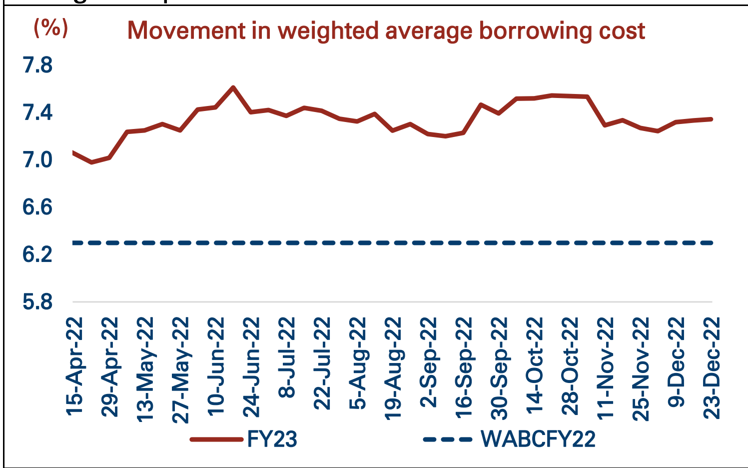
In the auction on 23 December, Centre raised INR 280bn as proposed, with no devolvement on Primary Dealers. For FYTD23, gross borrowings stood at INR 11.47tn vs. INR 10tn in the same period last year, up by 14.6% YoY. Weighted average borrowing cost (WABC) again saw a marginal uptick of 1bps at 7.34%. The bid-to-cover ratio rose to 2.53 vs. 2.50 in the previous auction (9 December), with robust demand seen for the 5-year and 30-year tenors, while the 10-year tenor witnessed subdued demand in this auction.

Table 1: Quarterly summary of G-sec issuances:

INR bn	FY20	FY21	FY22	FY23 calendar	FYTD23	% of Scheduled Borrowing
Q1	2210	3460	3185	3900	3900	100.0
Q2	2210	4200	3839	4490*	4390	97.8
Q3	1920	2840	2950	3560	3180	89.3
Q4	760	3203	1300	2360	-	-
FY issuances	7100	13703	11274	14210	11470	

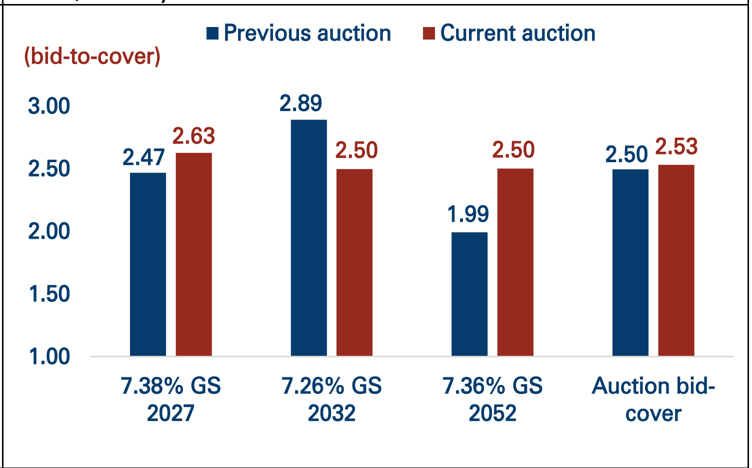
** Q2 borrowing figures includes the scheduled gross FRB issuances*

Chart 1: Weighted average borrowing saw a marginal uptick to 7.34%



Source: RBI & ICICI Bank Research

Chart 2: Bid-to-cover ratio for the auction was at 2.53, led by low demand for the shorter tenors

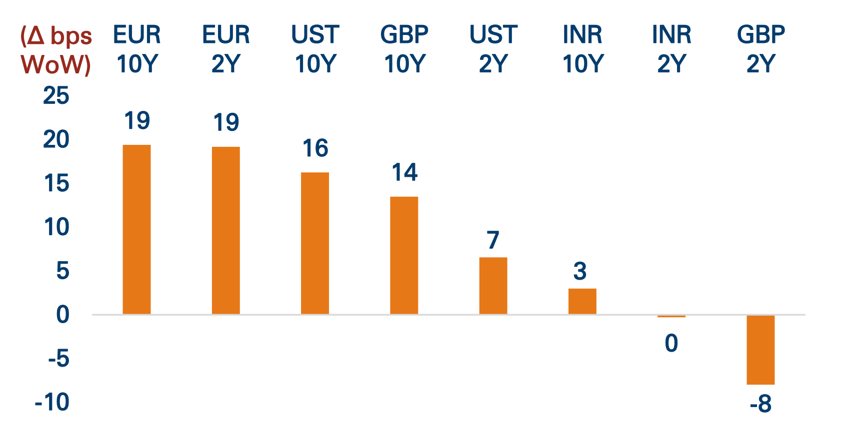


Source: RBI & ICICI Bank Research

Kaushal Aryan
Asha Sasikumar
Aditya Sharma

The 10-year yield ended higher last week, in sync with the global peers, which rose in response to the unexpected move by the Bank of Japan in raising the yield curve control limit on its 10-year benchmark bond. In addition, minutes of the RBI's MPC policy were largely hawkish, despite the difference in opinion among few members. Sticky core inflation amidst pending pass-through of input costs makes us believe that a 25bps rate hike will be a likely scenario in February meeting. Meanwhile, news of the Centre discontinuing the PMGKAY and instead providing free grains under the National Food Security Act bodes well for borrowing going into FY24 budget. We expect bond yields to remain range-bound this week amid a light calendar, with focus on monthly fiscal deficit data, oil prices and UST yields. Given this backdrop, we expect the 10-year benchmark to trade in the range of 7.20-7.40% in the near-term.

Chart 3: Most global yields rose in response to BoJ's unexpected change in its yield control curve.



Source: Bloomberg, data is an on 26 December

State Development Loans: States have borrowed only ~62% of estimated, as Q3-end nears

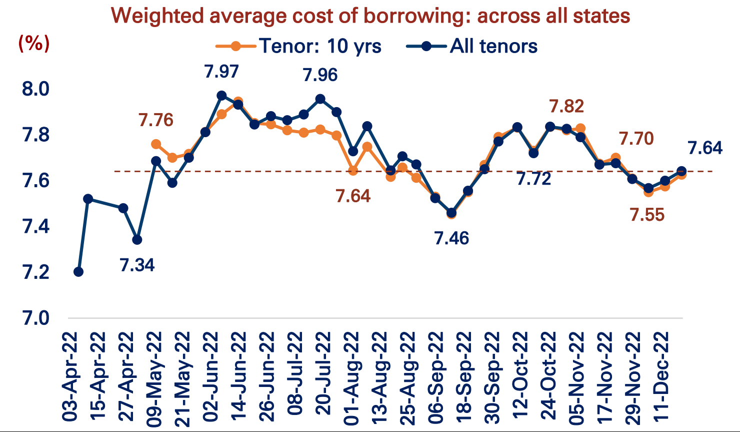
The auction on 20 December saw 11 states raise INR 94.86bn from the market without any greenshoe issuances or devolvement; the issuance was INR 20bn lower than the notified amount as Tamil Nadu refrained from accepting any amount in the 10-year tenor. Meanwhile, the issuance during the week was also ~35% lower than the estimated calendar issuance for the week (INR 184.10bn); with just one more auction to go for Q3FY23 to end, states have borrowed only ~62% of the calendar borrowing during the quarter. The gap between FYTD22 and this year's borrowing stands at 1.8%, slightly higher than the 1.1% observed after the previous auction; FYTD23 issuances stand at INR 4.34tn vs. INR 4.42tn in FYTD22. The bid-to-cover ratio was 2.8 to 6.0 vis-à-vis 2.7 to 8.6 in the previous auction and the cost of borrowing saw a rise of over 4bps across all tenors and states.

Table 2: Quarterly summary of SDL issuances:

INR bn	FY20	FY21	FY22	FY23 calendar	FYTD23	% of Scheduled Borrowing
Q1	815	1,673	1,446	1,904	1,102	58
Q2	1,439	1,863	1,644	2,116	1,661	79
Q3	1,619	2,023	1,573	2,531	1,580	62
Q4	2,471	2,430	2,353	-	-	-
FY issuances	6,345	7,988	7,016	8170*	4,343	53

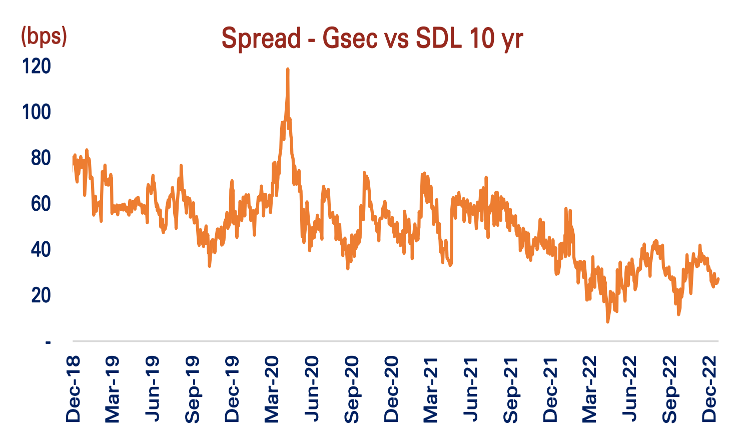
** Gross calendar issuances are provisional numbers for FY23*

Chart 4: Cost of borrowing continues to rise…



Source: RBI & ICICI Bank Research

Chart 5: GSec vs SDL spread appears to be widening



Source: CCIL & ICICI Bank Research

T-bill: More issuances than last year

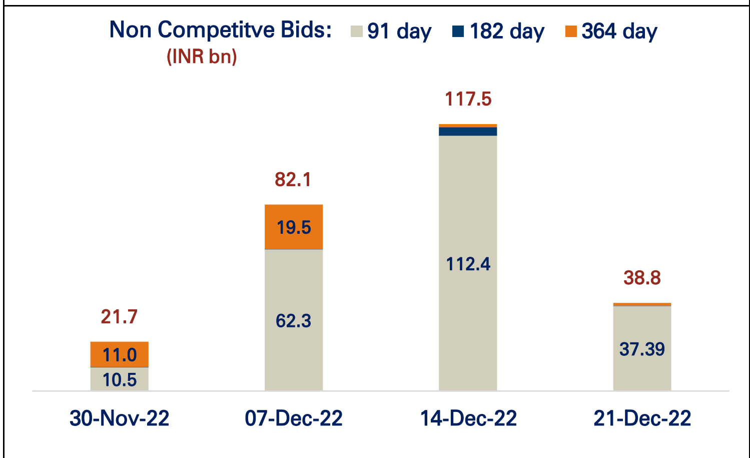
Total T-bill issuances last week were INR 258bn, with INR 137bn, INR 60bn and INR 61bn in the 91-day, 182-day 362-day segments, respectively. The issuances in non-competitive segment was at 15% of the total issuances during the week (INR 117.5bn), with 27% of the issuances in 91-day segment belonging to this segment. During FYTD23 T-Bill issuances stand at INR 12.29tn (vs. INR 12.15tn last year), with 21% of the total issuances being in the non-competitive segment (INR 2.64tn)

Table 3: Quarterly summary of T-Bill issuances:

INR tn	FY20	FY21	FY22	FY23 Calendar	FYTD23
Q1	3.36	5.33	5.35	4.32	**5.25**
Q2	3.02	5.42	3.22	2.73	**3.70**
Q3	2.89	3.25	3.88	2.86	**3.34**
Q4	2.51	2.90	4.77	-	-
Overall	11.79	16.90	17.21	17.60*	12.29

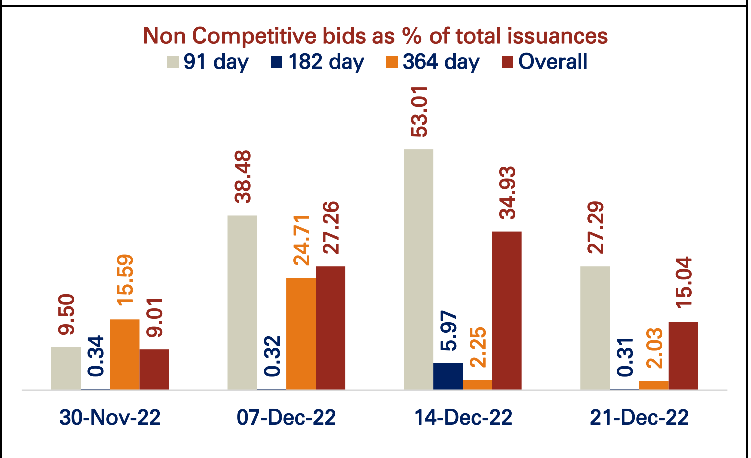
Gross issuances include competitive and non-competitive issuances,
** Gross calendar issuances are provisional numbers for FY23*

Chart 6: Issuances in non-competitive segment was ~ INR 39bn



Source: RBI & ICICI Bank Research

Chart 7: …with over 15% of the total issuances

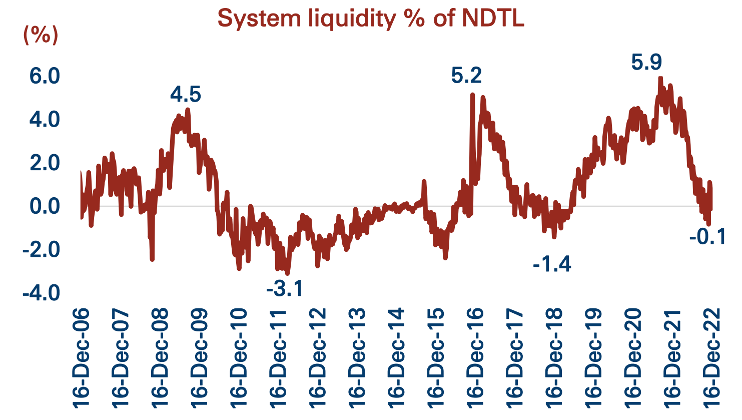


Source: RBI & ICICI Bank Research

Liquidity: Tax outflow and RBI interventions weigh; month-end government spending to aid

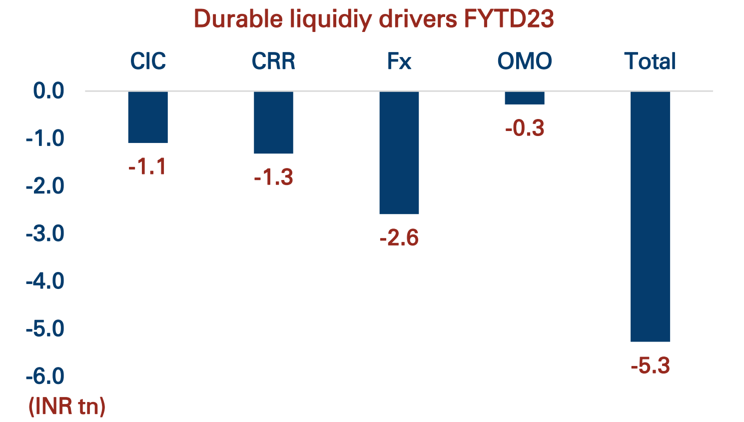
Systemic liquidity as on 23 December stood at a deficit of INR 193bn (~0.1% of NDTL). Tax outflows and RBI interventions explain this. RBI has been selling government securities in the secondary market this fiscal, which is also draining the surplus liquidity. During FYTD23, RBI has net sold Gsecs worth INR 313bn of which securities worth INR 103bn were sold in the last three week itself. However, higher growth of digital transactions and comparatively lower pressure from BoP-side will help liquidity conditions towards the end of fiscal year. In the short-term, we see liquidity to fall into surplus territory as month-end government spending will aid.

Chart 8: System liquidity continue to be in deficit territory given tax outflows



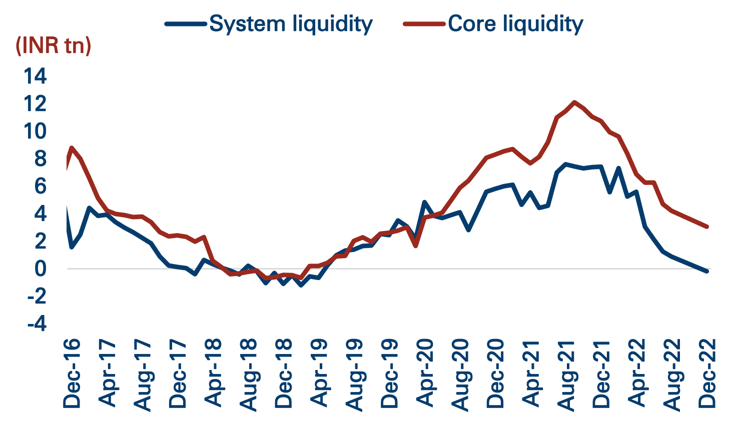
Source: CEIC, RBI & ICICI Bank Research

Chart 9: Durable liquidity drivers absorbed liquidity worth INR 5.3tn during FYTD23



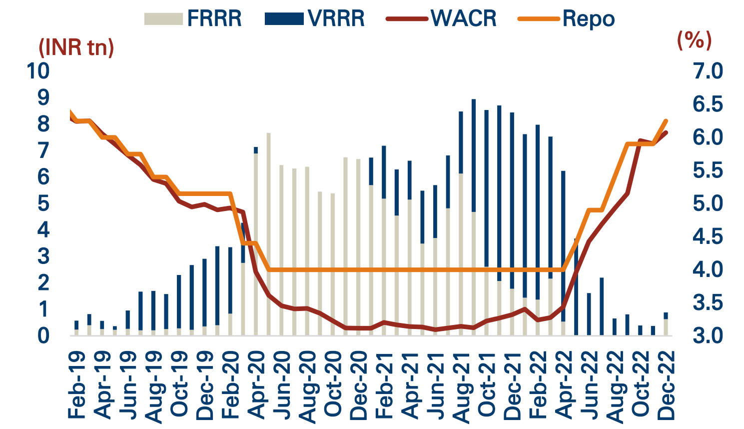
Source: CEIC, RBI & ICICI Bank Research

Chart 10: Surplus government cash keeping core liquidity higher



Source: CEIC, RBI & ICICI Bank Research

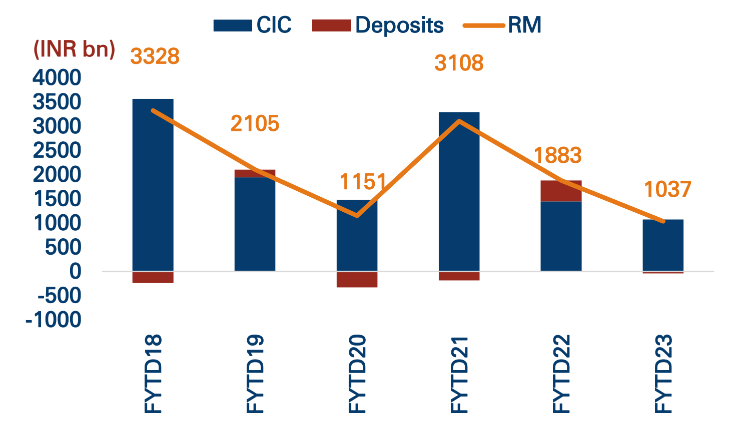
Chart 11: Tightened conditions pushed the overnight rates well above repo rate



Source: CEIC, RBI & ICICI Bank Research

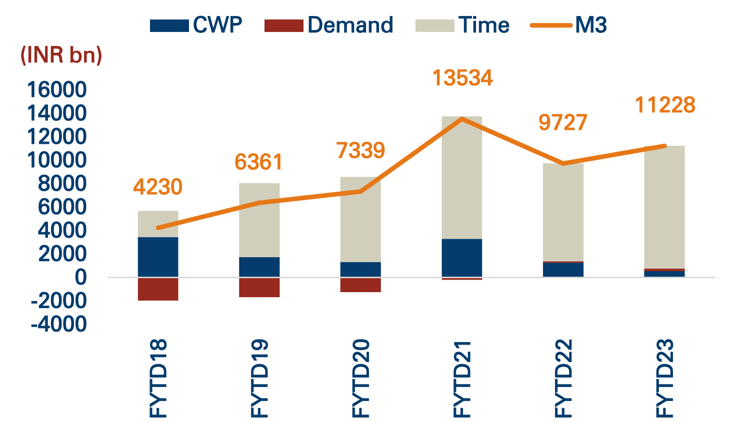
Reserve Money (M0) and Money stock (M3):

Chart 12: FYTD CIC accretion stood at INR 1.1tn (vs. INR 1.4tn FYTD22); deposit with RBI fell by INR 40bn (vs. +INR 435bn in FYTD22)



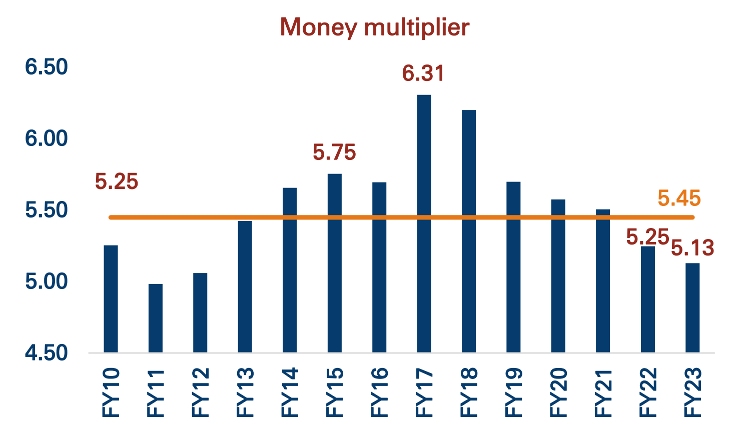
Source: CEIC, RBI & ICICI Bank Research

Chart 13: Incremental demand deposits fell by INR 174bn (vs. +INR 119bn); while time deposits increased by INR 10.4tn (vs. INR 8.3tn)



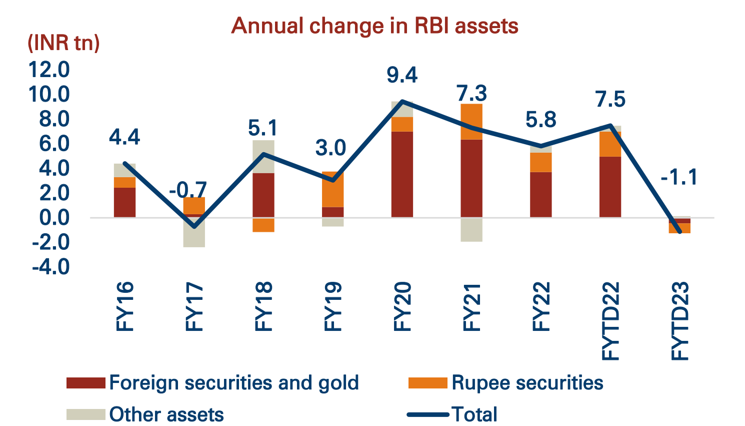
Source: CEIC, RBI & ICICI Bank Research

Chart 14: Money multiplier FYTD average still below long term trend due to the CRR hike



Source: CEIC, RBI & ICICI Bank Research

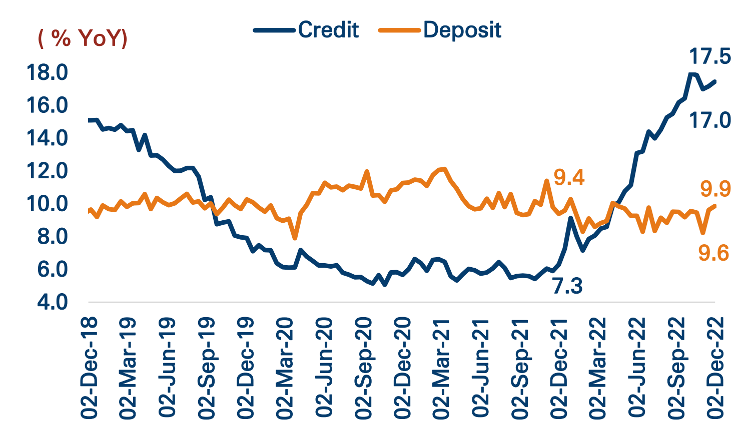
Chart 15: RBI Balance Sheet declined by INR 1.1tn FYTD (end-Friday)



Source: CEIC, RBI & ICICI Bank Research

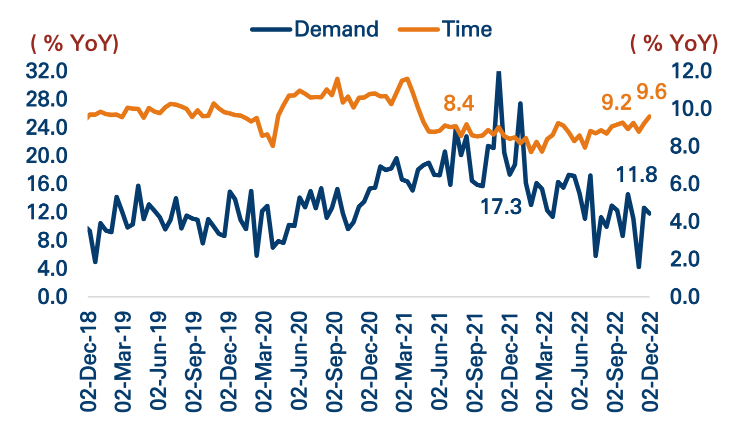
Credit and deposit:

Chart 16: Credit grew by 17.5% YoY; while deposit growth stood at 9.9% YoY



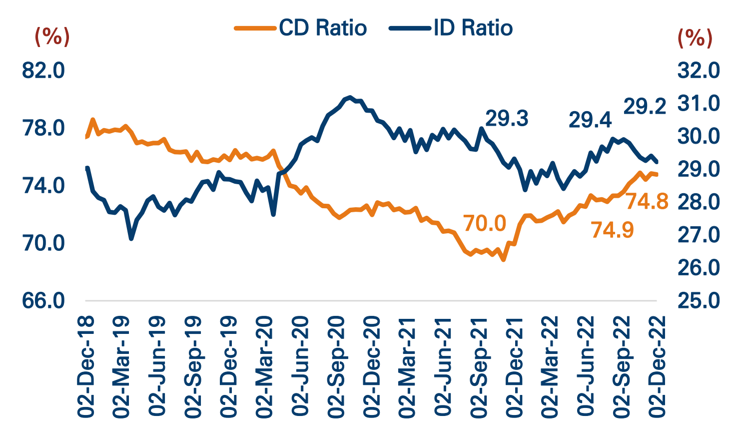
Source: CEIC, RBI & ICICI Bank Research

Chart 17: Time deposit grew on an annual basis as compared to previous fortnight



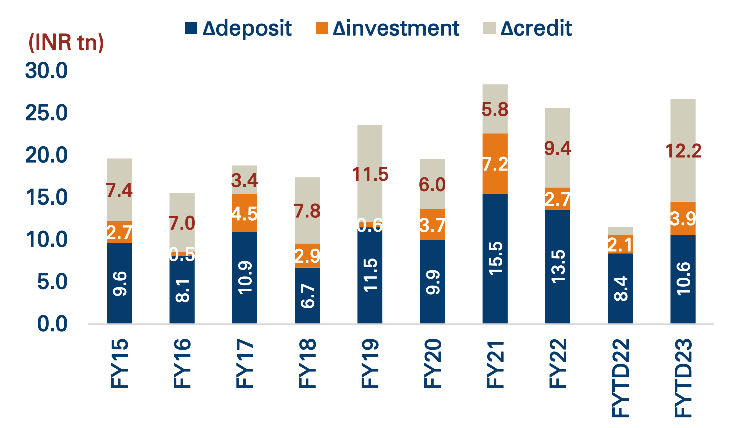
Source: CEIC, RBI & ICICI Bank Research

Chart 18: CD ratio and investment-deposit ratio declined as compared to previous fortnight



Source: CEIC, RBI & ICICI Bank Research

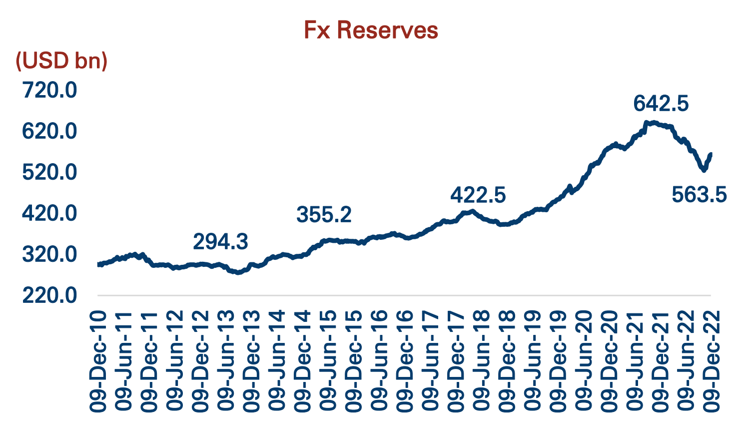
Chart 19: FYTD credit and deposit accretion stood at ~INR 12.2tn and ~INR 10.6tn respectively



Source: CEIC, RBI & ICICI Bank Research

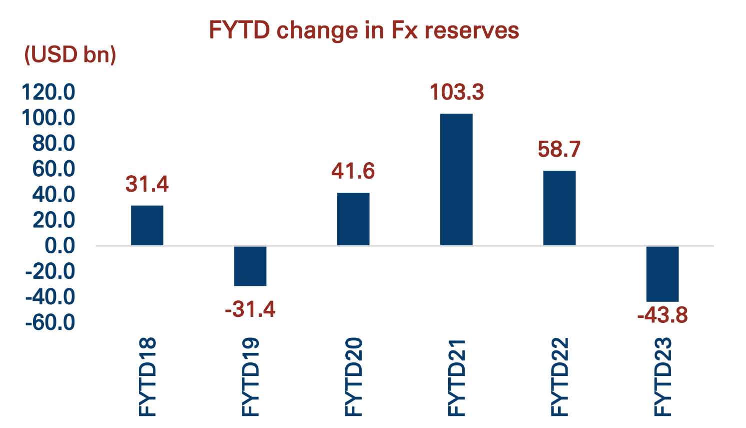
FX reserves:

Chart 20: RBI's FX reserves fell by USD 0.6bn to USD 563.5bn on the back of RBI interventions



Source: CEIC, RBI & ICICI Bank Research

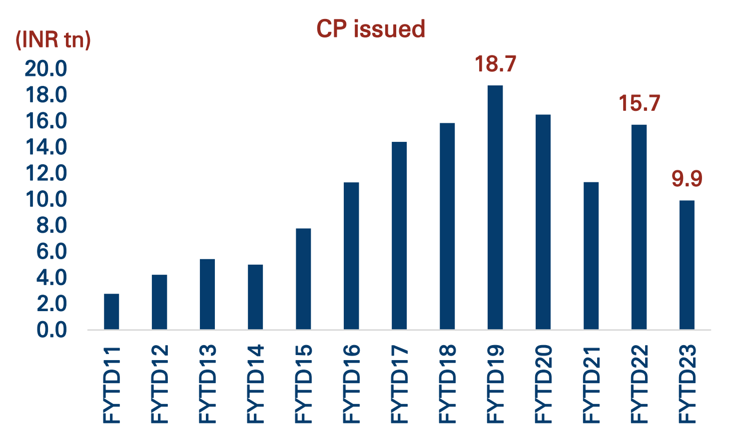
Chart 21: FYTD RBI reserves fell by USD 43.8bn; forward cover has fallen by ~USD 65.5bn (up to October)



Source: CEIC, RBI & ICICI Bank Research

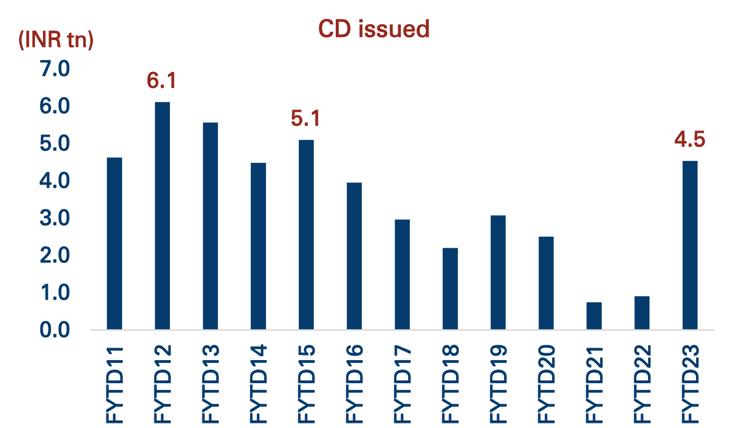
CD and CP issuances:

Chart 22: FYTD Gross CP issuance rose to INR 9.9tn as on 15 December



Source: CEIC, RBI & ICICI Bank Research

Chart 23: FYTD Gross CD issuances increased to INR 4.5tn as on 16 December



Source: CEIC, RBI & ICICI Bank Research

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