

Banking liquidity highest in 2 months

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Liquidity surplus in the banking system, measured by funds that lenders park with the central bank, climbed to more than a two-month high of ₹91,225 crore on the back of government spending and maturity of government securities, said market dealers. The liquidity surplus was the highest since April 18 in the current year.

“The reasons are government expenditure and the redemption of government securities of around ₹60,000 crore,” said a dealer at a primary dealership. “The surplus liquidity will remain in the range of ₹60,000 crore to ₹80,000 crore in the near term,” he added.

Consequently, the yield on 3-month and 6-month treasury bills fell by 2 basis points, whereas, that on the 364-day fell by 1 basis point, as compared to last week.

Market participants said that the Reserve Bank of India (RBI) will continue the use of variable

rate repo (VRR), and variable rate reverse repo (VRRR) auctions to fine-tune liquidity conditions.

“The RBI would intervene through VRRR auctions because they wouldn’t want the money market rates to remain below the repo rate,” said a dealer at a large state-owned bank. “Some more redemption is lined up during the month, so we expect the RBI to intervene,” he added. Government securities worth ₹60,944 are scheduled to mature on July 28.

The weighted average money market rates fell to 6.35 per cent on Wednesday as liquidity improved. The repo rate currently stands at 6.50 per cent.

The RBI conducted a 2-day VRRR auction on Wednesday. Banks parked ₹25,145 crore, against the notified amount of ₹50,000 crore at a weighted average rate of 6.49 per cent at the auction. The central bank has conducted three VRRR auctions worth ₹2 trillion in the current week so far. Banks have parked ₹67,572 crore against the notified amount.