

Bank liquidity back in surplus after a month

OMO sales unlikely as liquidity teeters on edge of deficit again

ANJALI KUMARI

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The banking system liquidity eased into surplus mode on Friday after a month, driven by government spending, according to market participants.

Banks parked ₹26,239 crore with the Reserve Bank of India (RBI) on Sunday, followed by ₹20,403 crore and ₹8,157 crore on Friday and Saturday, respectively.

However, discussions on open market operations (OMO) of bond sales have waned among bond market participants, as they anticipate the banking liquidity might once again fall back into deficit mode. The RBI does not seem comfortable with surplus liquidity. "It is mainly because of month-end spending," said Naveen Singh, vice-president of ICICI Securities Primary Dealership. "The market is not expecting anything at least until the policy, unless the RBI reiterates or discusses more about OMO, and maybe then the market will start pricing in the possibility of OMO again," he added.

The six-member Monetary Policy Committee (MPC) is expected to keep the policy repo rate unchanged for the fifth consecutive policy review. The central bank will announce the review of the policy on December 8. The market also expects the MPC members to maintain the withdrawal of an accommodative stance as the upside risk to inflation persists.

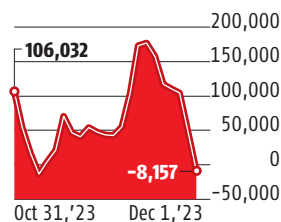
Market participants expect liquidity to ease by the end of December due to redemptions and government spending.

Government bonds amounting to ₹78,834 crore are set to mature on December 15.



AT EASE

RBI net liquidity injected* (₹ cr)



*Outstanding, including today's operation
Source: Bloomberg
Compiled by BS Research Bureau

Within the total redemptions of ₹2.8 trillion slated for the second half of the current financial year (2023-24), ₹2.2 trillion worth of bonds were scheduled to mature in the October-December quarter.

"OMO is out of the picture right now because it will also disrupt the overall supply at this point in time," said a dealer at a state-owned bank.

Liquidity has predominantly stayed in deficit mode throughout the October-December period. Specifically, it experienced a deficit throughout the entire preceding month of November, except on November 3. The banking system liquidity widened to a near five-year high on November 21, driven by monthly goods and services tax payments. The central bank had infused ₹1.74 trillion on that day. In his monetary policy statement, RBI Governor Shaktikanta Das said the central bank might conduct an OMO auction to mop up liquidity.