

Banking system liquidity improves to 4-yr high on back of Gsec maturities

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The liquidity in the banking system – as indicated by banks parking their excess funds in the Reserve Bank of India's (RBI's) liquidity adjustment facility (LAF) window – hit around a four-year high on the back of maturity of government securities (Gsecs), said market participants.

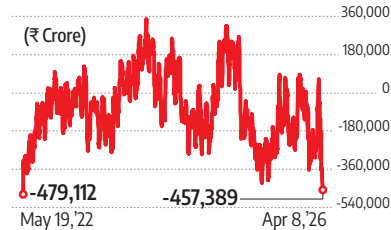
The net liquidity was in a surplus of ₹4.57 trillion on Wednesday, the highest since May 19, 2022, latest data by the RBI showed. The data is published by one day lag.

G-Secs worth ₹31,329 crore matured on Wednesday. Further, maturities scheduled on April 12 and April 17, amounting to ₹86,403 crore and ₹34,791 crore, respectively, are expected to push the liquidity surplus to around ₹5 trillion.

Consequently, weighted average call rate (WACR), which is currently around the standing deposit facility (SDF) rate, may briefly fall below it amid surplus liquidity conditions.

The WACR was at 5.10 per cent, against the previous day's 5.08 per cent. It had fallen below SDF rate on two occasions previous week. However, the RBI refrained from conducting variable rate reverse repo (VRRR) operations to absorb

Net liquidity injected by RBI



Note: (+) indicates liquidity injection, (-) indicates liquidity absorption; Compiled by BS Research Bureau Source: RBI/Bloomberg

transient liquidity. SDF rate, which is at 5 per cent now, is 25 basis points (bps) lower than the policy repo rate.

The SDF rate is the interest rate at which the RBI absorbs surplus liquidity from banks on an overnight basis without providing collateral. It forms the lower bound of the RBI's policy corridor, with the repo rate in the middle, and the marginal standing facility (MSF) rate at the upper bound.

A fall in the WACR below the SDF rate indicates excess liquidity in the banking system, as banks lend funds in the overnight market at rates lower than what they can earn from the RBI.

Experts said that given the ongoing uncertainty in West Asia and elevated crude oil prices, the central bank may avoid absorbing liquidity as it could put upward pressure on bond yields and money market rates.

"The RBI has given an assurance or guidance that as long as the WACR is between the SDF and the repo rate, they will not do VRRR," said Gaura Sen Gupta, economist at IDFC First Bank.

"But if it falls below the corridor, below SDF, that assurance is not given. Earlier this month as well, it was below SDF on a couple of days, but they did not conduct VRRR. Given the ongoing West Asia situation and elevated crude oil prices, ideally they shouldn't, because if they do, it will add to upward pressure on bond yields and money market rates," she said.

RBI, in its Monetary Policy Report, said that keeping liquidity surplus in the range of 0.6-1.1 per cent of deposits is likely to maintain the spread between the WACR and the policy rate at 5-10 bps.

During the post-policy press conference on Wednesday, RBI Governor Sanjay Malhotra said the central bank will maintain sufficient liquidity in the banking system by acting "proactively and preemptively" as required.

Rupee breaks 5-day winning streak, govt bond yields harden

Rupee broke its five-day winning streak and government bond yields rose tracking the rise in crude oil prices and US Treasury yields following West Asia tensions, said dealers. The rupee fell up to 92.94 per dollar, against the dollar during the day; however, it regained some strength by the end of the trade likely on the back of intervention by the RBI via dollar sales. It settled at 92.66 per dollar, against the previous close of 92.58 per dollar.

The yield on the benchmark 10-year government bond rose by 6 basis points to settle at 6.96 per cent. "The rupee's five-day rally came to a grinding halt, retreating in tandem with its Asian peers. Rupee faced a double whammy of rising crude prices and relentless selling by foreign investors. Domestic equities saw a 23rd consecutive session of net selling by Foreign Institutional Investors, maintaining steady pressure on the local rupee," said Dilip Parmar – Senior Research Analyst, HDFC Securities.

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