

Liquidity back to surplus after 3 weeks

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The banking system liquidity bounced back to surplus mode after three weeks, the Reserve Bank of India (RBI) data showed. This was due to government spending, according to dealers.

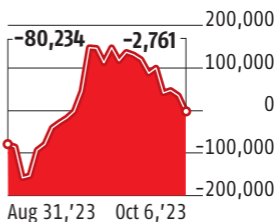
The liquidity situation could further ease with the disbursement of the last tranche of incremental cash reserve ratio (I-CRR) worth ₹50,000 crore on Saturday.

As the liquidity improved, bond market participants expected the RBI to announce open market operation (OMO) of bond sales to suck out the excess. The market expects the central bank to sell bonds worth between ₹10,000 crore and ₹15,000 crore in the auction.

Consequently, traders squared off their positions by the end of the trade, leading to the hardening of the yields. The yield on the benchmark 10-year government bond settled at 7.38 per cent on Monday, against 7.34 per cent on Friday. "The liquidity

CASH BOOST

RBI net liquidity injected* (₹ cr)



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

improved because of the government spending, and roll-back of I-CRR," a dealer at a primary dealers said. "As the liquidity is in surplus now, there are expectations the RBI will come up with a notification on OMO. That's why the yields rose by the end of the day," he said.

Banks parked ₹2,760 crore on Friday, according to the RBI data. The lenders parked ₹5,390 crore and ₹9,071 crore on Saturday and Sunday, respectively. RBI Governor Shaktikanta Das had on Friday said the central bank might conduct OMOs to mop up excess liquidity.