

# RBI gets ₹1.87 trn bids for ₹40,000 cr OMO auction

## Bond market expects more such auctions amid nine-week liquidity deficit

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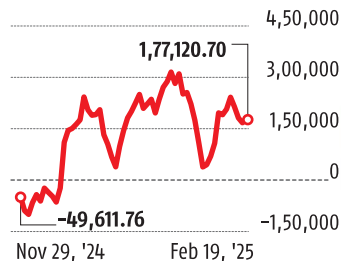
Mumbai, 20 February

The Reserve Bank of India (RBI) received bids worth ₹1.87 trillion against the notified amount of ₹40,000 crore at the Open Market Operation (OMO) purchase auction on Thursday. The cut-off price on the bonds scheduled was set below the secondary market price because of high demand, said market participants.

“Naturally there was demand at the auction given the liquidity deficit we have,” said a dealer at a primary dealership. “PSU banks were major participants,” he added.

The RBI has purchased ₹1 trillion of government securities so far via OMO auctions. The central bank also conducted screen-based OMOs, buying ₹58,875 crore worth of securities during January. In addition, the central bank also intervened in the government securities market, acquiring ₹39,000 crore worth of bonds

### RBI AT WORK



Note: + denotes injection, while - means absorption

in the secondary market.

These interventions were part of the RBI's efforts to inject durable liquidity in the banking system, said market participants.

The bond market expects additional OMO auctions as the liquidity in the banking system has been in deficit mode for the past consecutive nine weeks. The net liquidity in the banking system was in a deficit of ₹1.77 trillion on Wednesday, latest RBI data showed.

“They will announce more

Net liquidity injected (₹ cr)



Source: Bloomberg

OMO, because that is the way of infusing durable liquidity. Variable rate repo (VRR) auctions are more of temporary nature,” said the treasury head at a private bank.

Meanwhile, the RBI infused ₹1.33 trillion via overnight VRR auction on Thursday. Additionally, a 14-day VRR auction is scheduled to be conducted on Friday to infuse ₹75,000 crore in the banking system.

The persistent tight liquidity conditions have resulted in

corporate bond yields hardening despite a 25 basis points (bps) cut in the policy rate by the RBI's six-member monetary policy committee (MPC).

Yields on government bonds have remained largely stable because the RBI has been buying through OMO auctions, contributing to a widening of the yield spread between corporate and government bonds. In February, the yield spread between these two types of bonds expanded by 25 bps, with short-term bond yields rising more sharply than long-term yields. This has resulted in an inversion of the yield curve, a situation where short-term yields exceed long-term yields.

Recently, Neelkanth Mishra, chief economist, Axis Bank, said among the steps the RBI can take to inject durable liquidity are: cutting the CRR, reducing the incremental cash reserve ratio, conducting FX buy-sell swaps, OMOs, or long-term repo operations.