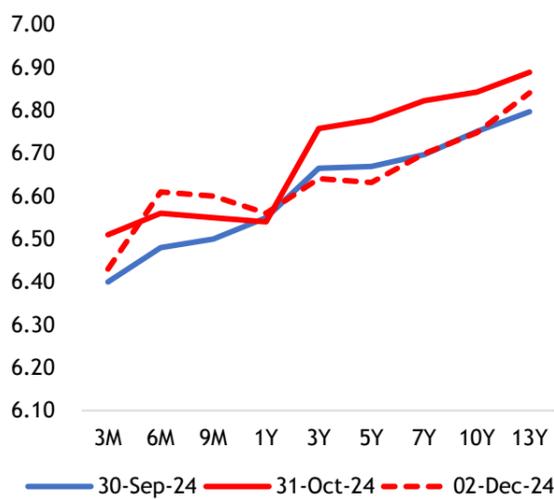
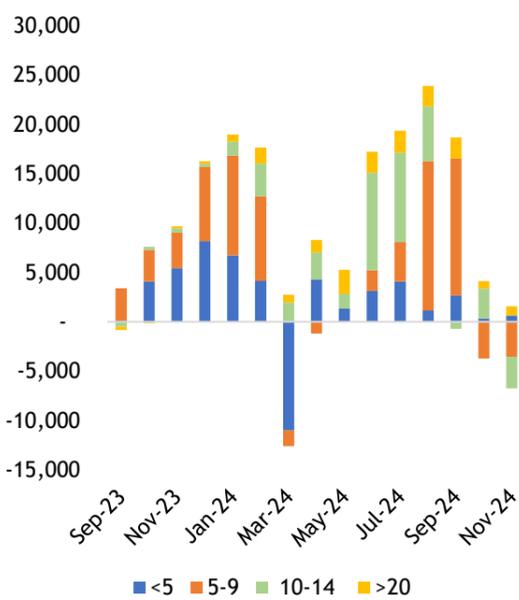


Fig.1: India yield curve movement ; (%)



Source: Bloomberg, UBI Research

Fig.2: FAR securities 10-14 year segment saw sell off in Nov-24; (Rs.in Crore)



Source: NSDL, UBI Research

GDP print for Q2FY25 was a shocker to the market at 5.4% released during market hours and triggered sharp rally in bonds. This has been on anticipation of a rate cut by RBI in upcoming policy meetings. However, with MPC faced with a tough balancing act given the trinity of growth-inflation and now additionally FX risks, we see it maintaining status quo on rates. The focus is on 06th December MPC meeting with the market participants now expecting liquidity measures even as rate cut in our view may wait till Q4 FY25 due to FX pressures. We are expecting liquidity measures on the Rupee front from the Central Bank with prevailing outflows. In the liquidity tool kit available we believe that CRR cut is unlikely as it is a policy signal tool where Central Bank is comfortable with prevailing inflation levels and there is a dire need to support growth.

US economy healthy, rate cut likely

- The US economy expanded at a pace of 2.8% from July to September on strong consumer spending and strong exports. On QoQ basis, the economy has slowed from April to June rate of 3%, however, as per GDP report the US economy is proving to be durable as growth has topped 2% for eight of the last nine quarters.
- During the previous week both US10 year yield and Dollar Index have shown softening. The US10 year has fallen to 4.19% from 4.36% and Dollar Index has fallen to 105.61 from 107.50. Additionally, the probability of 25bps rate cut in next FOMC meeting increased to 74% while it remained static at 66% during the previous week.

India bonds got cues from GDP data, MPC awaited

- The movement in 10-year benchmark yield has been limited to 5bps (6.82%-6.87%) before GDP data came out. Indian Bond yields rallied on Friday as GDP print at 5.4% for Q2FY25 which shock the markets at it was far away from market consensus of 6.5%. GDP print has pre-loaded expectations of rate cut in India.
- As per H2FY2025 calendar a total of Rs.20,000 Crore were to be raised as Green Bonds (Rs.10,000 Crore for 10 years and Rs.30,000 Crore for 30 years). The weekly G-Sec auctions received good response barring Green Bonds which were devolved on PDs for an amount of Rs.3,497 Crore out of total issue size of Rs.5,000 Crore.
- The selling spree of Foreign Banks have continued from Oct-24 to Nov-24 also. Under FAR securities, the 10-14 year segment which was witnessing positive flows since Oct-23 have finally seen selling in Nov month to the tune of Rs.3,197 Crore (Fig.2). Post GDP numbers FAR securities have shown buying momentum.
- As per CAG monthly data, tax collections in October was lowest in five months amounting to Rs.0.39 lakh crore against a monthly average of Rs.2 lakh crore (Apr-Sep'24). The pace of Capital expenditure has been low averaging Rs.0.66 lakh crore with Oct'24 at Rs.0.52 lakh crore. Fiscal deficit is 46.5% of FY25 budget vs 45% last year (Apr-Oct'24).
- Fixed Income traders are looking forward to MPC due this week. Market participants are expecting rate cuts even if the MPC does not do it immediately on inflationary concerns, however the panel may be dovish in upcoming policy. We are expecting liquidity measures due to withdrawal of permanent liquidity on account of Fx outflows & interventions thereof.
- RBI has many tools like CRR cut, OMOs, buybacks and buy/sell swaps etc. for liquidity management, in our view the latter may be preferred for liquidity management. We have a bias against using CRR cut as a liquidity tool as we believe it is a policy signal tool when Central Bank is comfortable with prevailing inflation levels.

Liquidity and money market, respite in sight

- Persistent FPIs outflows from equity market has led the Rupee depreciate to record highs. However, our Central Bank is likely curtailing volatility through utilization of Fx Reserves which dropped to \$656.58 Bn, the fall for the week ended 22nd Nov-24 is USD 1.31 Bn. However, it is to be noted that from the peak of USD 705 Bn the Fx Reserves have fallen by USD 48.30 Bn.
- Currently, the system liquidity is in surplus of Rs.1.0 lakh crore whereas the fall in core liquidity is the cause for concern which is getting hit due to Fx impact (Fig.3). More importantly to note that the FY25 Core liquidity may slip to deficit unless Fx outflows reverse (Fig.5).
- It is first time since April 2023 that the govt balance slipped into wma as of 15th Nov'24, however, it increased back to Rs 1.3 lakh crore in the week ended 22nd Nov'24. Going forward, month end government spending has supported liquidity to switch back into positive zone in early December.
- As per statement of position released by RBI deposits growth of 11.2% and credit grew by 11.1% thereby narrowing the credit-deposit wedge to 6bps for the fortnight ended 15th Nov-24 turning back to negative from positive of 15bps in previous fortnight (Fig.4).
- As festive season fades away, we are witnessing Credit-Deposit wedge returning to negative with credit growth lower than deposit growth. Because the deposit growth is marginally higher than the credit growth, the funding issues for the banking system stays as we hit a record high of O/s CDs at Rs.4.9 lakh crore with issuances in fortnight ended 15th Nov-24 increasing to Rs.0.46 lakh crore. While the 1 year CD rates close to 7.50-55%, as the spread over the 1 year T-Bill rate is close to 90bps.

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Fig.3: Drivers of Liquidity during Oct-Nov-24; (Rs.in lakh crore)

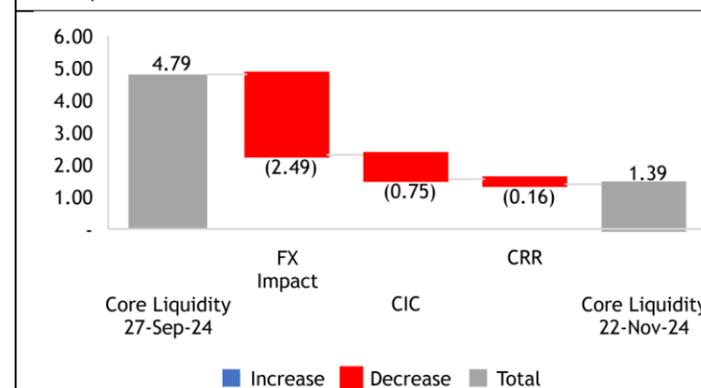
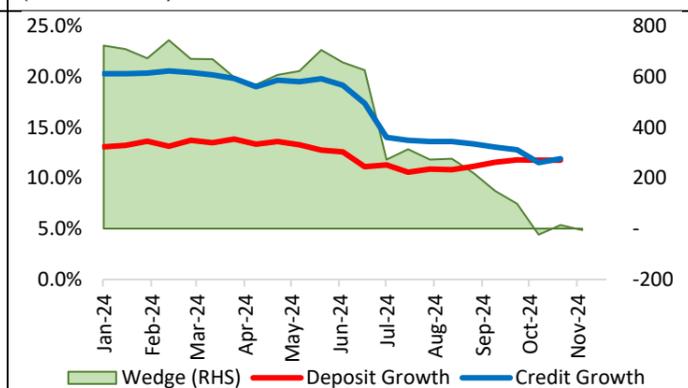


Fig.4: Credit Deposit growth wedge remains muted; (Rs. In Crore)



Source: CEIC, RBI, UBI Research

Fig.5: Core Liquidity likely to slip into sustained deficit by Q4FY25 unless Fx outflows reverse; (Rs.in Billion)

Liquidity sub components					Sources of core liquidity					
Rs bn.	Systemic liquidity balance	Govt. balance with RBI	LTRO	Core liquidity	Spot FX intervention	OMO	LTRO	RBI dividend	CIC	CRR deposits
FY19	-992	1,227	-	235	-1,119	2,992	-	499	3,095	316
FY20	3,463	506	1,251	5,220	3,120	1,149	1,251	1,760	2,997	-534
FY21	5,004	2,326	821	8,150	5,105	3,133	-430	571	4,193	1,466
FY22	7,183	354	867	8,404	1,346	2,140	47	991	2,770	1,719
FY23	1,510	-487	732	1,755	-2,173	-350	-135	307	2,429	453
FY24	544	1,722	71	2,337	3,395	-185	-661	874	1,370	871
FYTD (22 nd Nov)	94	1,297	-	1,391	-1,640	-241	-39	2,110	417	719
FY25 (Proj.)	?	318	-	?	?	-241	-67	2,110	2,452	?

Source: CEIC, RBI, UBI Research

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