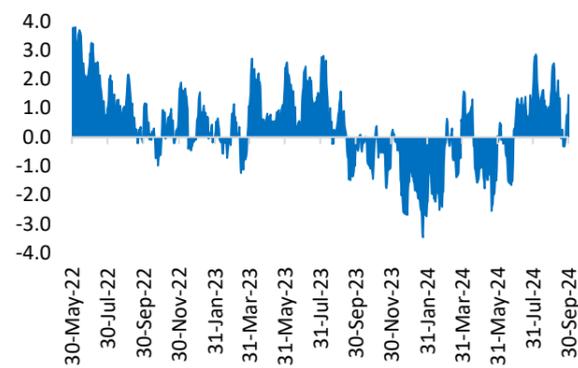
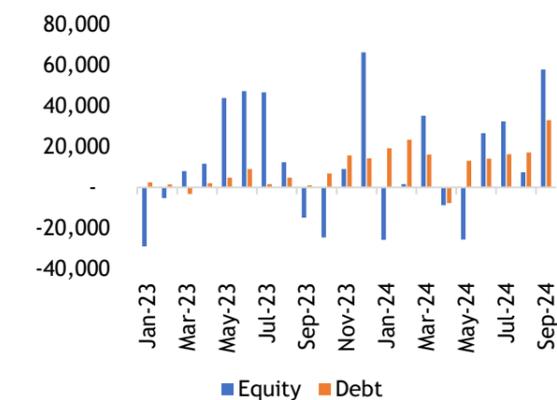


Fig. 1: Systemic Liquidity switched back to a strong surplus; (Rs. In Lakh Crore)



Source: RBI, CEIC, UBI Research

Fig. 2: Positive Foreign Flows in Equity & Debt; (Rs.in Crore)



Source: NSDL, UBI Research

The H2FY25 borrowing calendar was released last week, amounting to Rs.6.61 lakh crore exactly aligning to the annual budget gross borrowing of Rs.14.01 lakh crore. Indian benchmark 10-year yields have hardened up by 4 bps and touched 6.76%, post the last auction of H1FY25 on 27th Sep'24 conducted after the release of H2FY25 calendar. In the US, Federal Reserve Chairperson Powell stated on 30th Sep'24 that the recent 50bps rate cut should not be interpreted as a sign that future moves will be aggressive. The probabilities of another 50bps rate cut the CME FEDWatch tool in November meeting has gone down to 35.3% from 58.2% a week ago. Currently, US 10-year yield is trading in the range of 3.74% to 3.80%.

US 10-year firms up on Powells remarks

- The yield on 10-year US Treasury firmed up to around 3.79% after Fed Chair Jerome Powell indicated that the Central Bank may opt for smaller rate cuts in upcoming meetings. Powell said that the recent 50 bps point rate cut is not a sign of similar moves ahead and clarified that the Central Bank is “not on any preset course”.
- Markets have lowered expectations for a more aggressive half-percentage point rate cut in November to just around 35% from 53% a week earlier with odds for modest 25bps reduction seen at about 64%.
- Market participants now look ahead to key economic data this week including the September Jobs report, JOLTS along with ISM manufacturing and services PMIs.

Demand from long term investors turned weak in latest Gsec auction as they await 20yr+ tenor papers

- The government has budgeted Rs.14.03 lakh crore of gross borrowings for FY25 in the Budget presented in July 2024. The borrowing number of Rs.6.61 lakh crore is in line with the budgeted target for H2 FY25.
- The borrowings beyond 20 years tenors has been raised to 35% share in FY 2024-25. During FY22 & FY23, the borrowings share in this segment was at sub-30% while FRBs (Floating Rate Bonds) are 7.8% & 2.5% respectively. The change over came in FY24 with nil FRBs and 34.3% borrowings in more than 20 years. It is this more than 20 years share of borrowings (38.6% - H2FY25), which has pushed the Weighted Average Maturity (WAM) beyond 20 years in FY25 versus 18.9 years in FY24.
- The demand side is unshaken for more than 20 years paper as a higher share of borrowing shall match their increasing corpus in the second half of the year.
- Before the release of calendar, market was expecting a cut in borrowings which was not materialized and hence demand was seen weak during the last auction of H1FY25. The Indian 10-year benchmark sold off and hardened by 4bps, biggest single day rise since 4th Jun'24.

Yield curve steepening in progress as Foreign Banks buy G-Secs

- As per CCIL market activity data, Foreign Banks have been on buying side of G-Secs on the monthly basis during the quarter ended 30th Sep'24. Their buying has been on increased trend with Rs.27k in Jul-24, Rs.30k in Aug-24 and Rs.32k in Sep-24.
- The same was countered by PSU Banks on sell side with Rs.24k in Jul-24, Rs.29k in Aug-24 and Rs.13k in Sep-24. The major counter selling was done by primary dealers (PDs) to the tune of Rs.39k in Jul-24, 24k in Aug-24 and Rs.23k in Sep-24.
- The yield curve during the month of Sep-24 has witnessed a downward shift showing signs of progression towards steepening of the curve. The lower end of the curve has fallen more in comparison to longer end. The 3 month to 1 year has softened by 26 bps to 17 bps in comparison to 5 year to 13 year which softened by 11 bps to 13 bps.
- The Indian 10 year benchmark is trading close to 6.73% and shall be supported by falling oil prices. Brent crude fell towards \$70 per barrel as Libya's production below 450,000 barrels against normal production of 1.2 million barrels per day.

Liquidity switched back to surplus

- The system liquidity as expected has switched back to surplus (Rs.1.46 lakh crore as of 30th Sep'24) as expected due to government expenditure spending in the quarter end after advance tax collections and GST led to liquidity switching to deficit.
- However, while system liquidity is in surplus, there is a gap between system and structural liquidity levels despite recent decline in credit-deposit growth wedge. Interestingly, the spread between 1-year CDs and T-Bill is still above 100bps signaling tightness in banking system liquidity.
- The RBI has continued its OMO sales for 11th consecutive week with a total sale of Rs.1,195 Crore in the week ended 20th Sep'24 and a cumulative of Rs.24,060 Crore to absorb surplus liquidity.
- Foreign flows in Debt Segment as per NSDL is Rs.32,850 Crore for the month of September till 30th Sep'24. This has surpassed last monthly foreign flows under Debt segment of Rs.25,685 Crore in Jun 2017. Of the Rs.32,850 Crore, an amount of Rs.22,959 Crore has been invested into Debt - FAR category. We believe that foreign flows have increased due to favorable interest rate differential.

Fig.3: Foreign Banks on buying spree in Q2 FY25

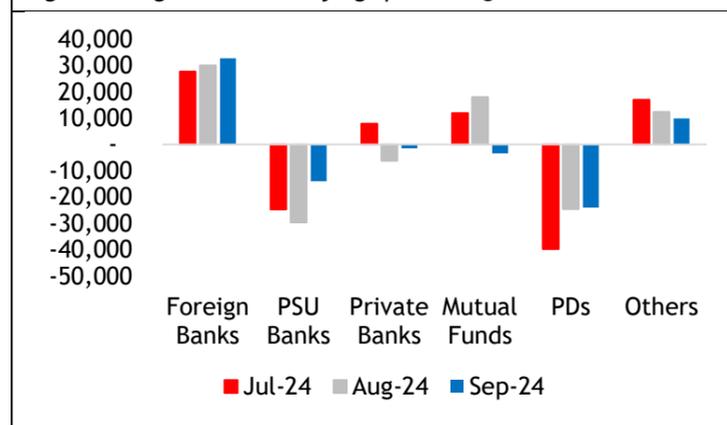
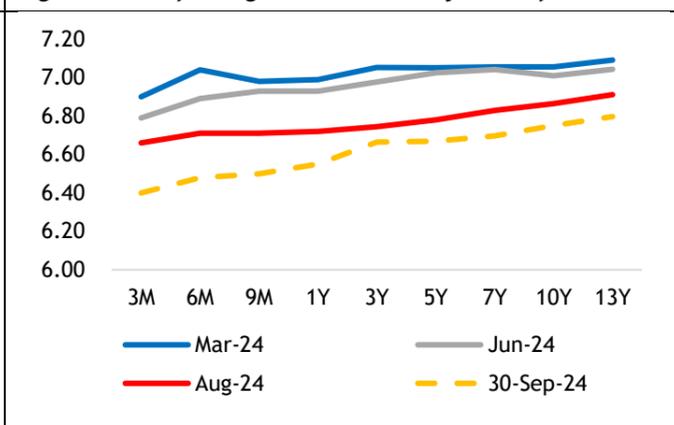


Fig.4: More softening in lower end as yield shifts down



Source: Bloomberg, CCIL, UBI Research

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