

Fig.1: Ownership of Central Government Securities; (%)

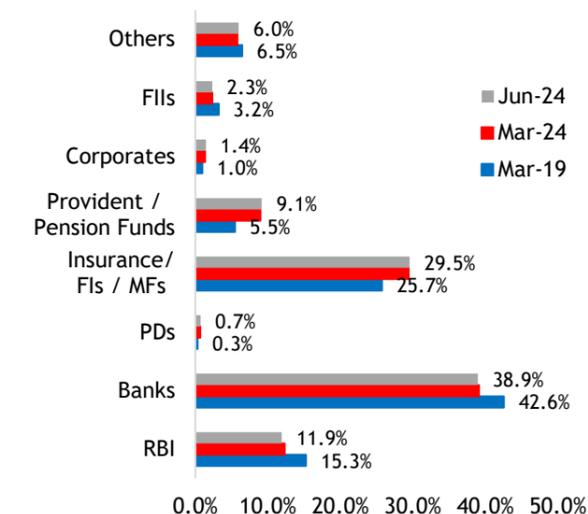
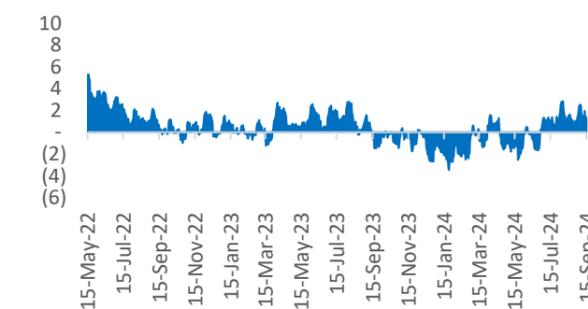
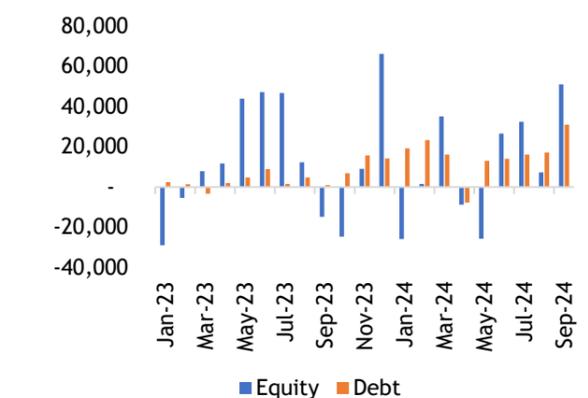


Fig.2: Systemic Liquidity continue to remain in surplus; (Rs. In Lakh Crore)



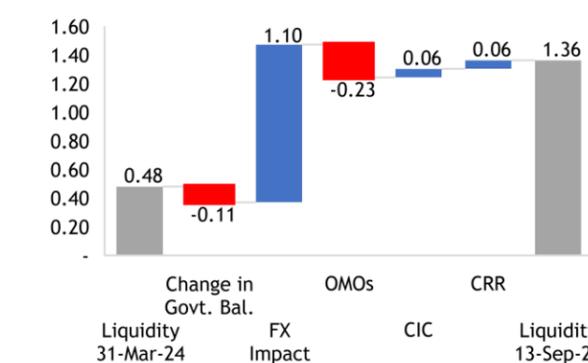
Source: RBI, CEIC, UBI Research

Fig.3: Positive Foreign Flows in Equity & Debt ; (Rs.in Crore)



Source: NSDL, UBI Research

Fig.4: Strong Foreign flows adding to liquidity in the system; (Rs. In Lakh Crore)



Source: RBI, CEIC, UBI Research

The US Federal Reserve in its September meeting has cut rates by 50bps, for the first time since March 2020. Fed Chair Powell asserted that policy normalization has begun and is an attempt towards soft landing. The probabilities of another 50bps rate cut in November meeting has gained focus. Currently, the CME FEDWatch tool shows 58% probability of 50 bps rate cut in November meeting which was 37% a week ago. Just yesterday, US 10-year yield touched a high of 3.80% and the 10Y-2Y spread stayed positive. Indian benchmark 10 year yields have settled near to 6.74%-6.76% amid continuous flows in debt segment due to JP Morgan Index inclusion.

**Fed rate cut cycle has begun**

- With whopping 50bps rate cut, US Fed has started off policy normalization. In its September meeting the US Federal has cut rates by 50bps, for the first time since March 2020.
- Powell believes that the FED can reduce the balance sheet and lower rates at same time. The collective message out of Powell's statement, dot plot and summary of projections was that the focus was shifted towards the labour market, with much better balance seen between labour market and inflation. This normalization of policy that has just begun indicates that the US economy is not in recession while the FED is attempting to ensure soft landing.
- Post FOMC meeting, US 10 year has not breached below 3.60 levels, rather bounced to 3.81% on 24<sup>th</sup> Sep'24.
- Dollar index currently trading at 100.22 is just holding on to close to 100 mark and not showing further weaknesses. The Dollar Index has last touched level of 99.58 in July 2023, below which we may see further weakness in Dollar. Traders are watchful of upcoming US data this week (Core PCE) and Fed Officials commentaries.

**G-Sec yields consolidates post softening on FOMC effect**

- 10-year benchmark yield trading close to 6.75% not showing further momentum. Data on WPI and Trade had limited effect on yields which were guided by global trends and domestic liquidity conditions.
- Headline WPI for the month of Aug'24 moderated to 1.31% vis a-vis 2.04% recorded in Jul'24. Data prints were lower than our estimates of 1.59% with mild downward surprise, while consensus estimate was 1.78%. This cooling in YoY inflation levels was primarily led by a sequential moderation in vegetable prices and favorable base effect.
- Merchandise Trade Deficit clocked near record high levels of \$29.65bln in Aug'24 vis-à-vis \$23.50bln a month ago (highest since October 2023). Gold was the prime driver of trade dynamics as deficit hit an all-time high of \$10.69bln ahead of festive season and import duty cut in the budget in end-July.
- As per media reports, the G-Sec, SDL and T-Bills borrowing calendar for Oct-Mar is expected to be released on 26<sup>th</sup> Sep'24.

**Borrowing calendar likely to be announced this weekend**

- RBI and government official are meeting today on the borrowing calendar, which is due for release this weekend.
- Of the Rs.14.03 Lakh Crore of Gross borrowing in dated securities of which Rs.7.50 lakh crore were notified for borrowing during Apr-Sep 2024. The government has raised a gross amount of Rs.6.53 lakh crore and a net amount of Rs. 4.57 lakh crore till 13<sup>th</sup> Sep'24.
- The ownership pattern of dated Gsecs has seen a significant structural transformation since pre covid period. While long term investors like Pension & Provident Funds along with insurance companies has seen a spike in ownership share to 38.7% as of June 2024 versus 31.2% on March 2019, banks and RBI have seen a drop in share. While the RBI has conducted OMO sales thereby weighing on its demand contribution for Gsecs, banks have drawn down on excess SLR holdings to meet rise in demand for funds given the persistent gap between credit and deposit growth consistently since April 2022. Apart from this, short term investors like MFs have also raised their demand for Gsecs given the adequate liquidity.
- More importantly, the change in ownership pattern is also influencing the duration of supply of Gsecs. For instance, weighted average maturity of issuances was elongated to 18.09 years in FY24 from 14.73 years in FY19.

**Liquidity in deficit amidst healthy foreign flows**

- The system liquidity as expected has gone into deficit (Rs.26,382 Crore as of 24<sup>th</sup> Sep'24) on account of GST & advance tax payouts this month. Despite recent decline in credit-deposit growth wedge easing, the spread between 1 year CDs and T-Bill is above 100bps.
- The RBI has continued its OMO sales for 10<sup>th</sup> consecutive week with a total sale of Rs.3,925 Crore in the week ended 13<sup>th</sup> Sep'24 and a cumulative of Rs.22,845 Crore to absorb surplus liquidity.
- Foreign flows in Debt Segment as per NSDL is Rs.31,016 Crore for the month of September till 24<sup>th</sup> Sep'24. This has surpassed last monthly foreign flows under Debt segment of Rs.25,685 Crore in Jun 2017. Of the Rs.31,016 Crore, an amount of Rs.22,816 Crore has been invested into Debt - FAR category (Fully Accessible Route).
- For the month of September, under equity segment, the Indian equities have received foreign flows of Rs.50,913 Crore which is highest since Dec-2023. We believe that foreign flows have increased due to favorable interest rate differential. These inflows has led to reach India's forex reserve to a record high of USD 689.458 billion for the week ended 13<sup>th</sup> Sep'24.

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