CCIL DEBT MARKET QUARTERLY

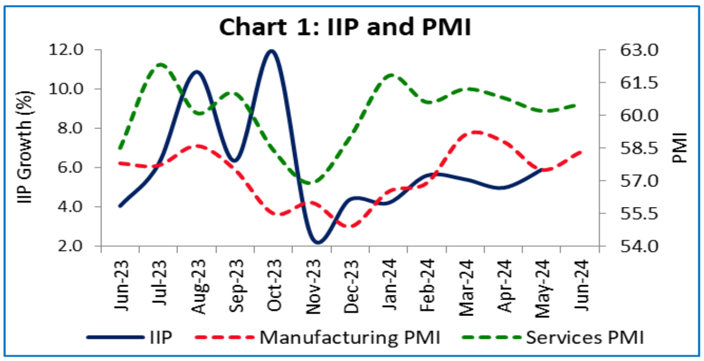
INTEREST RATE, GOLD, CRUDE, SECONDARY MARKET, PRIMARY AUCTION MARKET, MARKET BORROWINGS, DOLLAR INDEX, LIQUIDITY, OIS SPREAD

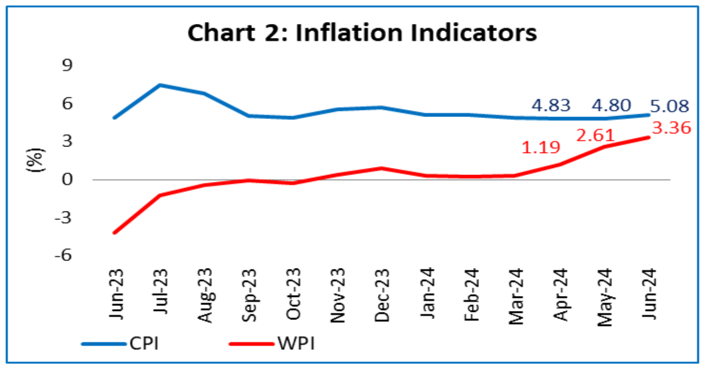
APRIL - JUNE 2024

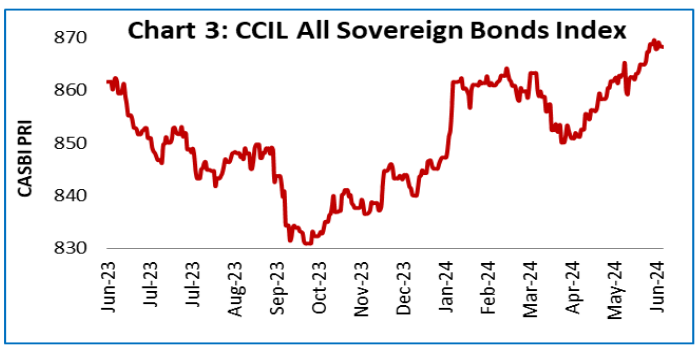
A Glance over the Quarter

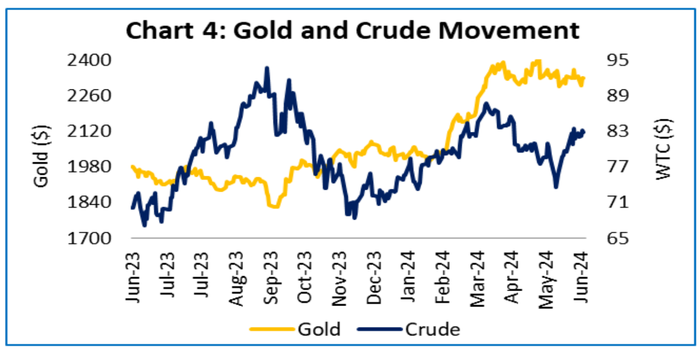
FY25 commenced with mixed surprises. While strong economic growth and improved government finances supported by the all-time-high dividend transfer by RBI to Government's account and record GST collections set a positive tone, the results of the Lok Sabha elections tempered optimism. India's robust FY24 GDP growth of 8.20% driven by resurgent manufacturing, service and construction sectors has prompted upward revisions in FY25 growth forecasts by RBI as well as international organizations. The USD-INR exchange rate remained range bound, while bonds yields eased on anticipation of higher demand following inclusion of Indian government bonds into global bond indices. The overall positivity coupled with pick-up in exports and decline in CPI inflation took equity indices to record highs.

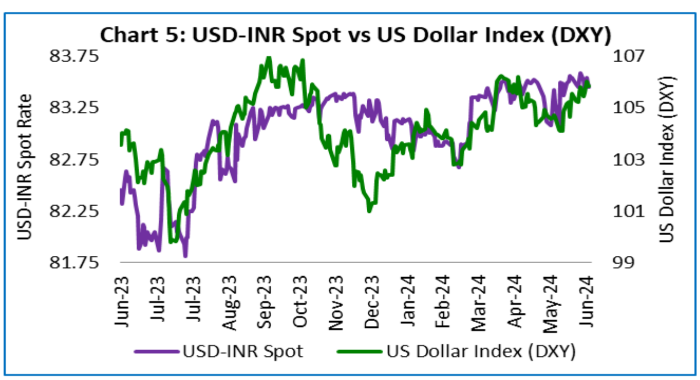
Macro Indicators at a Glance (June 2023 - June 2024)

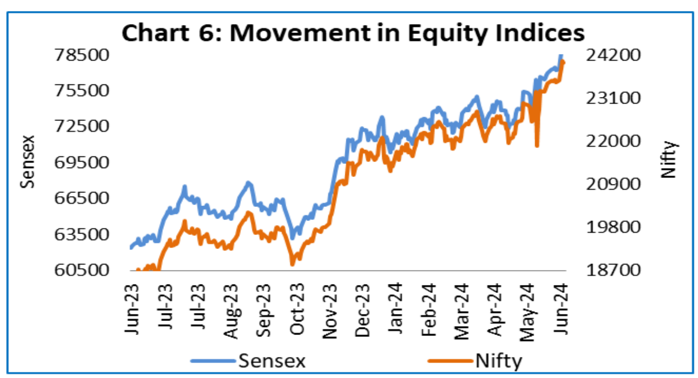












Despite the encouraging domestic developments, uncertainty remains around future trajectory of CPI inflation due to seasonal flaring up in food prices and its impact on the policy rate decisions by RBI.

Unless otherwise mentioned, the report is based on calculations by Research Department, CCIL using information publicly available on the websites of the Reserve Bank of India, CCIL, Clearcorp, SEBI, FIMMDA, NSE, BSE, FBIL and MOSPI.

Market Borrowings

While the final Budget for FY25 is awaited, market borrowings are expected to be smooth sailing on account of the healthy fiscal position supported by RBI's record dividend payment and the demand for FAR G-Secs with the commencement of index inclusion. SDL issuances worth ₹2.64 lakh crore and average weekly borrowing of ₹20000 crore under T-Bills have been announced for Q2-FY25.

Primary Auctions - Central Government Dated Securities

Drawing confidence from the comfortable market conditions, RBI began FY25 by withdrawing one of its last pandemic-era measures by announcing that henceforth all securities under the borrowing programme of Government of India shall be auctioned using the multiple price auction method. Overall, market borrowings through dated securities were on track during Q1-FY25, barring the cancelation of a planned new SGrB despite more than double bids possibly on account of the low *greenium* offered by market participants.

Table 1: G-Sec Issuance Summary (₹ Crore)

Period	Weekly Auctions	Notified Amount	Gross Issuance	Average Weekly Issuance	Redemptions	Net Borrowing	Additional Greenshoe Borrowing (+)/Shortfall(-)
FY23	48	1437000	1421000	29604	335907	1085093	-16000
FY24	46	1543000	1543000	33543	469911	1073089	-
Q1-FY24	13	441000	441000	33923	158764	282236	-
Q2-FY24	13	447000	447000	34385	-	447000	-
Q3-FY24	13	418000	418000	32154	236618	181382	-
Q4-FY24	7	237000	237000	33857	74529	162471	-
Q1-FY25	13	378000	372000	28615	134601	237399	-6000

Auction Details

The Central Government borrowed ₹372000 crore during Q1-FY25. A total of 6 new bonds were issued in 10Y, 3Y, 5Y, 7Y, 15Y and 40Y tenors.

Table 2: G-Sec Issuance Details

Sr No	Security	Amount (₹ Crore)			Bid Cover Ratio	Cut-off Range		Outstanding at End-Quarter (₹ crore)
		Notified Amount	Gross Issuance	Devolvement		Price	Yield	
1	7.10% GS 2034	100000	100000	-	2.89	99.37-100.55	7.0191-7.1889	100000
2	7.34% GS 2064	68000	68000	-	3.14	100.00-103.15	7.1004-7.3400	68000
3	7.23% GS 2039	44000	44000	-	2.78	100.00-101.77	7.0343-7.2300	44000
4	7.46% GS 2073	34000	34000	-	2.83	101.67-105.29	7.0724-7.3338	64000
5	7.30% GS 2053	27000	27000	-	3.03	100.05-101.96	7.1388-7.2946	185000
6	7.04% GS 2029	24000	24000	-	3.32	100.00-100.20	6.9899-7.0400	24000
7	7.32% GS 2030	22000	22000	-	3.00	100.65-100.97	7.1309-7.1926	70000
8	7.33% GS 2026	12000	12000	-	3.22	100.41-100.59	7.0711-7.1460	52000
9	7.37% GS 2028	12000	12000	-	3.16	100.47-100.47	7.2457-7.2457	75000
10	7.25% GS 2063	12000	12000	-	2.45	100.26-100.26	7.2288-7.2288	240000
11	7.02% GS 2031	11000	11000	-	3.26	100.00-100.00	7.0200-7.0200	11000
12	7.02% GS 2027	6000	6000	-	3.82	100.00-100.00	7.0200-7.0200	6000
	Total	372000	372000	-	2.99			

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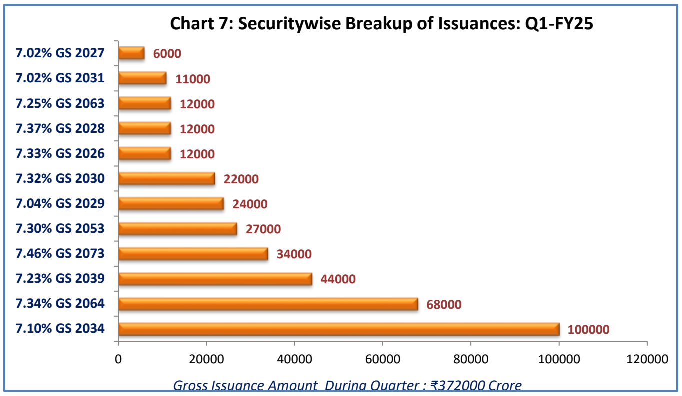
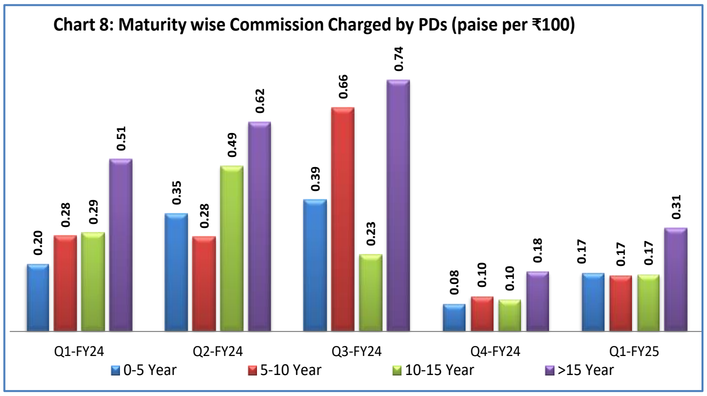




Auction Bidding

Primary auctions during Q1-FY25 benefitted from the rally in the secondary market and the resumption of multiple price auctions leading to expectations of better price discovery and lower cost of borrowings for the government in the current environment. The strong appetite for FAR bonds led to a sharp dip in the average underwriting commissions charged by Primary Dealers (PDs) from the auctions starting May 3rd.

Table 3: Bidding in G-Sec Auctions (₹ Crore)

Period	Notified Amount	Bids Received		Bids Accepted		Success Ratio		BCR	Devolvement on PDs	Complete Rejection of Bids	Total Issuance	Overall Auction Failure	Average ACU Commission Cut-off rate (paise per ₹100)
		Competitive	Non Competitive	Competitive	Non Competitive	Competitive	Non Competitive						
Q1-FY24	441000	1133275	462	440538	462	39%	100%	2.6	-	-	441000	-	0.35
Q2-FY24	447000	1159096	483	446517	483	39%	100%	2.6	-	-	447000	-	0.45
Q3-FY24	418000	1118049	523	417477	523	37%	100%	2.7	-	-	418000	-	0.58
Q4-FY24	237000	607041	226	236774	226	39%	100%	2.6	-	-	237000	-	0.13
Q1-FY25	378000	1125737	327	371675	325	33%	99%	3.0	-	6000	372000	1.59%	0.22

Maturity Profile of Outstanding G-Secs

RBI tapped the strong demand for longer maturity G-Secs by concentrating more than a third i.e. 38% of issuances during Q1-FY25 in 29-50Y bonds, thereby further elongating the maturity profile of outstanding debt with only a marginal increase in interest rates.

Table 4: Maturity Profile of Outstanding Central Government Dated Securities *

Period	Total				Share (%)					
	Number of Securities	Outstanding (₹ Lakh Crore)	Weighted Average Maturity of Outstanding (Years)	Weighted Average Coupon	<=1 Years	1-5 Years	5-10 Years	10-15 Years	15-30 Years	>30 Years
Q1-FY24	103	94.47	11.71	7.14	5.67	24.24	29.74	17.17	14.05	9.13
Q2-FY24	105	99.24	12.22	7.26	4.59	23.04	31.43	15.78	15.62	9.55
Q3-FY24	107	100.89	12.52	7.27	4.12	21.83	33.66	14.31	15.76	10.31
Q4-FY24	107	102.66	12.53	7.28	3.52	24.08	31.31	14.65	15.71	10.73
Q1-FY25	111	105.03	12.80	7.29	3.99	23.29	30.47	14.94	15.70	11.61

*Excluding Special Securities

Short Term Borrowings

T-Bills were RBI's preferred tool for addressing the liquidity deficit in the banking system amid a build-up in the government's cash balances on account of low spending during the national elections. On May 17th, RBI notified a revised calendar for the remaining auctions of T-Bills during Q1-FY25 starting May 22nd. Weekly issuances were reduced by ₹10000 crore each with the maximum reduction in the scheduled quantum for 91-DTB auctions. This led to an immediate fall in the short-term yields, with the sharpest decline in the 91-DTB auction cut-offs.

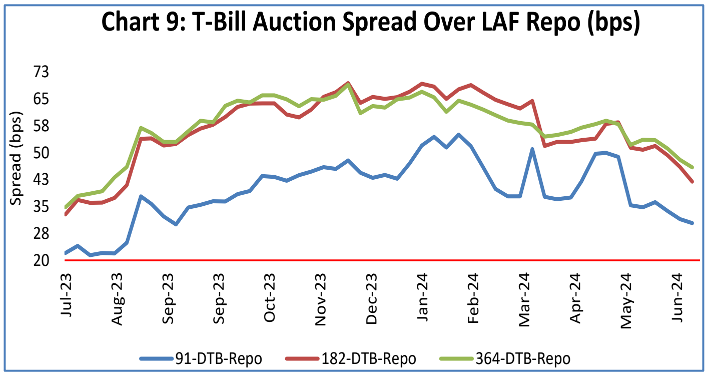


Chart 9: T-Bill Auction Spread Over LAF Repo (bps)

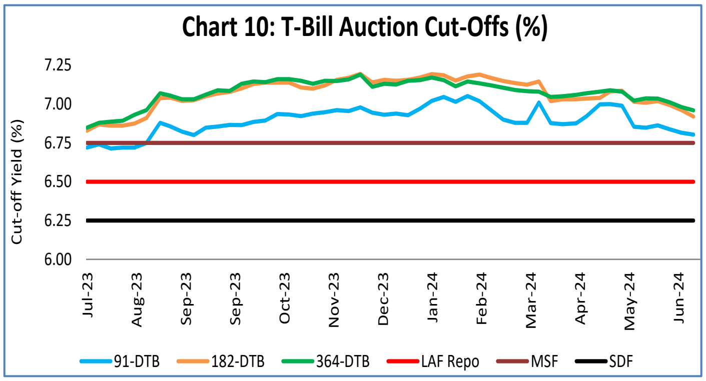


Chart 10: T-Bill Auction Cut-Offs (%)

Table 5: Primary Treasury Bill Auctions

91-DTB							
Quarter	**Notified Amount (₹ Crore)**	**Gross Issuance (₹ Crore)**	**Redemptions**	**Net Borrowing (₹ Crore)**	**BCR**	**Weighted Average Cut-off Yield (%)**	**Average Spread over LAF Repo (bps)**
Q1-FY24	156000	206798	114938	91860	3.04	6.81	31
Q2-FY24	130000	175177	206798	-31621	4.10	6.79	29
Q3-FY24	91000	127351	175177	-47826	4.00	6.93	43
Q4-FY24	116000	135101	127351	7750	3.10	5.95	47
Q1-FY25	108000	169410	135101	34309	2.22	6.90	39
182-DTB							
Quarter	**Notified Amount (₹ Crore)**	**Gross Issuance (₹ Crore)**	**Redemptions**	**Net Borrowing (₹ Crore)**	**BCR**	**Weighted Average Cut-off Yield (%)**	**Average Spread over LAF Repo (bps)**
Q1-FY24	156000	175593	80894	94699	2.91	6.97	45
Q2-FY24	104000	116525	182198	-65673	3.12	6.96	46
Q3-FY24	104000	111366	175593	-64227	2.93	7.14	64
Q4-FY24	160000	167708	116525	51183	2.74	6.81	66
Q1-FY25	73000	90884	111366	-20482	2.85	7.02	52
364-DTB							
Quarter	**Notified Amount (₹ Crore)**	**Gross Issuance (₹ Crore)**	**Redemptions**	**Net Borrowing (₹ Crore)**	**BCR**	**Weighted Average Cut-off Yield (%)**	**Average Spread over LAF Repo (bps)**
Q1-FY24	104000	113875	111447	2428	3.56	6.96	46
Q2-FY24	78000	98186	87875	10311	3.74	7.00	49
Q3-FY24	117000	122417	86531	35886	2.81	7.15	65
Q4-FY24	117000	123009	159431	-36422	3.79	6.76	62
Q1-FY25	80000	86579	113875	-27296	3.12	7.05	54

Detailed analysis of market borrowings by the State Governments is covered in the CCIL SDL Quarterly report available at: https://www.ccilindia.com/web/ccil/india-sdl-quarterly

Liquidity

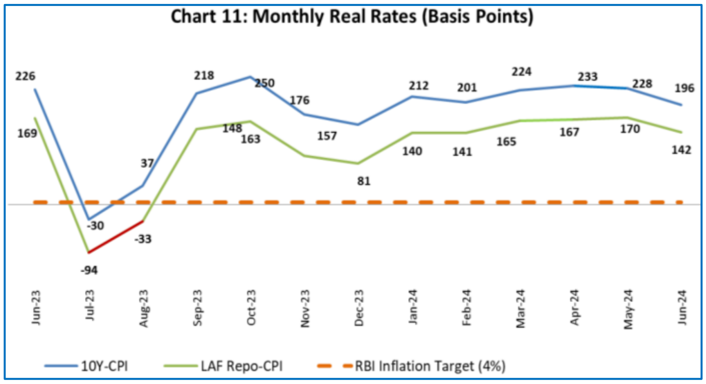
RBI primarily addressed the two-way swings in banking system liquidity through a mix of variable rate repo (VRR) and variable rate reverse repo (VRRR) fine-tuning auctions. Systemic liquidity improved on account of the trimmed auctions of short-term T-Bills amid reduced government spending during elections and G-Sec redemptions as well as the several bond buyback auctions during May-June 2024. RBI has highlighted that despite their impact on liquidity, bond buybacks are part of an active debt consolidation strategy that should not be construed as liquidity management operations.

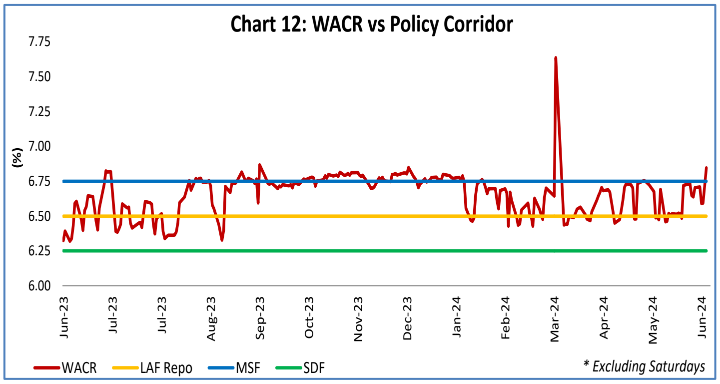
Table 6: Durable Liquidity Flows (₹ Crore)

Inflows	Redemptions				Coupons	
	G-Sec	SDL	DTB	CMBs	G-Sec Coupon	SDL Coupon
Q1-FY24	170763	45905	307278	-	191470	78103
Q2-FY24	-	75803	476871	-	153387	105249
Q3-FY24	236618	69047	437300	-	216715	87408
Q4-FY24	74529	95476	403307	-	164267	111545
Q1-FY25	134601	64558	360342	-	218569	89461
Outflows	**Auctions**					
	G-Sec	SDL	DTB	CMBs		
Q1-FY24	441000	167700	496266	-		
Q2-FY24	447000	190322	389888	-		
Q3-FY24	418000	245992	361134	-		
Q4-FY24	237000	403044	425819	-		
Q1-FY25	372000	145821	346873	-		

Real Rates

RBI's deft liquidity management resulted in the weighted average call rate (WACR)staying within the higher band of the policy rate corridor during Q1-FY25. While long-term real rates declined sequentially on account of a steady fall in 10Y yields during the quarter, the short-term real rates declined sharply on account of the jump CPI reading for June.





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Yield Movement

Reduction in the supply of T-Bills led to a slight steepening in the yield curve which shifted downwards over the quarter. While higher for longer US treasury yields and oil prices exerted upward pressures on yields in India, India's sovereign rating outlook upgrade by S&P Global Ratings, the strong demand for long term FAR bonds coupled with RBI's record dividend payment and increasing votes within the MPC for reducing the policy repo rate resulted in softening of G-Sec yields across the term structure.

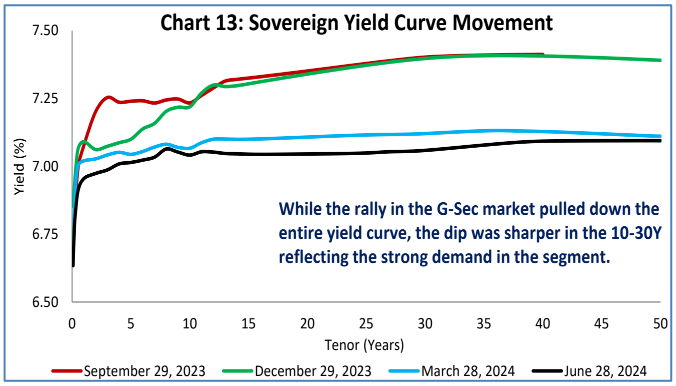

Chart 13: Sovereign Yield Curve Movement

Table 7: Spread Behavior - Basis Points

Spread/Quarter	Q1-FY25	Q4-FY24	Q3-FY24	Q2-FY24	Q1-FY24
10Y-LAF Repo	59	64	81	68	61
10Y-1Y	7	3	19	23	28
10Y-3Y	2	8	6	3	15
10Y-5Y	0	6	5	2	10
15Y-10Y	3	4	6	7	7
40Y-10Y	10	9	16	17	14
10Y-CPI	219	212	194	73	250
LAF Repo-CPI	160	148	113	5	190
10Y-US10Y	265	299	287	304	350

India – US Spread

The Indian bond market crossed a significant milestone with the beginning of inclusion of FAR bonds in global bond indices. Frontloading of investments resulted in FAR holdings of foreigners nearly doubling over end-September 2023 to 4.60% of the total outstanding of the eligible bonds on June 28, 2024. India's strong macro parameters, stable currency, RBI's focus on domestic growth-inflation dynamics and space available for further foreign investment in the debt segment coupled with the widening of the India-US interest rate differential to further boost the appeal of Indian bonds for foreign investors. With India's sovereign rating outlook upgrade by S&P Global Ratings to 'positive' from 'stable', the confidence of foreign investors in the long-term prospects of the Indian G-sec market was evident from the switching of their holdings to the 10-15Y segment from the shorter tenors.

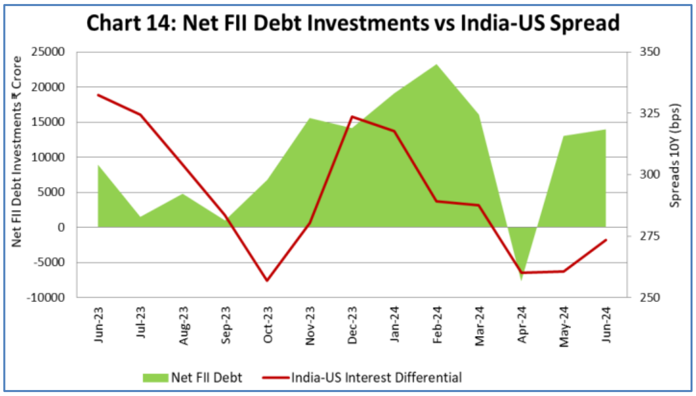

Chart 14: Net FII Debt Investments vs India-US Spread

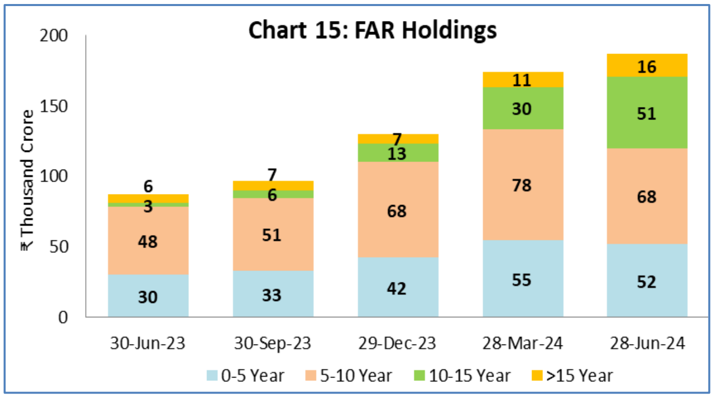

Chart 15: FAR Holdings

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Indices Movement

FY25 started with a reversal in the five-month long decline in bond yields. Geopolitical tensions, rising oil prices and capital flight due to higher for longer US rates were countered by positive domestic developments such as the boost to the fiscal position on account of RBI's record dividend, lower inflation, improved liquidity on from reduced T-Bill auctions and bond buybacks as well as the re-election of the NDA government which coincided with the commencement of index inclusion bringing down bond yields. The downward trend in bond yields through its inverse relation with bond prices was captured by the movements in CCIL indices which bounced back in May and June after a sharp decline in April.

Table 8: Monthly Returns on CCIL Principal Return Indices (PRI)

Month	BROAD	LIQUID	CASBI	TENOR 1	TENOR 2	TENOR 3	TENOR 4	TENOR 5	SDL	TBILL (LIQ WEIGHT)
Jun-23	-0.92%	-0.74%	-1.22%	-0.43%	-0.61%	-0.84%	-0.92%	-2.04%	-0.39%	0.42%
Jul-23	-0.29%	-0.42%	-0.32%	-0.28%	-0.38%	-0.44%	-0.51%	-0.25%	-0.36%	0.34%
Aug-23	0.15%	0.02%	0.02%	-0.10%	0.01%	0.09%	0.05%	0.01%	0.08%	0.32%
Sep-23	-0.53%	-0.33%	-0.54%	-0.16%	-0.30%	-0.59%	-0.67%	-0.64%	-0.20%	0.36%
Oct-23	-0.78%	-0.76%	-1.26%	-0.27%	-0.94%	-1.15%	-1.21%	-1.65%	-1.63%	0.32%
Nov-23	0.40%	0.52%	0.62%	0.21%	0.56%	0.61%	0.62%	0.78%	-0.02%	0.39%
Dec-23	0.70%	0.67%	0.66%	0.48%	0.65%	0.80%	0.77%	0.56%	0.60%	0.43%
Jan-24	0.59%	0.31%	1.00%	0.08%	0.31%	0.47%	0.77%	1.67%	-0.01%	0.37%
Feb-24	0.67%	0.80%	1.05%	-0.09%	0.26%	0.75%	0.74%	1.73%	1.42%	0.39%
Mar-24	0.17%	0.20%	0.21%	0.03%	0.08%	0.22%	0.50%	0.20%	0.24%	0.39%
Apr-24	-1.16%	-1.36%	-1.40%	-0.41%	-0.79%	-1.09%	-0.95%	-2.09%	-0.52%	0.30%
May-24	1.04%	1.07%	1.31%	0.30%	0.80%	1.21%	1.07%	1.81%	0.74%	0.42%
Jun-24	0.27%	0.05%	0.66%	-0.81%	-0.03%	0.24%	0.81%	0.85%	0.15%	0.39%

OIS Spreads

OIS rates largely tracked movements in US treasury yields and remained elevated on rising crude oil prices and stronger-than-anticipated US economic data that led to deferment of rate cut bets for both US as well as India. On the contrary, quarterly average of G-Sec yields was marginally lower than Q4-FY24 levels. As a result, average negative spreads between OIS rates and corresponding G-Sec yields took a beating, narrowing by 14 bps from -51.35 bps in Q4-FY24 to -37.21 bps in Q1-FY25.

Sovereign Debt Trading Activity

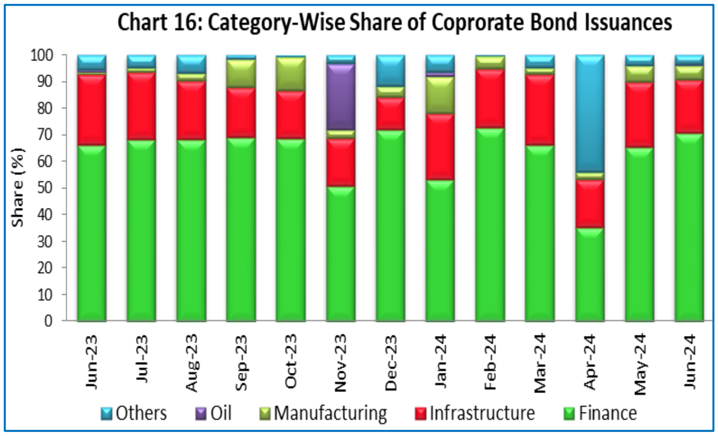
The momentum in G-Sec trading continued in Q1-FY25 supported by the revert to multiple price auctions, RBI's record dividend payment, upgrade in India's rating outlook, commencement of inclusion in global bond indices, falling inflation readings and increased leaning within the MPC for rate cuts.

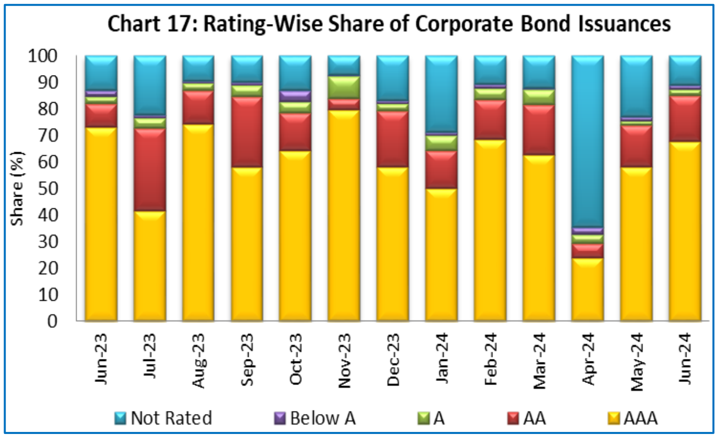
Table 9: Trading Summary - Government Bond Market (₹ Lakh Crore)

Period	Outright			Market Repo	TREP
	G-Sec	SDL	T-Bill		
Q1-FY24	30	2	6	108	181
Q2-FY24	29	1	4	93	203
Q3-FY24	23	2	4	88	213
Q4-FY24	27	3	4	94	206
Q1-FY25	32	2	5	98	205

Corporate Borrowings

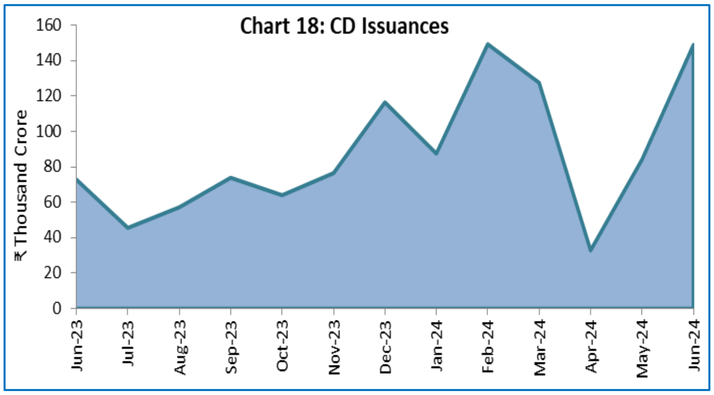
Bond issuances by Indian companies declined considerably in Q1-FY25 over the previous quarter (-30%) as well as from a year ago period (-23%), primarily because of the uncertainty surrounding the Election outcome and the upcoming Union Budget, anticipation of lower yields in the next quarter and the absence of big players. Market borrowing, expenditure by the Centre and fiscal deficit numbers to be announced during the Budget are of prime importance to issuers, providing direction on the interest rate movement. The unusual trends observed in the quarter were: i) pick up in market share of companies falling under "Others" category, while borrowing by rest of the market groups have contracted; and ii) the average share of AAA bonds in total issuances significantly declining (10%) q-o-q contrary to sharp pick up in share of "Not Rated" bonds (16%).

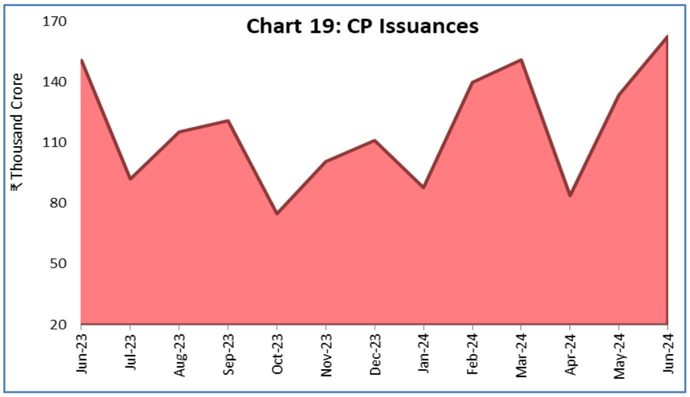




Short-term Corporate Borrowings (CDs & CPs)

Fundraising by banks through issuances of Certificate of Deposits (CDs) decelerated by 27% to ₹2.65 lakh crore in Q1-FY25 vis-a-vis Q4-FY24 amid improvement in liquidity available with banks. However, monthly analysis suggests consecutive upward movement in CD issuances. On one hand, when surplus liquidity with banks lowered funding requirements thereby reducing CD issuances by 74% in April over March; tighter liquidity coupled with stagnant retail deposits drove banks towards CD issuances that jumped by 156% in May over April and further up by 77% in June. Commercial Papers (CPs) issuances remained steady around Q4-FY24 levels at ₹3.81 lakh crore as comfortable liquidity with banks addressed funding requirements of companies.





Unless otherwise mentioned, the report is based on calculations by Research Department, CCIL using information publicly available on the websites of the Reserve Bank of India, CCIL, Clearcorp, SEBI, FIMMDA, NSE, BSE, FBIL and MOSPI.

Corporate Debt Trading Activity

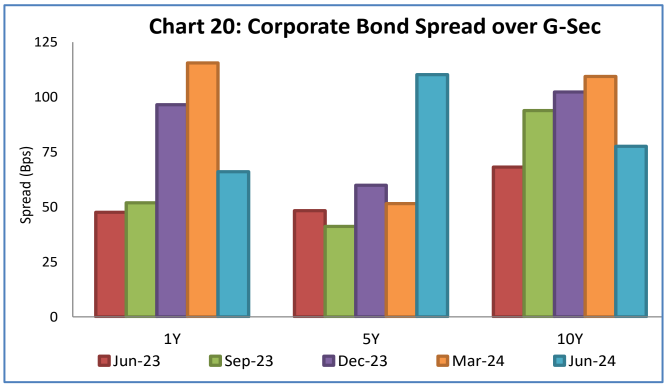
Trading in corporate bonds moderated in Q1-FY25 as market participants adopted wait-and-watch approach for the Lok Sabha elections and the announcement of Union Budget in July. Improvement in durable liquidity with banks and lower demand for funds led to lower trading in CDs and CPs in the quarter. Significant turnaround has been observed in trading in corporate bond repos following the commencement of central clearing and settlement services for triparty repo in corporate debt bonds. Reduction in the brokerage fees and increasing liquidity has also attracted investors to this instrument.

Table 10: Trading Activity in Corporate Debt Market (₹ Crore)

Quarter	Corporate Bonds	Certificates of Deposit	Commercial Papers	Corporate Bond Repo
Q1-FY24	324873	182792	132867	27548
Q2-FY24	257391	185089	173981	25418
Q3-FY24	270882	230267	188161	16408
Q4-FY24	335923	342272	205715	31130
Q1-FY25	297124	302997	188603	52265

Corporate Bond Spreads

AAA corporate bond spread over corresponding G-Secs showed mixed trend with average Q1-FY25 spread for 1Y and 10Y tenors drastically easing, while spreads for 5Y tenor moved otherwise. April had witnessed diverging trends between short term and longer duration G-Sec yields primarily reflecting the future trajectory of falling CPI inflation. However, yields declined over May and June on account of the positive mood in the G-Sec market. AAA corporate bond yields tracked G-Sec yield movement but the easing was more pronounced in the 1Y and 10Y buckets.



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