CCIL DEBT MARKET QUARTERLY

JULY-SEPTEMBER 2024

A Glance over the Quarter

The Indian economy remained resilient in the face of a volatile global environment characterized by mounting geopolitical conflicts and diverse economic conditions across countries that have led to varied responses from central banks. Despite a slowdown in GDP growth to 6.70% in April-June 2024 from 8.20% in the year-ago period largely due to restricted spending before the General Election, India remained the fastest-growing major economy in the world.

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

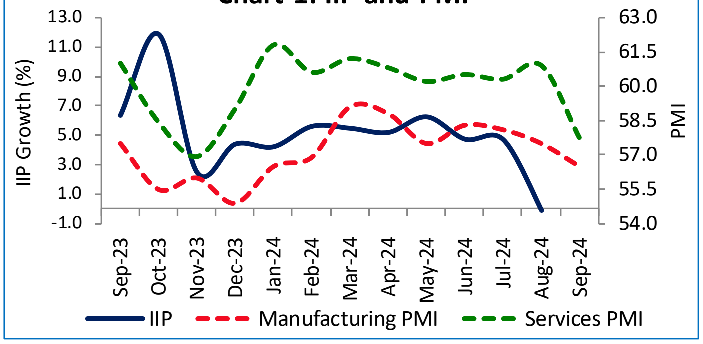


Chart 1: IIP and PMI

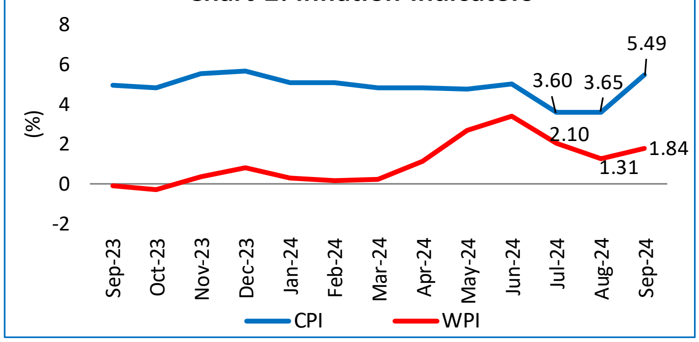


Chart 2: Inflation Indicators

Chart 3: CCIL All Sovereign Bonds Index

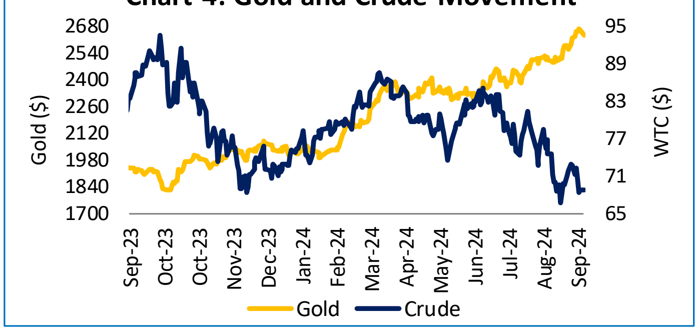


Chart 4: Gold and Crude Movement

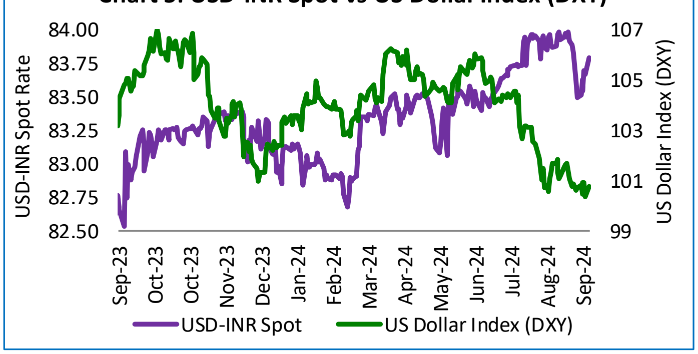


Chart 5: USD-INR Spot vs US Dollar Index (DXY)

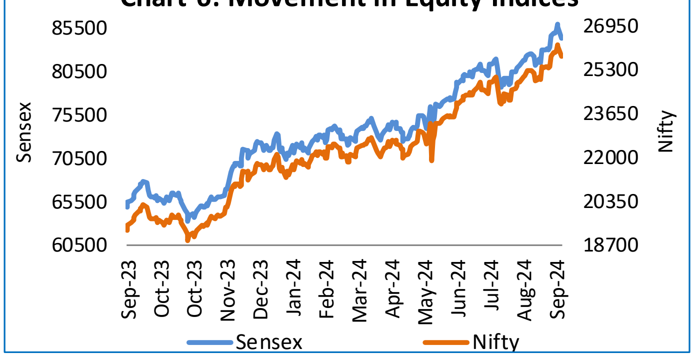


Chart 6: Movement in Equity Indices

India is not entirely immune to global developments, as evidenced by the impact on foreign trade and inflation numbers. The contraction in IIP for the first time in 22 months, along with moderation in manufacturing and service PMI numbers, suggest that the Indian economy may be experiencing a slowdown.

Market Borrowings

The full Union Budget for FY25 indicated the government's gross budgeted borrowings at ₹14.01 lakh crore, a slight reduction from the ₹14.13 lakh crore announced in the Interim Budget despite the record dividend transfer from RBI in May 2024. The borrowings are expected to be smooth sailing on account of the robust demand for Indian G-Secs from domestic institutional as well as foreign participants following the inclusion of the FAR bonds in major global bond indices. While RBI has reduced the quantum of indicated T-Bill issuances in both Q1 and Q2, the indicative calendar for issuance of Government dated securities during H2-FY25 was in line with the budget numbers. SDL issuances worth ₹3.20 lakh crore and average weekly borrowing of ₹19000 crore under T-Bills have been announced for Q3-FY25.

Primary Auctions - Central Government Dated Securities

Overall, market borrowings through dated securities were on track during Q2-FY25, barring the partial rejection of bids in the new 10Y SGrB 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	-
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
Q2-FY25	13	372000	367697	28284	205532	162165	-4303

Auction Details

The Central Government borrowed ₹367697 crore during Q2-FY25 with 2 new issuances – "6.90% SGrB 2034" and "7.09% GS 2054".

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	80000	80000	-	3.02	100.83-102.40	6.7540-6.9788	180000
2	7.34% GS 2064	66000	66000	-	2.99	103.12-105.12	6.9577-7.1025	134000
3	7.23% GS 2039	60000	60000	-	2.92	101.72-104.07	6.7848-7.0391	104000
4	7.04% GS 2029	36000	36000	-	2.68	100.85-101.52	6.653-6.8279	60000
5	7.46% GS 2073	33000	33000	-	2.77	104.98-106.67	6.9771-7.0938	97000
6	7.02% GS 2031	33000	33000	-	3.18	100.16-101.39	6.7575-6.989	44000
7	7.09% GS 2054	30000	30000	-	3.46	100.00-102.28	6.9076-7.0900	30000
8	7.02% GS 2027	18000	18000	-	5.58	100.15-100.67	6.7401-6.9577	24000
9	7.30% GS 2053	10000	10000	-	3.09	102.64-102.64	7.0837-7.0837	195000
10	6.90% SGrB 2034	6000	1697	-	2.05	100.00-100.00	6.9000-6.9000	1697
	Total	372000	367697	-	2.99			

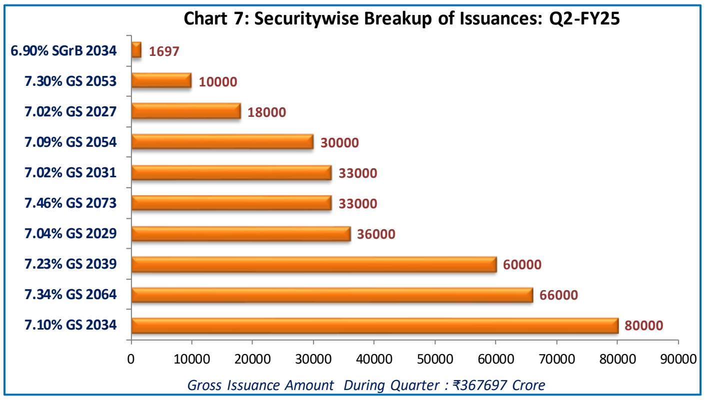


Chart 7: Securitywise Breakup of Issuances: Q2-FY25

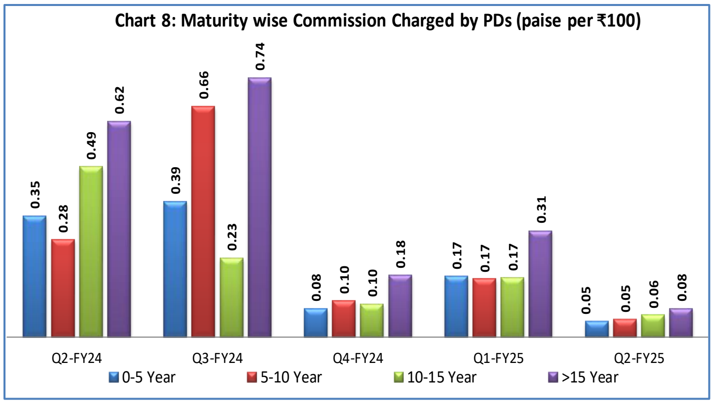


Chart 8: Maturity wise Commission Charged by PDs (paise per ₹100)

Auction Bidding

Primary auctions benefitted from the robust appetite for Indian G-secs across maturities from diverse participant groups. Increased competition from foreign investors following the commencement of index inclusion likely prompted RBI's July 29th decision to exclude new 14Y and 30Y bonds from the FAR category to manage the consistent domestic demand for the longer maturity bonds. The average underwriting commissions charged by Primary Dealers (PDs) dipped sharply across maturities during Q2-FY25.

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						
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
Q2-FY25	372000	1155059	448	367249	448	32%	100%	3.1	-	4303	367697	1.16%	0.22

Maturity Profile of Outstanding G-Secs

Sustained demand from traditional domestic long-term investors such as insurance companies and pension funds coupled with increasing interest from foreign investors enabled RBI to comfortably elongate the maturity of central government borrowings at progressively lower yield cut-offs in primary auctions.

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
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
Q2-FY25	112	108.10	12.89	7.27	3.99	21.81	33.27	13.69	15.02	12.22

*Excluding Special Securities

Short Term Borrowings

T-Bill cut-offs trended lower in Q2-FY25 following the reduction in the planned issuances. RBI also continued using T-Bill auctions for addressing banking system liquidity requirements. The cancellation of the auctions scheduled in the last fortnight of September prevented short-term yields from spiking amid a rise in the systemic liquidity deficit. The 91-DTB auctions witnessed the highest jump in demand during the quarter as measured in terms of the bid-to-cover ratio on account of strong bidding in the non-competitive segment.

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

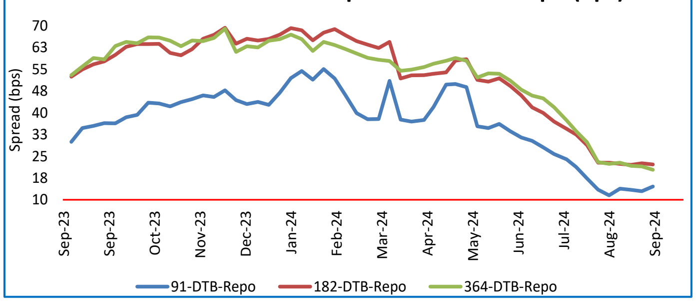


Chart 10: T-Bill Auction Cut-Offs (%)

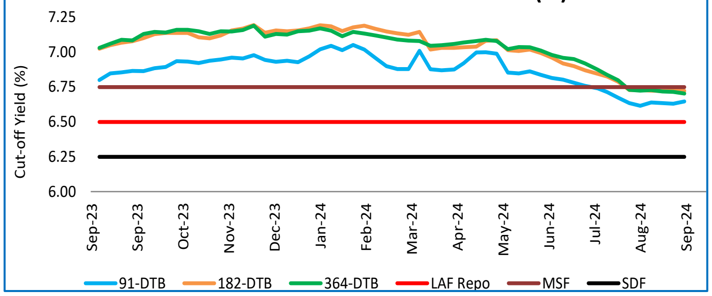


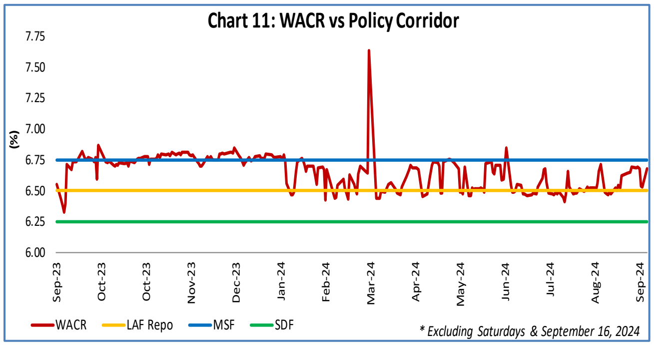
Table 5: Primary Treasury Bill Auctions

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)
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
Q2-FY25	88000	171488	169410	2078	4.02	6.68	18
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)
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
Q2-FY25	66000	76725	167708	-90983	3.50	6.78	28
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)
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
Q2-FY25	66000	76140	98186	-22046	4.77	6.79	29

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

Government expenditure and tax collections were the primary drivers of the swings in banking system liquidity over Q2-FY25. Barring the last fortnight of September, when RBI infused liquidity through variable rate repo (VRR) auctions of various maturities, liquidity was largely comfortable and managed through a mix of variable rate reverse repo (VRRR) fine-tuning auctions. The quarter also witnessed RBI's increased tolerance towards liquidity surplus with the absence of any durable liquidity absorption measures as a percussor to the change in the stance announced in the October monetary policy. G-sec redemptions, cancellation of T-Bill auctions and interventions in the foreign exchange market were other sources of durable liquidity. The weighted average call rate (WACR) remained within the higher band of the policy rate corridor during Q2-FY25.



Sovereign Debt Trading Activity

The first quarter following commencement of inclusion of FAR bonds in global bond indices saw the momentum in G-Sec trading continue driven by foreign investment flows into these bonds. The rally was sustained by expectations of imminent rate cuts by the US Fed amid lower domestic inflation readings.

Table 6: Trading Summary - Government Bond Market (₹ Lakh Crore)

Period	Outright			Market Repo	TREP
	G-Sec	SDL	T-Bill		
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
Q2-FY25	38	3	4	98	234

Indices Movement

G-Sec yields were pulled down throughout Q2-FY25, buoyed by increased foreign inflows, announcement of lower market borrowing by the government, benign domestic CPI inflation and falling US treasury yields pricing in the September rate cut by the Federal Reserve. Reflecting this upward price movement, PRI of all CCIL indices gained during Q2-FY25.

Table 7: 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)
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%
Jul-24	0.42%	0.56%	0.21%	0.39%	0.72%	0.42%	0.24%	0.01%	0.36%	0.47%
Aug-24	0.42%	0.50%	0.65%	0.15%	0.40%	0.52%	0.55%	0.87%	0.41%	0.42%
Sep-24	0.80%	0.94%	1.07%	0.25%	0.72%	0.96%	1.01%	1.33%	0.94%	0.46%

Yield Movement

The entire Indian sovereign bond yield curve shifted down during Q2-FY25 led by the rally in the G-Sec markets on account of the robust demand from domestic and foreign participants. With the RBI continuing its pause on policy rates, G-Sec spreads over the LAF repo rate declined to multi-year lows and the India-US spreads widened as the Federal Reserve embarked on a policy reversal. Within the term structure, a sharper fall in short term rates resulted in the steepening of the yield curve, while spreads in the 10Y-50Y maturities remained steady. The jump in real rates observed during July-August due to a sharp dip in inflation readings was reversed with the spike in inflation in September.

Chart 12: Sovereign Yield Curve Movement

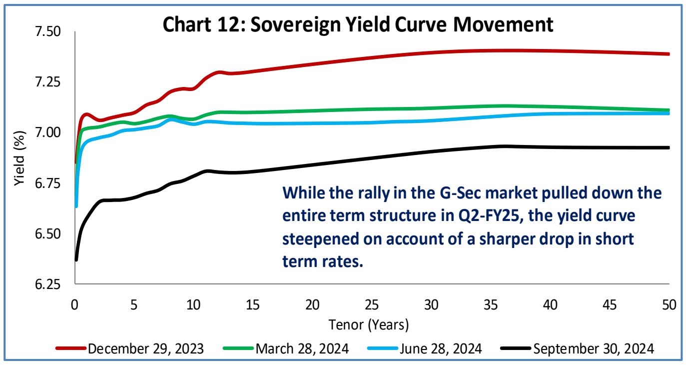


Table 8: Spread Behavior - Basis Points

Spread/Quarter	Q2-FY25	Q1-FY25	Q4-FY24	Q3-FY24	Q2-FY24
10Y-LAF Repo	42	59	64	81	68
10Y-1Y	18	7	3	19	23
10Y-3Y	12	2	8	6	3
10Y-5Y	9	0	6	5	2
15Y-10Y	2	3	4	6	7
40Y-10Y	11	10	9	16	17
10Y-CPI	271	219	212	194	73
LAF Repo-CPI	228	160	148	113	5
10Y-US10Y	296	265	299	287	304

India – US Spread

Record foreign inflows into the Indian G-sec market were triggered during Q2-FY25 by the widening of the India-US interest rate differential on account of monetary policy reversal in the US coinciding with the commencement of inclusion of FAR bonds in global bond indices. Foreign holdings in FAR bonds jumped 33% by ₹61265 crore between June 28th and September 30th. The sharp jump in inflows prompted the exclusion of new bonds in the 14Y and 30Y tenors from the FAR category. However, India's strong macro parameters, stable currency and space available for further foreign investment resulted in continued inflows into bonds including those with maturity beyond 15Y.

Chart 13: Net FII Debt Investments vs India-US Spread

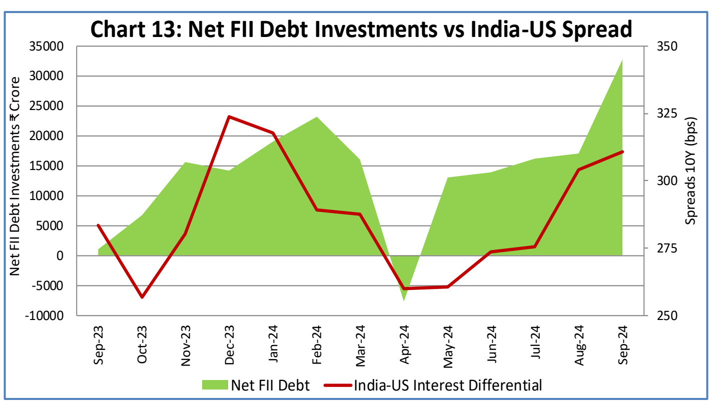
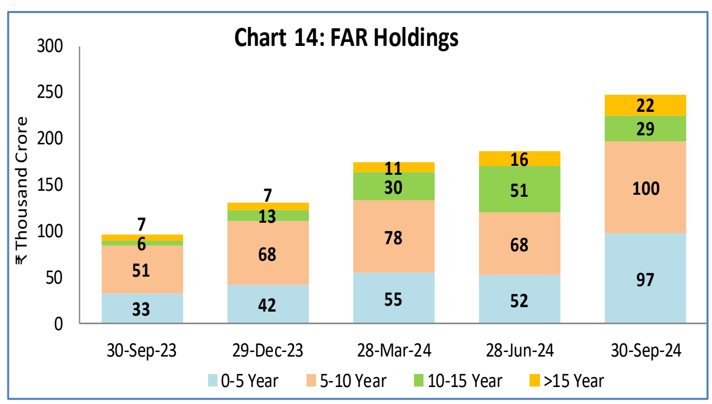
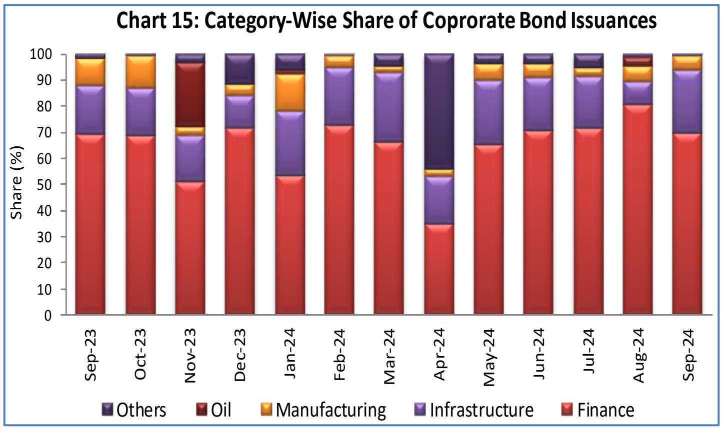


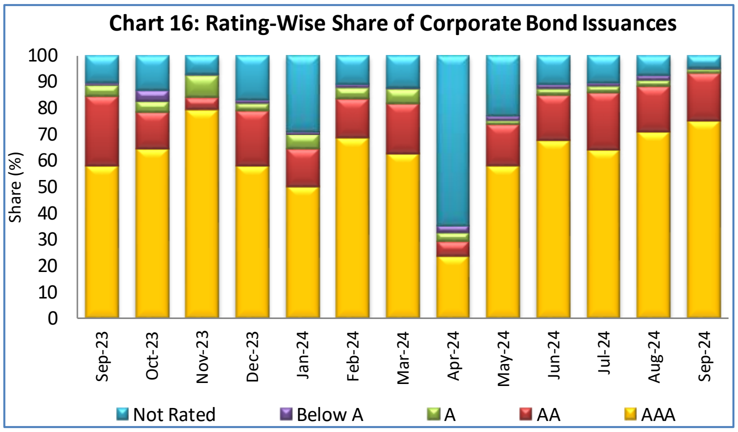
Chart 14: FAR Holdings



Corporate Borrowings

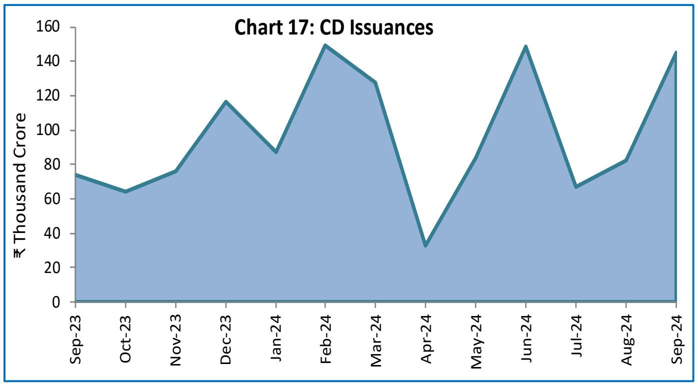
Fundraising through debt issuances by Indian companies witnessed a remarkable increase in Q2-FY25 over the previous quarter (60%) as well as from a year ago (98%). During H1-FY25, issuances shot up by 24% vis-à-vis H1-FY24. Higher issuances could be attributed to lower yields tracking similar movements in the G-Sec market, diversification in borrowing channels by NBFCs and infrastructure bond issuances by public sector banks. NBFCs have been increasingly borrowing through corporate bonds after the revision in risk weights by RBI, pushing the average share of financial companies in total issuances up from 57% in Q1-FY25 to 74% in Q2-FY25. Rating wise analysis shows pick up in average share of AAA and AA corporate bonds to 70% and 19% respectively in Q2-FY25 from 50% and 13% respectively in the previous quarter.

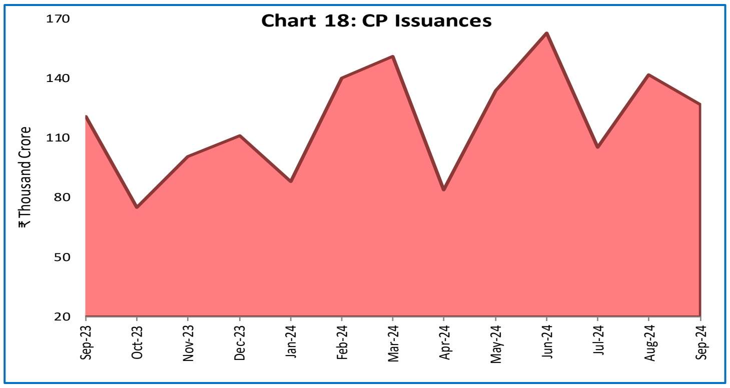




Short-term Corporate Borrowings (CDs & CPs)

Issuances of Certificate of Deposits (CDs) accelerated by 11% q-o-q to ₹2.95 lakh crore amid challenges faced by banks in mobilizing deposits to meet near-term funding needs in addition to the shortage in liquidity available with banks after mid-September due to increased credit demand around the onset of festive season. For H1-FY25, CD issuances touched ₹5.61 lakh crore clocking 67% growth over H1-FY24. In a contrasting trend, Commercial Paper (CPs) issuances decelerated marginally (2%) to ₹3.74 lakh crore in Q2-FY25 over Q1-FY25, while growing moderately in H1-FY25 compared to H1-FY24.





Corporate Debt Trading Activity

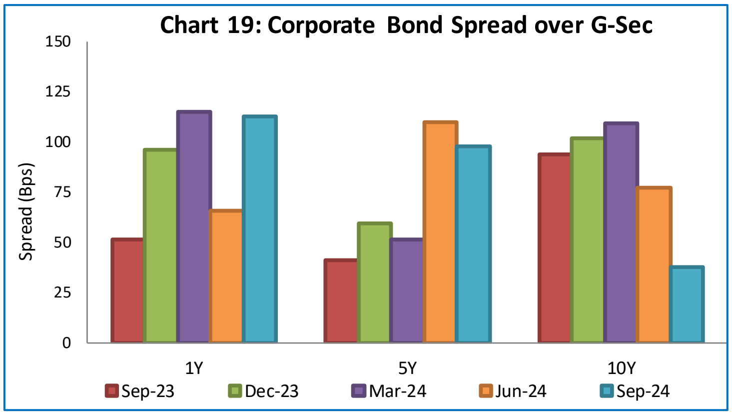
Decline in corporate bond yields spurred trading in the corporate bond market that witnessed a 33% jump in total trading against Q1-FY25. The rise was led by a 37% jump in trading of finance company bonds and 13% in infrastructure bonds; together they contributed 93% in total corporate bond trading. Similarly, trading in corporate bond repos and CPs increased by 21% and 18% respectively.

Table 9: Trading Activity in Corporate Debt Market (₹ Crore)

Quarter	Corporate Bonds	Certificates of Deposit	Commercial Papers	Corporate Bond Repo
Q2-FY24	257391	185089	173981	25418
Q3-FY24	270882	230267	188161	16408
Q4-FY24	335923	342272	205715	31130
Q1-FY25	297124	302997	188603	52265
Q2-FY25	393759	306810	222243	63204

Corporate Bond Spreads

AAA corporate bond spreads over corresponding G-Secs witnessed diverging trend with average spread for 5Y and 10Y tenors decelerating substantially in Q2-FY25 over the previous quarter, while spreads for the 1Y tenor moved up. This was possibly because of limited trading in short-term corporate bonds pushing yields up while their G-Sec counterparts declined at a faster pace due to comfortable liquidity in the system and expectations of at least a change in RBI's monetary policy stance following easing monetary policy globally. For the 5Y and 10Y tenors, AAA corporate bond yields eased faster than G-Secs bringing the spread markedly down.



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