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Financial Markets & Banking Update

Vol.2: FY2015-16

“Systemic liquidity eases as credit-offtake remains poor”

“Systemic liquidity eases as credit-offtake remains poor”

July 2015

Highlights during the quarter ended June 2015

- FII outflows of USD 0.04 billion were recorded during Q1FY16, following the robust aggregate inflows of USD 12.76 billion during Q4FY15 and USD 10.96 billion during Q1FY15. The outflow in Q1FY16 was led by the debt segment (USD 0.49 billion), whereas the equity segment recorded a marginal inflow of USD 0.45 billion.
- FDI inflows declined to USD 7.60 billion during Q1FY16 from USD 10.15 billion in Q4FY15, while rising marginally as compared to Q1FY15. On a trailing 12-month basis, FDI inflows stood at USD 33.83 billion at end May 2015, the highest levels recorded since 12-M ending April 2012.
- Gross ECB inflows declined in Q1FY16 to USD 6.28 billion from USD 7.52 billion during Q4FY15 and USD 6.55 billion in Q1FY15, as borrowing costs inched up. A significant proportion (35%) of the total ECBs raised during Q1FY16 were towards capital expenditure, followed by onward lending (16%), telecom (16%) and refinance of existing loans (13%).
- While CPI inflation rose to a nine-month high 5.4% in June 2015, factors such as the modest rise in minimum support prices (MSPs) for various crops and benign global commodity prices are expected to result in CPI inflation averaging a moderate 5.2-5.4% in H2CY15 and undershooting the RBI's projection of 6.0% in January 2016. Given the RBI's view that the real interest rate should be around 150-200 bps, the prevailing growth-inflation dynamics suggest a further reduction of 25 bps in the Repo rate during Q2FY16. The commencement of the busy season for credit offtake in Q3FY16 is likely to tighten systemic liquidity and hamper the transmission process, which mildly sways the argument in favour of a Repo rate cut in the upcoming monetary policy review.
- High frequency indicators continue to paint a mixed picture of economic growth, with contraction in merchandise and services exports and muted growth in electricity generation, railway freight and automobile sales. However, the healthy expansion in coal output, execution of road projects and cargo handled at major ports are encouraging. Moreover, the recent upward revision in the national daily minimum wage may boost consumer demand to an extent going forward. Such factors would support a mild uptick in Indian GDP growth to 7.4-7.6% in 2015-16 from 7.3% in 2014-15.
- Deposit growth (y-o-y basis) declined to 11.4% as on June 26, 2015 from 12.4% y-o-y as on June 27, 2014. As a result, aggregate deposits stood at Rs 87.99 trillion as on June 26, 2015 as compared to Rs 79.52 trillion as on June 27, 2014.
- Systemic liquidity eased during Q1FY16 (especially during the latter half of the quarter), in line with the seasonal trend as well as the sluggish growth of credit offtake. Consequently, Banks' average net Repo borrowings declined to Rs. 761 billion during Q1FY16 from Rs. 911 billion during Q4FY15. Call rate also declined and came down to 7.1% as on June 30, 2015 from 7.8% as on March 31, 2015.
- Fresh bond issuances witnessed an 81% y-o-y growth in Q1FY16 to Rs 0.92 trillion over Q1FY15, even as, on a sequential basis there has been a drop of 35%.
- After remaining inverted for most part of Q4FY15, the yield curve gradually normalised as short-term rates during the quarter declined with the improvement in systemic liquidity. Consequently, the spread between the 10-Year G-Sec and the 91-Day T-Bill increased during Q1FY16 with the 10-Year G-Sec inching 14 bps above the 91-Day T-Bill as on June 26, 2015 (vis-a-vis 10-Year G-Sec staying below 91-Day T-Bill by 23 bps)

TABLE OF CONTENTS

Highlights during the quarter ended June 2015.....	2
FOREIGN INSTITUTIONAL INVESTMENT: Net FII outflows reported during Q1FY16, with sluggishness in both debt and equity segments.....	5
FOREIGN INSTITUTIONAL INVESTMENT (EQUITY): Poor earnings visibility dampens FII equity inflows.....	6
FOREIGN INSTITUTIONAL INVESTMENT (DEBT): FII debt segment witnesses net outflows in Q1FY16.....	7
INWARD FOREIGN DIRECT INVESTMENT: Sequential decline in FDI inflows; however, on annual basis it remains stable.....	8
OUTWARD FOREIGN DIRECT INVESTMENT: Outward FDI declines sequentially; debt segment dominates by a small margin.....	9
EXTERNAL BORROWINGS: ECB Inflows decline both on a sequential as well as on a y-o-y basis.....	10
INFLATION: CPI Inflation rises to nine-month high 5.4% in June 2015, remains well below medium term target.....	11
GROWTH: High frequency indicators continue to paint a mixed picture of economic growth.....	14
DEPOSITS: Growth in deposits remains suppressed as Banks begin to partly transmit Repo rate cuts to deposit rates.....	16
CREDIT: Muted economic activity and commodity prices, as well as limited transmission of rate cuts dampen credit growth further.....	17
LIQUIDITY: Systemic Liquidity eases considerably during the latter half of Q1FY16.....	18
CORPORATE DEBT: Y-o-Y growth in bond issuances remains strong; however reports decline on a sequential basis.....	20
BOND YIELDS: Yield curve slopes upward again as short-term rates fall on the back of excessive systemic liquidity.....	21
ANNEXURE.....	23

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