

RBI to Inject ₹40K cr into Banking System via OMO

Our Bureau

Mumbai: The Reserve Bank of India will inject Rs 40,000 crore in the banking system next month, a move that will help ease cash shortage in the system and stabilise debt market rates.

“Based on an assessment of the durable liquidity needs going forward, RBI has decided to conduct purchase of government securities under open market operations for an aggregate amount of Rs400 billion in the month of November 2018,” the central bank said on Friday.

Open market operation (OMO) is an RBI mechanism to infuse or suck liquidity from the system.

The banking system has been running in deficit in the past three weeks. The daily liquidity deficit has been hovering between ₹87,500 crore to Rs 1 lakh crore, according to data from India Ratings. It widened as much as ₹1.4 lakh crore last Monday.

A cocktail of actors is blamed for such shortages. RBI’s currency intervention is one of the factors that has contributed to the tightening in banking system liquidity with the central bank’s dollar sales infusing more rupees into the system.

Cash withdrawals in the festival season is another factor. Monthly



outgoes of taxes (excise and GST) too have aided cash scarcity.

In October, RBI had announced to conduct ₹36,000 crore worth of OMO purchase.

“Announcement effect of two large back to back monthly OMO purchase calendar is conducive for the financial system, given large refinancing of CP is due in the near term amid seasonal bump up in cash in circulation,” said Soumyajit Niyogi, associate director at India Ratings. “On the other hand, sustainable impact on yield curve is likely to be limited, owing to heavy supply of SLR bonds and external headwinds,” he said.

Commercial papers (CPs) are short-term debt securities, sold by companies. As much as ₹1.80 lakh crore worth of CPs are likely to

mature in November, according to the market estimate of a fund house.

Companies sold ₹19,717 crore worth of such papers on Friday, marking a record daily volume in about a month that saw contraction in CP sales amid investor worries over non-banking companies.

Many of those issuers are from manufacturing sector including Hindustan Zinc and Vedanta. Some non-banking finance companies, including HDFC, Indiabulls Housing, Srei Infrastructure, and Muthoot Fin, too have raised money via CP sales.

“Ahead of month end, many manufacturing companies decided to roll over their commercial papers, which in turn, led to higher volumes,” said a fund manager who did not wish to be identified.

The benchmark bond yield has dipped about 43 basis points, pushing prices up for the first time in one-and-a-half months. The gauge closed at 7.88% on Friday, a tad higher than Thursday’s close.

“If crude oil does not play spoilsport, yields are set to go further lower on the back of very favorable demand supply situation in the gsec market,” said Vijay Sharma, head of fixed-income at PNB Gilts. “We expect the aggressiveness of the OMOs to well continue for next two months.”