

# Kotak Rates and FX Meter

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**Upasna Bhardwaj**

*mail: [upasna.bhardwaj@kotak.com](mailto:upasna.bhardwaj@kotak.com)*

Phone +91-22-61660531

**Avijit Puri**

*mail: [avijit.puri@kotak.com](mailto:avijit.puri@kotak.com)*

Phone +91-22-61661547

## System liquidity surplus to remain broadly unchanged

- System liquidity surplus to remain broadly unchanged.** The system liquidity surplus at the end of last week turned out to be slightly lower than anticipated owing to lower net government spending. On a WoW basis, the average liquidity surplus last week was at Rs5,215 bn as against an average surplus of Rs5,209 bn the previous week. Owing to the comfortable liquidity conditions, average overnight rates remained broadly unchanged at 3.22%, but continue to remain below the reverse repo rate. **Going ahead, we expect the system liquidity surplus to remain broadly unchanged this week as inflows from government spending, redemptions, and coupons are likely to balance the outflows from auctions and CIC leakages.**
- Government's cash balance to remain in surplus.** While state governments remained in WMA to the extent of Rs45 bn (higher than the amount of Rs24 bn last week) as of April 30, 2021, general government's cash balance, expectedly, remained at a surplus of around Rs2.1 tn. **Given the movement in liquidity numbers, we expect the government's cash balance to have increased to around Rs2.5 tn last week amidst lower than anticipated net government spending. Going ahead this week, we expect the government's cash balance to remain broadly unchanged at around Rs2.5 tn. Until this week's auction, states will have borrowed Rs447 bn less than the notified amount. Going ahead, we expect states' borrowing to normalize towards the indicated levels given that tax collections may come under pressure in the near term owing to re-imposition of localized restrictions.**
- Increase in CIC.** CIC for the week ending April 30, 2021 rose by Rs76 bn to Rs29.1 tn. The current CIC outstanding is ~14.88% of the FY2021AE nominal GDP.

### Liquidity forecast during the week: May 10– May 14 (Rs crore)

Inflows	Amount (Rs crore)	Outflows	Amount (Rs crore)
Coupon inflows	28,021	Auction	
Redemptions		- T-bill	36,000
- G-Sec	-	- State Govt	12,150
- T-bill	20,993	- Central Govt	32,000
- State Govt	3,100		
Net Government spending	35,000	CIC (incremental)	10,000
Total inflows this week	87,114	Total outflows this week	90,150
		Net aggregate liquidity this week	(3,036)
		Liquidity as of May 7	4,74,554
		Liquidity as of May 14	4,71,518

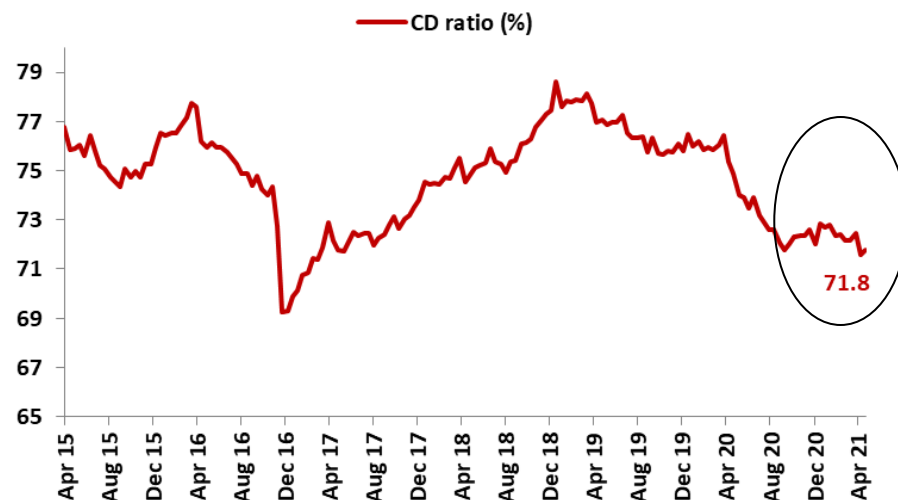
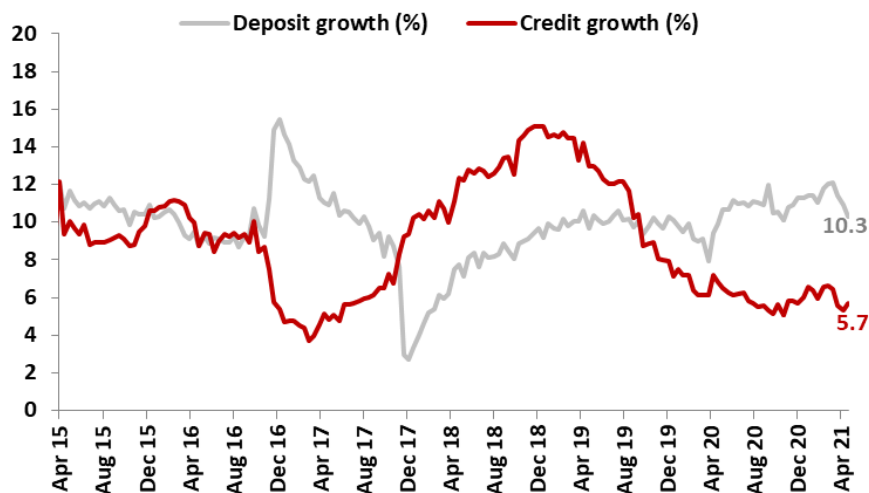
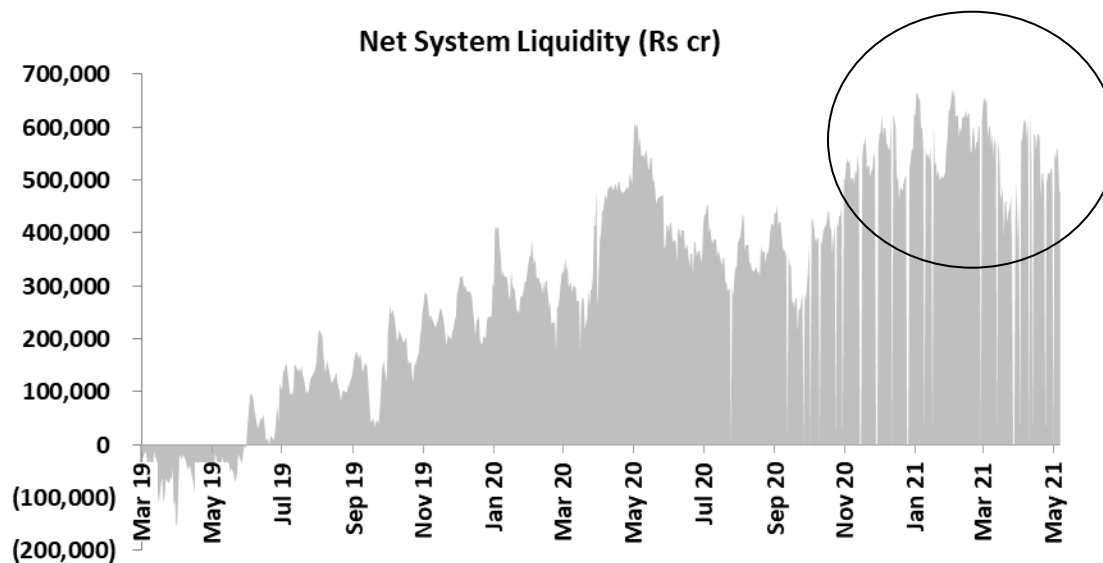
Source: RBI, CEIC, Kotak Mahindra Bank estimates

# Deposit growth continues to exceed credit growth

	Outstanding as on April 23, 2021 (Rs bn)	Change this fortnight (Rs bn)	Change in FY2022TD (Rs bn)	Y-o-Y growth (Rs bn unless mentioned)	
				FY2021	FY2022
<b>Aggregate Deposits</b>	<b>1,51,343</b>	<b>-771</b>	<b>208</b>	<b>9.9%</b>	<b>10.3%</b>
Demand	17,274	-155	-1,339	1,037	2,719
Time	1,34,070	-616	1,547	11,356	11,392
<b>Bank Credit</b>	<b>1,08,604</b>	<b>-280</b>	<b>-891</b>	<b>6.8%</b>	<b>5.7%</b>
Food	583	86	-29	95	57
Non-food	1,08,021	-367	-862	6,430	5,813
Investments in Govt. securities	44,774	-708	157	5,140	5,090
Investment in other approved securities	12	0	3	1	-1
<b>Credit-Deposit ratio (%)</b>	<b>71.76</b>				
<b>Incremental C-D ratio (%)</b>	<b>-428.35</b>				
<b>Investment -Deposit ratio (%)</b>	<b>29.59</b>				
<b>Money Supply</b>	<b>1,88,402</b>	<b>-637</b>	<b>672</b>	<b>10.8%</b>	<b>10.6%</b>

Source: RBI, Kotak Mahindra Bank

# System liquidity remains ample; credit-deposit ratio moderates further



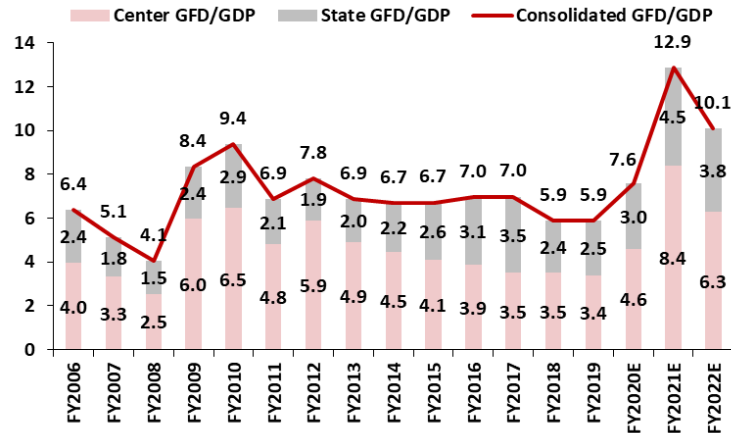
Source: RBI, Kotak Mahindra Bank

## RBI actions continue to support bond markets

- **RBI's actions continue to support bond markets.** Bond markets had a positive start to the week after the weekly auction on April 30, 2021 indicated a strong demand for dated securities. Sentiments were further boosted after the RBI Governor announced a second round of purchases worth Rs350 bn under G-SAP 1.0. As a result, yields across maturities fell by 4-7 bps on Wednesday. However, challenges of retaining the 10-year bond yield below 6% on a durable basis on the back of high supply and in the absence of incremental OMOs in the coming week led to profit booking on Friday. Overall, the 10-year benchmark (5.85% GS 2030) ended the week 1 bps lower at 6.02% WoW. **We expect the 10-year bond yield to trade around 5.95%-6.10% this week as markets await economic data.**
- **Economic data awaited.** We expect CPI inflation to moderate to 4.1% in April from 5.5% in March on the back of favourable base effects. Food inflation is expected to be lower at around 1.9% as against 4.9% in March, even though on a sequential basis food prices rose by 0.8% amidst higher prices of fruits, pulses and meat. Core inflation is expected to moderate to around 4.8% (5.7% in March), which sequentially, it may post gains of up to 0.3%. Meanwhile, WPI inflation may continue to move higher and is expected to register a reading of around 9.3% as against 7.4% in March amidst higher fuel and commodity prices. We expect IIP growth at around 20.5% (9.1% mom) as against a fall of 3.6% in February. The yoy readings from March will be unusually large as India went into a lockdown in the second half of March in 2020.
- **RBI announces measures to ease financing constraints.** The RBI, in an unscheduled meeting, acknowledged that while the macro-economic assessment has not changed significantly since the April meeting, the second wave of infections posed a risk for the nascent economic revival. While demand conditions in contact-intensive services, are likely to remain weak, the disruption in manufacturing units so far is minimal. With respect to inflation, the Governor pointed out that the inflation trajectory over the rest of the year will be shaped by the Covid infections and the impact of localized containment measures on supply chains and logistics and by commodity prices. In addition to announcing a second round of purchase of government securities for an aggregate amount of Rs350 bn under G-SAP 1.0, the RBI also announced additional measures in the form of reopening a debt restructuring scheme for individuals, small businesses and MSMEs, a liquidity facility for small finance banks that provide support to SMEs, and liquidity support for banks that provide lending support to health-related entities. Credit under this would be classified under priority sector and additionally, banks are expected to create a Covid loan book and will be eligible to park their surplus liquidity up to the size of the Covid loan book with the RBI under the reverse repo window at a rate which is 40 bps higher than the reverse repo rate.

## Weak fiscal position of the government

### Consolidated GFD/GDP set to rise substantially in FY2021



### Revenues have been normalizing gradually

Date	FY2021RE Rs bn	FYTD (Apr-Feb)		FY2021TD	FY2021	
		2021	2020	growth yoy	Current run rate	Required run rate
<b>Gross tax revenues</b>	<b>19,003</b>	<b>16,653</b>	<b>16,778</b>	<b>(1)</b>	<b>1,514</b>	<b>2,350</b>
<b>Direct taxes</b>	<b>9,108</b>	<b>7,411</b>	<b>8,207</b>	<b>(10)</b>	<b>674</b>	<b>1,697</b>
Corporation tax	4,460	3,506	4,186	(16)	319	954
Income and other taxes	4,648	3,905	4,021	(3)	355	743
<b>Indirect taxes</b>	<b>9,895</b>	<b>9,221</b>	<b>8,549</b>	<b>8</b>	<b>838</b>	<b>674</b>
Customs duty	1,120	1,128	1,050	7	103	(8)
Excise duty	3,610	3,141	1,969	60	286	469
Service tax	14	13	49		1	1
GST	5,151	4,939	5,482	(10)	449	212
<b>Net tax revenues</b>	<b>13,445</b>	<b>12,161</b>	<b>11,146</b>	<b>9</b>	<b>1,106</b>	<b>1,284</b>
<b>Non-tax revenues</b>	<b>2,107</b>	<b>1,542</b>	<b>2,631</b>	<b>(41)</b>	<b>140</b>	<b>565</b>
<b>Non-debt capital receipts</b>	<b>465</b>	<b>428</b>	<b>511</b>	<b>(16)</b>	<b>39</b>	<b>37</b>
<b>Total receipts</b>	<b>16,017</b>	<b>14,131</b>	<b>14,289</b>	<b>(1)</b>	<b>1,285</b>	<b>1,886</b>
<b>Total expenditure</b>	<b>34,503</b>	<b>28,186</b>	<b>24,654</b>	<b>14</b>	<b>2,562</b>	<b>6,317</b>
Revenue expenditure	30,111	24,134	21,607	12	2,194	5,978
Capital expenditure	4,392	4,053	3,047	33	368	339

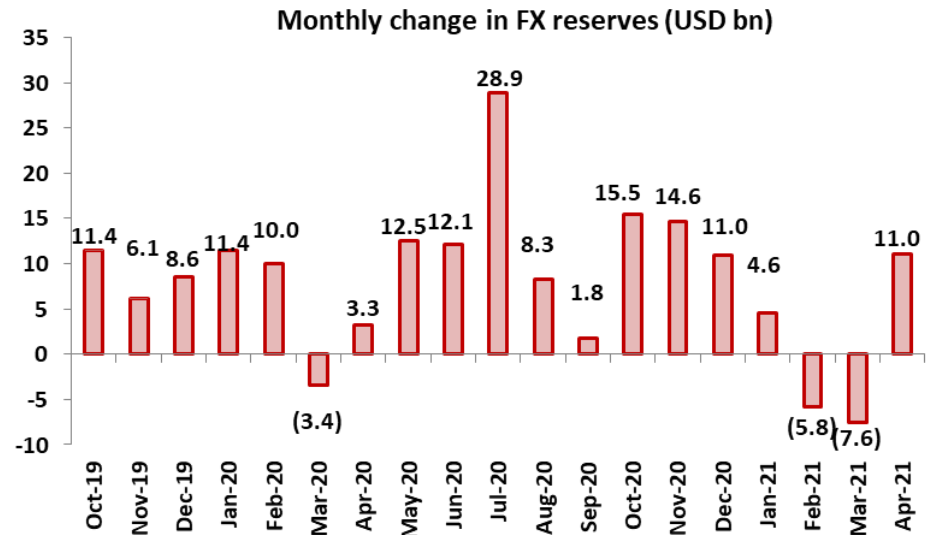
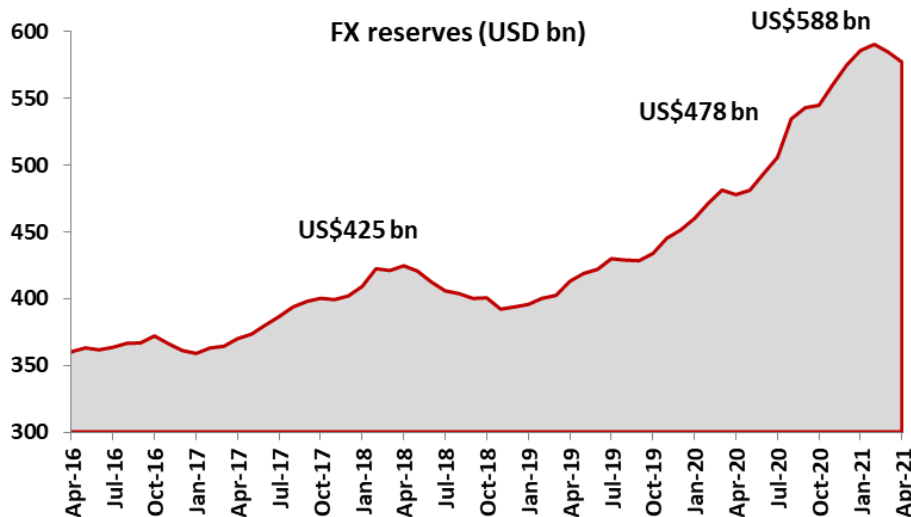
# Second wave of infections begin to weigh on economic activity from April

	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	Mar 21 /Mar 19
<b>Services</b>															
Airport passenger traffic (% yoy)	(37.8)	(99.8)	(97.5)	(85.3)	(84.1)	(78.6)	(69.5)	(62.2)	(56.5)	(50.4)	(46.6)	(42.9)	(3.4)		(39.9)
Airport cargo (%yoy)	(31.9)	(82.9)	(67.7)	(40.6)	(34.6)	(29.4)	(16.2)	(13.9)	(12.9)	(8.9)	(11.0)	(8.5)	34.2		(8.6)
Railways freight traffic (%yoy)	(18.9)	(40.1)	(28.1)	(11.6)	(7.7)	1.4	17.9	11.0	8.4	13.5	11.1	7.8	33.0		7.8
Credit to service sector (%yoy)	7.4	11.2	11.2	10.7	10.1	8.6	9.1	9.5	8.8	8.8	8.4	9.3	1.4		(1.1)
PMI Service	49.3	5.4	12.6	33.7	34.2	41.8	49.8	54.1	53.7	52.3	52.8	55.3	54.6		
Fastag payments (Rs bn)	14.2	2.5	11.4	15.1	16.2	17.1	19.4	21.4	21.0	23.0	24.0	25.6	30.9	27.8	418.1
<b>Industry</b>															
Credit growth to industry (%yoy)	0.7	1.7	1.7	2.2	0.8	0.5	(0.0)	(1.7)	(0.7)	(1.2)	(1.3)	(0.2)	0.4		1.1
IIP Mining (%yoy)	(1.3)	(26.9)	(20.4)	(19.5)	(12.7)	(8.7)	1.4	(1.0)	(5.4)	(4.2)	(2.5)	(5.5)			
IIP Manufacturing (%yoy)	(22.8)	(66.6)	(37.8)	(17.0)	(11.4)	(7.6)	0.4	4.5	(1.6)	2.1	(1.3)	(3.7)			
Steel Production (%yoy)	(21.9)	(82.8)	(40.4)	(23.2)	(6.5)	0.5	6.2	5.9	0.7	3.5	6.2	1.3	23.0		(4.0)
Cement Production (%yoy)	(25.1)	(85.2)	(21.4)	(6.8)	(13.5)	(14.5)	(3.4)	3.2	(7.3)	(7.2)	(5.8)	(5.6)	32.5		(0.8)
IIP capital goods (%yoy)	(38.8)	(92.7)	(65.9)	(37.4)	(22.8)	(14.4)	(1.2)	3.2	(7.5)	1.5	(9.0)	(4.2)			
Core sector (%yoy)	(8.6)	(37.9)	(21.4)	(12.4)	(7.6)	(6.9)	0.6	(0.5)	(1.1)	0.4	0.9	(3.8)	6.8		(2.3)
Fuel consumption (industry, (%yoy))	(7.4)	0.3	2.1	0.1	4.0	(0.9)	0.1	0.6	0.6	1.2	3.2	(1.8)	(2.6)		(9.8)
Non-oil Exports (%yoy)	(34.8)	(60.1)	(28.8)	(9.8)	(2.8)	(8.3)	6.1	2.2	0.4	5.9	12.0	2.0	62.3	200.7	5.8
PMI Manufacturing	51.8	27.4	30.8	47.2	46.0	52.0	56.8	58.9	56.3	56.4	57.7	57.5	55.4	55.5	
<b>Demand/consumption</b>															
Net govt spending (%yoy)	174.5	19.2	(24.5)	56.5	8.9	(19.8)	(37.4)	4.6	72.7	37.6	70.8	67.6			
Electricity consumption (%yoy)	(9.2)	(24.0)	(15.3)	(10.4)	(2.9)	(2.1)	4.7	12.1	3.5	5.0	4.7	7.3	22.8	40.3	11.5
Fertilizer sales (%yoy)	(17.5)	47.8	35.5	22.6	23.9	8.2	(1.4)	18.0	2.2	1.5	4.4	3.6	(6.5)		(22.8)
E-way bills daily average (mn)	1.3	0.3	0.8	1.4	1.6	1.6	1.9	2.1	1.9	2.1	2.0	2.3	2.3	2.0	75.0
Personal loan (%yoy)	15.0	12.1	10.6	10.5	11.2	10.6	9.2	9.3	10.0	9.5	9.1	9.6	10.2		26.7
Google retail and recreation (avg)	(28.8)	(81.5)	(76.1)	(59.8)	(59.3)	(51.5)	(41.9)	(33.8)	(28.1)	(27.5)	(27.6)	(22.7)	(22.1)	(38.0)	
Google work (avg)	(23.0)	(61.7)	(44.0)	(30.6)	(31.9)	(28.8)	(24.0)	(23.9)	(24.3)	(17.9)	(17.0)	(14.9)	(14.1)	(28.8)	
Passenger vehicle sales (%yoy)	(45.4)		(85.2)	(49.6)	(3.9)	14.2	26.5	14.2	4.6	13.6	11.1	17.9	115.2		(0.3)
Car registrations (daily average)	6,827	706	1,000	4,089	4,961	5,685	6,375.3	7,807	9,819	8,650	9,219	9,077	9,115	6,782.8	17.2
Two wheeler registrations (daily avg)	59,499	10,606	5,153	25,754	27,902	28,753	33,547	32,808	47,752	45,748	37,899	39,118	38,894	28,241	(14.9)
Unemployment rate (%)	23.5	23.5	20.2	8.6	8.2	8.1	5.8	6.9	7.5	9.5	6.2	7.1	6.7	7.4	
IIP Consumer durable (%yoy)	(36.8)	(95.7)	(70.3)	(34.8)	(23.7)	(10.2)	5.3	18.1	(3.2)	5.7	(0.2)	6.3			
Two wheeler sales (%yoy)	(47.1)		(83.8)	(38.6)	(15.2)	3.0	11.6	16.9	13.4	7.4	6.6	10.2	72.7		3.9
Real rural wages (%yoy)	(2.1)		0.1	1.5	0.8	(0.3)	(2.4)	(2.8)	(1.9)	1.5	2.0	1.0			
Tractor sales (%yoy)	(50.2)	(80.1)	0.5	20.2	35.9	64.8	26.7	9.0	48.3	41.2	47.5	30.4	170.4		34.7
Fuel consumption (retail, %yoy)	(18.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	(0.1)	(0.0)		(18.5)
Non-oil non-gold imports (%yoy)	(29.4)	(53.7)	(34.5)	(42.0)	(30.4)	(29.7)	(12.6)	(3.7)	(0.4)	8.9	7.3	5.9	46.7	128.8	3.2

Source: CEIC, Bloomberg, Kotak Mahindra Bank

## INR strengthens amidst positive global cues

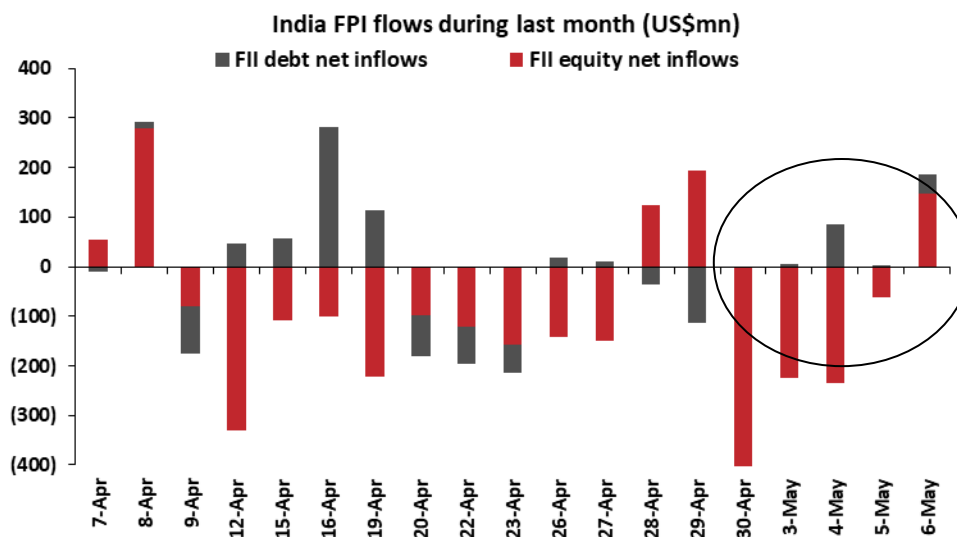
- INR strengthens amidst positive global cues.** The INR gained strength last week on the back of continued dollar weakness and positive global risk sentiments, despite the downside risks to growth from a second wave of infections along with re-introduction of localized restrictions. Fed's assurance of continued asset purchases along with weaker than expected non-farm payroll data pushed the dollar index lower by 1.15% last week. The INR ended the week 0.77% stronger at 73.51, the strongest value in more than a month. **As per our technical expert, INR is expected to trade in the range of 73-73.85 in the week ahead.**
- Weak jobs data for the US in April.** Non-farm payrolls increased by only 266k in the US as against a consensus of around 1mn. This poor outcome was confirmed by the rising unemployment rate to 6.1% from 6.0%. **We believe that the huge miss in the non-farm payrolls expectations validates the Fed's argument that the economy remains nowhere close to full employment, implying that monetary policy needs to remain accommodative for a longer time.**
- BOE to reduce the pace of bond-buying.** The BoE kept its benchmark interest rate unchanged at 0.1% and the total size of its bond-buying programme unchanged at GBP895 bn. The central bank decided to slow the pace of its bond-buying to GBP3.4 bn a week as against the current pace of GBP4.4 bn as it sharply increased its forecast for UK's economic growth in CY2021 (7.25% as against the earlier projection of 5%), but it stressed that it was not tightening monetary policy.





# FPI flows remain volatile

(US\$bn)	FII net Equity	FII net Debt	Total
1QFY20	3.1	0.2	3.3
2QFY20	(3.2)	2.5	(0.6)
3QFY20	6.1	(0.5)	5.6
4QFY20	(6.6)	(9.8)	(16.4)
1QFY21	4.2	(4.5)	(0.4)
2QFY21	6.5	(0.4)	6.1
3QFY21	19.3	0.8	20.2
4QFY21	7.3	(2.0)	5.3
1QFY22TD	(1.9)	(0.2)	(2.1)
<b>Sum FY2022TD</b>	<b>(1.9)</b>	<b>(0.2)</b>	<b>(2.1)</b>
<b>Sum FY2021TD</b>	<b>2.1</b>	<b>(1.7)</b>	<b>0.4</b>



FPI in equity witnesses monthly outflow for the first time after 6 months

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**Please contact:**

**Research Desk** at: (022) 61660531/1547

**Fixed Income Desk** at: (022) 49264401/15

**Debt Capital Market Desk** at: (022)-61660790/825

**FX Desk** at: (022) 49264414

**FX Sales** at: (022) 49264403/04/05/06

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