



## Expectations from the Issuance Calendar

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Despite the highest ever G-Sec market borrowing recorded and amidst a rising interest rate scenario, the borrowing programme was managed without a major rise in the average borrowing cost as compared to the previous year. The 10 year yield witnessed a maximum of 8.23% and a minimum of 7.38% (a 85 bps range) whilst the Repo rate was raised by 175 bps and the Reverse repo rate by 225 bps during the fiscal year. The OMO purchases conducted by RBI played a crucial role in managing the market sentiment. The strategic selection of auction securities ensured good appetite for a large part of the year and aided in managing the borrowing. The gross borrowing for FY 2011-12 has been pegged at Rs.4,17,128 Cr. The year ahead appears equally challenging with the rate tightening process expected to continue in a bid to tame inflation.

The release of the Issuance calendar for the first half of FY 2011-12 is due soon. Recent times have witnessed significant volatility around the issuance calendar announcement. The issuance calendar is not seen as merely a formal notification of the intent and manner of borrowing conduct by the RBI. The total borrowing amount, extent of frontloading, frequency of auctions, size of auctions, tenor of securities and supply in a particular bucket of tenor all influence the G-Sec yields.

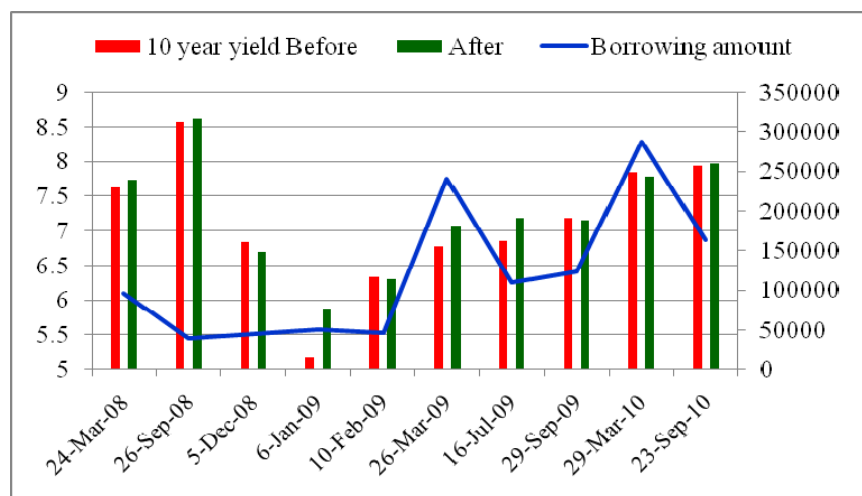
This report aims at studying the intricacies involved in framing the issuance calendar for the first half of FY 2011-12. It pencils out the various convolutions this time around in comparison to FY 2010-11 which witnessed a smooth borrowing completion. The report also presents the possible impact on G-Sec yields.

### *Analysis & study of Issuance Calendar*

#### **I. Impact of Issuance Calendar release on G-Sec yields:**

Steep volatility in 10 year yield with release of Issuance calendar

*- Issuance calendar crucial*





The chart highlights the movement in the 10 year benchmark yield around every release of the Issuance calendar since 2008. In most instances the 10 year yield has risen post the release of calendar tracking the huge borrowing amounts witnessed in the last couple of years.

## II. Borrowing snapshot:

The table below gives the broad framework with regards to the borrowing conducted in the last few years. With a rise in the borrowing amount, the last two years witnessed a front loaded calendar. A similar trend can be expected in FY 2011-12. Tools such as MSS de-sequestering would not be available in the year ahead. Conducting OMO purchases too would have to be weighed amidst a high inflation scenario.

(Rs. Cr)	2008-09	2009-10	2010-11	2011-12
Total Gross borrowing	306000	451000	447000	417128
G-Sec Market Borrowing	261000	418000	437000	417000
MSS De-sequestering	12000	33000	0	0
Number of auction weeks	27 + 3(MSS)	36	38	
Total Devolvement	9994.8	7219.2	5772.65	
Number of securities devolved	11	18	6	
H1 borrowing amount	106000	295000	284000	
As a percentage of total (%)	40.61	70.57	64.99	
H2 borrowing amount	155000	123000	153000	
As a percentage of total (%)	59.39	29.43	35.01	
Average yield of Issuance (%)	7.69	7.23	7.89	
Average maturity of Issuance (years)	13.81	11.17	11.42	
OMO purchases	46640	57487	67246.3	
Early Repurchase of securities by Govt	0	0	11261.8	

Apart from the market sentiment, the choice of auction security tenors would determine the average yield of issuance for FY 2011-12. FY 2010-11 marked issuance of a new 5 year and a new 10 year security. The year witnessed a single 10 year benchmark security. With the 10 year security nearing its issuance limit, the RBI announced buyback options in the same and kept the paper liquid through the year. It also auctioned several 2022 maturity papers (a near 10 year segment) in rotation making them all liquid. This aided a reasonable borrowing cost for the RBI. In FY 2010-11 the RBI implemented various strategies to assure a smooth completion of the borrowing program leading to lesser devolvement on PDs.



### III. Possible auction weeks for H1 FY 2011-12:

Several weeks with holidays and policy reviews

*- 19 auction Fridays available for sure*

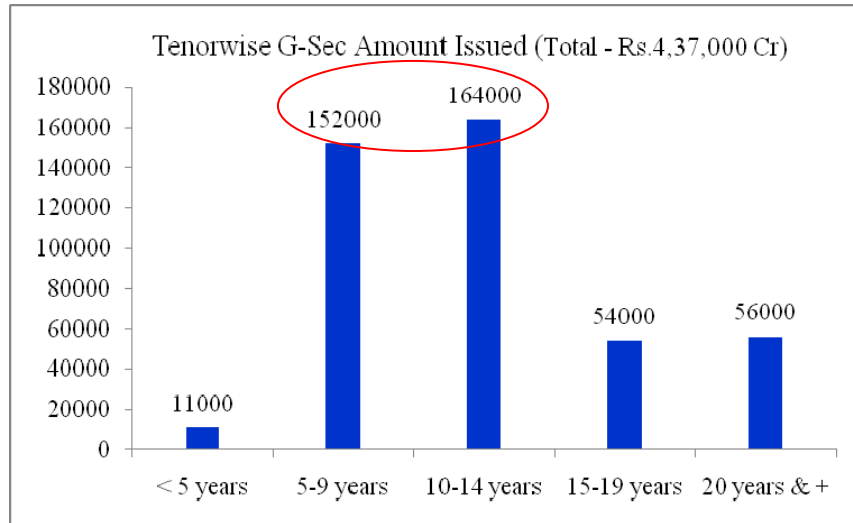
Fridays	Y indicates	Auction possible
1-Apr-11	-	Banking Holiday
8-Apr-11	Y	
15-Apr-11	-	2 Holidays in week
22-Apr-11	Y	
29-Apr-11	Y	
6-May-11	-	RBI Annual Policy week
13-May-11	Y	
20-May-11	Y	
27-May-11	Y	
3-Jun-11	Y	
10-Jun-11	Y	
17-Jun-11	??	RBI mid-quarter review week
24-Jun-11	Y	
1-Jul-11	Y	
8-Jul-11	Y	Redemption worth Rs.37,000 Cr on 2nd July
15-Jul-11	Y	9.39% GS 2011
22-Jul-11	Y	
29-Jul-11	Y	
5-Aug-11	-	RBI Q1 Policy week
12-Aug-11	Y	
19-Aug-11	-	2 Holidays in week
26-Aug-11	Y	
2-Sep-11	-	2 Holidays in week
9-Sep-11	Y	
16-Sep-11	??	RBI mid-quarter review week
23-Sep-11	Y	
30-Sep-11	Y	

The attempt here is to estimate the possible auction weeks for H1 FY 2011-12. The RBI usually avoids scheduling auctions in the weeks where Monetary Policy Reviews are scheduled. Similarly we could witness auction free weeks around the mid-quarter reviews. Also several weeks with more than one trading day holiday usually do not have scheduled G-Sec auctions. That leaves us with 19 Fridays where auctions could be conducted for sure. The month of July has large redemption and hence the borrowing calendar could be loaded in that segment.



#### IV. Possible Security Tenor:

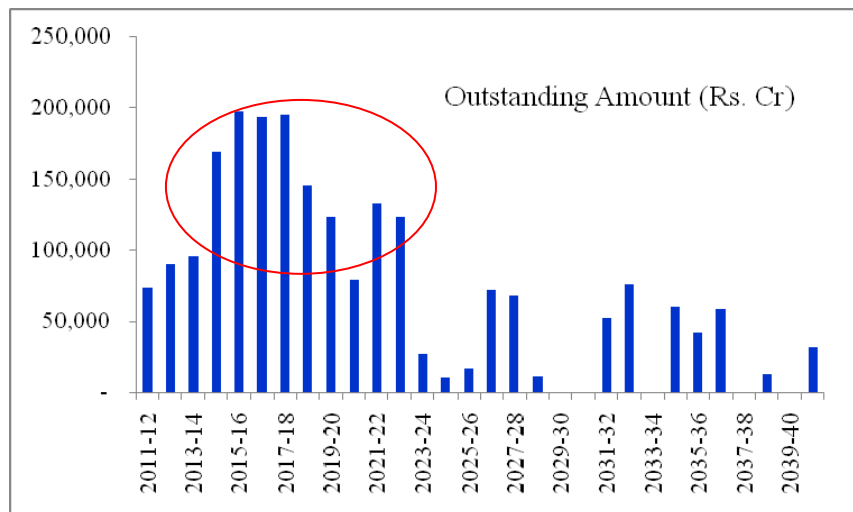
FY 2010-11 marked a gross market borrowing of Rs.4,37,000 Cr. The total devolvement was lower and the cost of issuance not too high. This was primarily tracking the major issuances bunched up in the 5-14 years segment (Rs.3,16,000 Cr i.e. 72% of the total borrowing ). The newly issued 5 year and 10 year paper kept the average issuance yield low.



Shorter end of the curve crowded

*- Borrowing cost expected to rise*

This flexibility is limited in the year ahead. The graph below gives the amount of outstanding stock for each financial year. The 5-14 year segment is heavily loaded with huge amount of redemptions scheduled in these years. Issuing securities in this segment would imply higher future gross borrowing. FY 2020-21 has an outstanding amount of Rs.79,000 Cr. A new 9 year security could be announced in this segment which would add around Rs.60,000 Cr (issuance cap) to the outstanding.





The outstanding amount is less crowded post FY 2022-23. This would however mean issuances with higher tenors taking the cost of borrowing higher. The RBI probably may use 12 – 14 year papers as the most liquid securities.

#### **V. Broad framework of the calendar:**

- i. The borrowing calendar is expected to be front loaded. Around 60% – 65% of the total borrowing could be scheduled in the first half of the fiscal. The first half borrowing would thus be in the range of around Rs.2,50,000 Cr – Rs.2,70,000 Cr
- ii. With around 19 - 22 weeks available for auctions to be scheduled the average borrowing amount per week would turn out to be around Rs.11,500 Cr – Rs.13,500 Cr
- iii. In wake of replacement demand tracking higher redemption in July, few auctions with larger size (to the tune of Rs.15,000 Cr) could be scheduled in July
- iv. Chances of large issuances in the 3 year – 6 year maturity segment remain slim
- v. A new security in the 7 year – 9 year segment can be expected as the outstanding amount in this category remains in the range of around Rs.1,00,000 Cr – Rs.1,50,000 Cr. A new 9 year paper could be announced
- vi. FY 2021-22 (outstanding Rs.1,32,846 Cr) would see issuance of a new 10 year security. A larger issuance of the first yield based auction for the same can be experimented with
- vii. FY 2022-23 (outstanding Rs.1,23,465 Cr) also serves as an issuance option. However if securities in this segment are issued in FY 2011-12, it would limit the possibility of the issuance of a new 10 year security in FY 2012-13
- viii. As observed in the current year, wherein 2022 maturity papers formed a significant chunk of the total borrowing, the year ahead could see higher issuances in the 12 – 14 year segment
- ix. Broadly once again the major borrowing would be concentrated in the 5 – 14 year segment (specifically 12 – 14 years)
- x. FY 2010-11 marked a single instance of FRB issuance, however secondary market trading in FRBs remained active. With increased market interest, the RBI may resort to higher issuances of FRBs.
- xi. The RBI may also consider issuing capital indexed bonds (CIBs) with its issuance guidelines in place

Front loaded calendar

*- Higher maturity  
issuances expected*

#### **VI. Point to ponder - Extent of Issuance Limit:**

The current issuance limit for a single security has been indicated by finmin officials at around Rs.60,000 Cr. This limit is set with a concern



towards the liquidity impact on the day of security redemption, and whether the Government would have such cash balances to meet the redemption requirements. The depth of the money market has grown and the markets would be able to absorb redemptions of this magnitude. Further as the fisc expands, the Government cash balances would be large enough 10 years from now to meet the redemption of larger amounts and a higher issuance cap would not pose a funding risk for the Government. The drawback of the capping the issuance limit at Rs.60,000 Cr is that as soon as around Rs.45,000 Cr issuance is completed in a particular security, the paper starts trading with a perceived illiquidity profile. The Government could increase the issuance cap to extend the trading life of the security, especially for the benchmark securities.

### **Conclusion:**

Post the mid-quarter March policy review, the next event awaited by market players is the announcement of the borrowing calendar for H1 FY 2011-12. The G-Sec market has rallied post the Budget wherein the borrowing estimates were announced. The fact that the total gross borrowing amount for FY 2011-12 is lower than the current fiscal provides a big relief. The market has broadly factored in a front loaded calendar with average auction size ranging between Rs.11,500 Cr – Rs.13,500 Cr almost every week. The calendar could see larger issuances at the longer end of the curve as the current year has witnessed good demand in that segment with the yield curve remaining flat. The market is expected to trade range bound till March end. The month of April may see a spike in the yields with fresh supply hitting the market. We expect the issuance of a new 10 year security in the range of around 7.95% – 8.10%. We expect the 12 year yield to trade in the range of 8% – 8.20% for a month to come. The market would take further cues from the monetary policy scheduled on May 3<sup>rd</sup>.



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