Trends in the Issuance Calendar & its Impact on Bond yields

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The year 2008-09 remains distinct with regards to several events etched forever in our minds, viz. slowdown in global economic growth, liquidity crisis, institutional failures, Government and bank bailouts and fiscal and monetary stimulus provided worldwide as a fall out of synchronized and coordinated efforts across the G20 nations. Amidst these unpleasant proceedings, what stood out was the volatility in the bond markets globally and specifically in the local markets. The bond market see-sawed, earlier rallying on the back of monetary easing and later peaking out due to the impact of fiscal profligacy.

With unprecedented fiscal stimulus rolled out globally, the brunt was borne by the fiscal health of the economies in terms of rising fiscal deficits, further leading to high borrowings announced by the Central bank. The economies still seem to be juggling with the repercussions of the recession and face high fiscal deficits, resulting in high market borrowing via bonds.

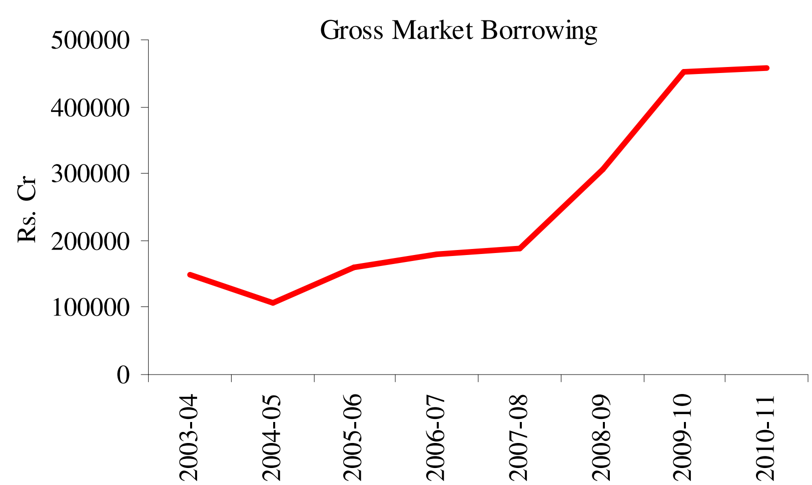
While Government bond yields are influenced by several macro factors, viz GDP growth, inflation, liquidity, capital flows, fiscal deficit, market borrowing, etc; with high volatility in all markets, the yields today are also influenced by demand supply factors such as the Issuance Calendar announced by the Central Bank for implementing the borrowing program. This report aims at highlighting the trends seen in the issuance calendar announced since the last few years and how they have impacted bond yields.

Issuance Calendar: Trends & Impact

I. Gross market borrowing:

Steep rise in market borrowing, almost 3 times of that before crisis

- Borrowing at all time high



II. Trends in Issuance Calendar:

The borrowing calendar issued by the RBI has undergone a substantial change over the years. With changing economic conditions the issuance calendar only reflects the economic scenario prevalent then.

Calendar Announced on	Covering period Start	End	No of days covered	Amount (Rs. Cr)	No. of auctions	Amount per auction (Rs. Cr)	Borrowing per day (Rs. Cr)
31-Mar-03	3-Apr-03	7-Sep-03	157	71000	9	7889	452
29-Sep-03	16-Oct-03	9-Feb-04	116	25000	5	5000	216
25-Mar-04	12-Apr-04	9-Sep-04	150	59000	7	8429	393
20-Sep-04	4-Oct-04	8-Feb-05	127	44000	7	6286	346
28-Mar-05	4-Apr-05	10-Sep-05	159	83000	11	7545	522
19-Sep-05	4-Oct-05	22-Feb-06	141	58000	8	7250	411
24-Mar-06	3-Apr-06	12-Sep-06	162	89000	11	8091	549
25-Sep-06	6-Oct-06	9-Mar-07	154	63000	9	7000	409
30-Mar-07	5-Apr-07	14-Sep-07	162	92000	11	8364	568
24-Sep-07	5-Oct-07	8-Feb-08	126	59000	7	8429	468
24-Mar-08	4-Apr-08	12-Sep-08	161	96000	11	8727	596
26-Sep-08	3-Oct-08	12-Dec-08	70	39000	5	7800	557
5-Dec-08	5-Dec-08	20-Feb-09	77	45000	5	9000	584
6-Jan-09	5-Jan-09	20-Feb-09	46	50000	5	10000	1087
10-Feb-09	20-Feb-09	20-Mar-09	28	46000	4	11500	1643
26-Mar-09	27-Mar-09	25-Sep-09	182	241000	24	10042	1324
16-Jul-09	18-Jul-09	25-Sep-09	69	110000	10	11000	1594
29-Sep-09	1-Oct-09	5-Feb-10	127	123000	13	9462	969
29-Mar-10	5-Apr-10	24-Sep-10	172	287000	23	12478	1669

Significant change in Issuance Calendar

- A reflection of the changing economic scenario

The table depicts the trends seen since the high growth period for India, viz. 2003 onwards. A few specific facts observed are:

- Prior to 2008 crisis
  - Borrowing remained in the zone of Rs.1,00,000-2,00,000 Cr.
  - Issuance calendar remained limited to being announced twice a year
  - Number of auctions in a span of almost six months remained mostly confined to single digit, implying one auction per fortnight
  - Average auction size barely crossed Rs.8,000 Cr

- The average borrowing per day remained within Rs.600 Cr
- Auctions remained limited to two securities

- Post 2008 crisis
  - Total borrowing witnessed a rising trend for the last three consecutive years
  - Borrowing sharply shot up above Rs.3,00,000 Cr
  - The year 2008-09 witnessed five announcements of the issuance calendar
  - Number of auctions for a span of six months remained above 20, implying auction every week
  - Average auction size crossed Rs.10,000 Cr
  - The average borrowing per day crossed Rs.1,000 Cr touching as high as around Rs.1,650Cr
  - Multi-security auctions, three and sometimes even four securities were auctioned

III. Impact on G-Sec market:

Calendar Announced on	Amount (Rs.Cr)	10 year yield Before	On	After	% change before/after
31-Mar-03	71000	5.16	5.16	5.13	-0.6
29-Sep-03	25000	5.25	5.24	5.15	-1.9
25-Mar-04	59000	5.18	5.17	5.16	-0.4
20-Sep-04	44000	6.12	6.16	6.12	0.0
28-Mar-05	83000	6.66	6.67	6.67	0.2
19-Sep-05	58000	7.02	7	7	-0.3
24-Mar-06	89000	7.39	7.39	7.43	0.5
25-Sep-06	63000	7.63	7.56	7.59	-0.5
30-Mar-07	92000	7.97	7.98	8.19	2.8
24-Sep-07	59000	7.93	7.93	7.92	-0.1
24-Mar-08	96000	7.63	7.98	7.73	1.3
26-Sep-08	39000	8.57	8.6	8.62	0.6
5-Dec-08	45000	6.84	6.76	6.69	-2.2
6-Jan-09	50000	5.17	5.3	5.87	13.5
10-Feb-09	46000	6.33	6.49	6.3	-0.5
26-Mar-09	241000	6.77	7.02	7.08	4.6
16-Jul-09	110000	6.85	6.79	7.19	5.0
29-Sep-09	123000	7.19	7.22	7.16	-0.4
29-Mar-10	287000	7.85	7.76	7.79	-0.8

A look at the table reflects the volatility introduced in the bond yields in wake of the announcement of the issuance calendar.

Issuance calendar impacted market yields

- Extreme volatility in recent times

Pre-Lehman crisis the issuance calendar seemed to be merely a formal notification of the intent and manner of borrowing conduct by the RBI. The markets almost never faced any unanticipated moves from the Central Bank. The volatility in the 10 year yield thus remained negligible. However, post crisis, the markets have witnessed significant volatility around the issuance calendar announcement. The size of auctions, tenor of securities, supply in a particular bucket of tenor, frequency of auctions, extent of frontloading and the total borrowing size all influenced the G-Sec yields. Specific examples around January 2009, March 2009 and July 2009 have imparted volatility as high as 5% and above in the 10 year G-Sec yield within a single day. January 2009 announced additional borrowing out of the Budget and hence the 10 year lost around 57 bps (almost 13.5%) in a day. March 2009 announced a heavily front loaded calendar and hence the market witnessed a sell-off. The markets seem to remain steady only in case where most parameters about the calendar had been factored in by the market players.

IV. Measures taken by RBI

The RBI has commendably kept pace with the changing economic and market dynamics. The recent past has demanded a cautious implementation of the borrowing program by the RBI. A few specific changes that RBI has adopted over time are quick reactions to the feedback received from market participants to ensure a smooth borrowing program. The Central Bank has adopted several measures with respect to the issuance calendar in this direction, viz:

Measures taken to ease borrowing

- RBI adopted a versatile stance

- Introduce more securities rather than a greater size for one particular security
- Balance the tenor of the securities in a manner to avoid extreme volatility in market
- Carefully select auction securities, trying out rotation of securities to keep them all liquid
- Re-introduce FRBs to avoid a steep rise in yields

With the Government having announced fiscal stimulus packages to boost economic growth, the RBI had to then take the onus of successfully completing the huge borrowing program. While the Indian economy is on the path of fiscal consolidation, the challenge remains for RBI to ensure that the fiscal deficit is funded smoothly ahead and that the issuance calendar remains as non-disruptive as possible.

V. What lies ahead:

As we await the borrowing calendar for the second half of the current fiscal year to be announced on September 23, all guesses from market players remain inadequate to come to a conclusion. The start of the year witnessed a windfall gain of almost Rs.71,000 Cr from the 3G and BWA auctions which led to hopes of a reduced borrowing. The additional grants demanded from the Government however consumed most of this additional revenue. The buoyant tax collections again spur hopes of some marginal reduction in the borrowing calendar. The same remains true albeit on the back of the successful completion of the divestment program (to the tune of Rs.40,000 Cr). Several comments from various Government officials have hinted at no reduction and also no increment in the borrowing amount for H2 FY 2011. We now expect the RBI to not announce any major reduction or increase in the borrowing amount for H2. What remains to be seen at this stage is whether the auction size is reduced or whether the frequency of auctions is tinkered with.

The current fiscal year's market borrowing stands pegged at Rs.4,57,143 Cr. A borrowing of Rs.2,84,000 Cr completed (with one auction to go on September 24) for the first half of the fiscal leaves the market with a borrowing of around Rs.1,73,000 Cr for the second half of the year. The balance borrowing could be attained via smaller auction sizes every week (around Rs.8,000 Cr). Another option would be skipping weeks in between and balancing it by having auctions worth Rs.10,000-12,000 Cr in the remaining weeks. A few weeks need to be given a break considering festival holidays and hence truncated working weeks.

Conclusion:

The Issuance calendar has witnessed several changes through the years, the changes being more pronounced in the recent past. The market yields often get impacted by the announcement of the calendar. Several factors such as the size of auctions, tenor of securities, supply in a particular bucket of tenor, frequency of auctions, extent of front loading and the total borrowing size have become crucial in the recent times. In anticipation of no change in the borrowing for H2 FY 2011, we expect the bond yields to be only influenced by the tenor of securities announced, the bucket distribution, the frequency of auctions and the size of weekly auctions. We expect the 10 year benchmark security to trade in the range of 7.90 - 8.05% for the month to come.

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