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FIRST LIGHT

12 September 2023

RESEARCH

BOB ECONOMICS RESEARCH | MONSOON UPDATE

Monsoon and Sowing progress

BOB ECONOMICS RESEARCH | CERTIFICATES OF DEPOSIT

The CD market in FY24

Daily macro indicators

Indicator	7-Sep	8-Sep	Chg (%)
US 10Y yield (%)	4.24	4.26	2bps
India 10Y yield (%)	7.18	7.21	3bps
USD/INR	83.21	82.95	0.3
Brent Crude (US$/bbl)	89.9	90.7	0.8
Dow	34,501	34,577	0.2
Hang Seng	18,450	18,202	(1.3)
Sensex	66,266	66,599	0.5
India FII (US$ mn)	**6-Sep**	**7-Sep**	**Chg ($ mn)**
FII-D	21.0	49.0	28.0
FII-E	(340.9)	(86.5)	254.5

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: MONSOON UPDATE

India's South-West monsoon cumulatively stands at 10% below LPA till 11 Sep 2023. Sparsity of rainfall has resulted in kharif sowing standing at the same levels as last year, with lower sowing area of pulses, oilseeds and cotton. All regions have recorded lower rainfall. Furthermore, 8 subdivisions and 6 states, have received scanty rainfall during this period (1 June-11 Sep 2023). Erratic rainfall is expected to impact crop output and push domestic prices higher. However, supply side intervention by government might keep a check on rising prices. RBI also expects inflation will start easing in Q3FY24.

Click here **for the full report.**

INDIA ECONOMICS: CERTIFICATES OF DEPOSIT

To augment funds, banks have relied on alternative sources, one of which is through issuance of Certificate of Deposits or CDs. In recent times, there was a strong revival in credit demand, with credit growth registering double-digit growth. A revival in industrial activity along with government's capex push have contributed to an increase in credit. Retail credit also has been growing at a steady rate. However, there has not been a commensurate increase in deposit growth notwithstanding the increase witnessed due to the exchange of Rs 2000 notes. As a result, banks had to increase their reliance on other sources of funds to meet the growing credit demand. In this study, we are looking at the trends in CD issuances in FYTD24 (upto Aug'23). We also attempt to calculate the imputed yield on CDs that the banks are paying.

Click here **for the full report.**

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MONSOON UPDATE

11 September 2023

Monsoon and Sowing progress

Jahnavi Prabhakar
Economist

India's South-West monsoon cumulatively stands at 10% below LPA till 11 Sep 2023. Sparsity of rainfall has resulted in kharif sowing standing at the same levels as last year, with lower sowing area of pulses, oilseeds and cotton. All regions have recorded lower rainfall. Furthermore, 8 subdivisions and 6 states, have received scanty rainfall during this period (1 June-11 Sep 2023). Erratic rainfall is expected to impact crop output and push domestic prices higher. However, supply side intervention by government might keep a check on rising prices. RBI also expects inflation will start easing in Q3FY24.

Where does Kharif sowing stand?

Overall total kharif sowing as of 8 Sep 2023 stands at the same level as last year levels at 1088.5 lakh ha. Sowing of coarse cereals has improved by 0.5% supported by higher sowing of Maize (2.9% and Bajra (0.5%). Rice and sugarcane sown area has expanded further by 2.7% and 7.6% respectively. Conversely, acreage of pulses lags behind by (-) 8.6% led by lower sowing area of Arhar (5.9%) and Urad (14%). Additionally, Sowing area of cotton and jute & mesta has declined by (-) 1.5% and (-) 5.7% compared with the last year levels. Even oilseeds area is down by (-) 0.9%, though soybean registered an improvement.

Table 1: Kharif Sowing

	Area sown in 2023-24 (Lakh ha)	Area sown in 2022-23 (Lakh ha)	Change (YoY %)
Coarse Cereals	182.2	181.2	0.5
Jowar	14.1	15.6	(9.6)
Bajra	70.8	70.5	0.5
Maize	83.3	81.0	2.9
Rice	403.4	392.81	2.7
Pulses	119.9	131.2	(8.6)
Oilseeds	191.5	193.3	(0.9)
Cotton	125	126.9	(1.5)
Sugarcane	59.9	55.7	7.6
Jute and Mesta	6.6	7.0	(5.7)
All Crops	1088.5	1088.1	0

Source: CEIC, Bank of Baroda | Data as of 8 Sep 2023

Monsoon:

For the period 1 Jun 2023 to 11 Sep 2023, South West Monsoon is 10% below LPA compared with last year.

CERTIFICATES OF DEPOSIT

11 September 2023

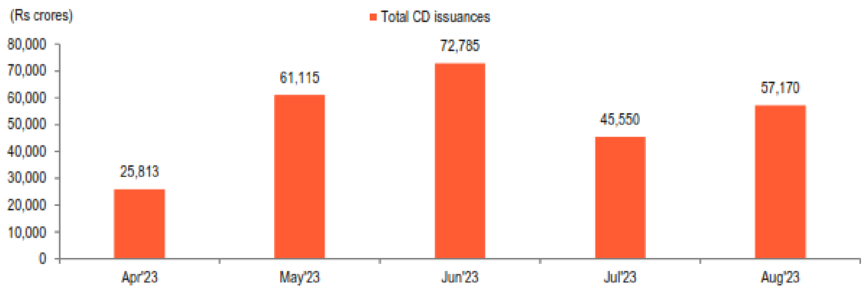
The CD market in FY24

Aditi Gupta
Economist

To augment funds, banks have relied on alternative sources, one of which is through issuance of Certificate of Deposits or CDs. In recent times, there was a strong revival in credit demand, with credit growth registering double-digit growth. A revival in industrial activity along with government's capex push have contributed to an increase in credit. Retail credit also has been growing at a steady rate. However, there has not been a commensurate increase in deposit growth notwithstanding the increase witnessed due to the exchange of Rs 2000 notes. As a result, banks had to increase their reliance on other sources of funds to meet the growing credit demand. In this study, we are looking at the trends in CD issuances in FYTD24 (upto Aug'23). We also attempt to calculate the imputed yield on CDs that the banks are paying.

Figure 1 shows CD issuances till Aug'23. It can be seen that CD issuances increased steadily from Rs. 25,813 crore in Apr'23 to a high of Rs. 72,785 crores in Jun'23. Thereafter, there was some moderation in Jul'23. It is to be noted that liquidity in the system remained in surplus mode at above Rs 1 lakh crores in Jul'23. In Aug'23, with RBI mandating banks to maintain an incremental CRR of 10% of NDTL, and the resulting squeeze on liquidity, CD issuances once again increased and rose to Rs. 57,170 crore. In FYTD24, CD issuances stand at Rs. 2.62 lakh crores, higher compared with Rs. 2.5 lakh crores in the same period last year. With the upcoming festive season and tax outflows this trend is likely to continue in the near future.

Figure 1: Trends in CD issuances in FYTD24 (up to Aug'23)



Source: CCIL-F Trac Database, Bank of Baroda Research

Table 1 shows that in FYTD24, public sector banks (PSBs) were the major borrowers through the CD route. In fact, PSBs accounted for over 65% of all CD issuances in this period. Compared with last year, CD issuances by PSBs are ~30% higher on a YoY basis. PSBs, such as Canara Bank, Punjab National Bank, Bank of Baroda and Indian Bank account for 52% of the CD issuances this year. Private Banks (PVBs) accounted for another 26% of total CD issuances this year. On a YoY basis, CD issuances by PVBs is however lower by 25% when compared with the same period last year. Major borrowers within PVBs are Axis Bank and IDFC First Bank with a large share in total CD issuances in FYTD24. This is followed by ICICI Bank.

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