

Nov sees most issuances of CDs in FY24

ANJALI KUMARI
Mumbai, 1 December

Amid deficit liquidity in the banking system, November witnessed the highest issuances of certificates of deposits (CDs) this financial year. In November, banks issued CDs worth ₹75,884 crore, according to the data with Clearing Corporation of India Ltd (CCIL).

CDs are short-term debt instruments used by banks to raise funds. Issuances in November were the highest after March.

Banks issued CDs worth ₹63,946 crore in October.

As the banks rushed to raise funds through CD issuances, the rates on the short-term debt instruments surged in November. The rates on three-month, six-month, and 12-month CDs rose 10 basis points, 19 basis points, and 16 basis points, respectively. "CD issuances are increasing because of deficit liquidity and also funds are going towards IPO funding," said Venkatakrishnan Srinivasan, founder and managing partner, Rockfort Fincap.

The Reserve Bank of India infused ₹48,754 crore on Thursday.

The deficit widened to near a five-year high on November 21 on the back of monthly goods and services tax payments. The central bank had infused ₹1.74 trillion on that day.

Market participants expect banks might keep raising funds through CDs as liquidity might continue to remain tight till the end of the current calendar year.

"Liquidity is very tight, and it should remain like this until the end of this year (calendar year), so banks will continue to raise funds through short-term instruments," a dealer at a state-owned bank said.

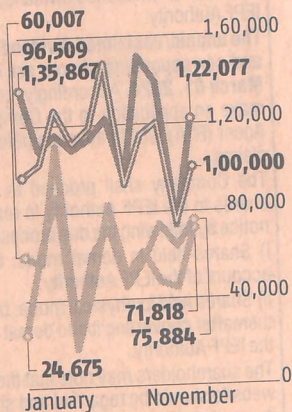
THE TREND

Commercial paper

— 2022 — 2023

Certificate of deposit

— 2022 — 2023 (₹ cr)



Source: primedatabase.com

Market participants expect liquidity to ease slightly by the end of December due to redemptions and government spending. Government bonds amounting to ₹78,834 crore are set to mature on December 15. Within the redemptions of ₹2.8 trillion slated for the second half of the current financial year, ₹2.2 trillion worth of bonds were scheduled to mature in the October-December quarter.

"Liquidity is in deficit mode despite redemptions because banks have been deploying funds in the auctions," a dealer at another state-owned bank said. "We can see the impact of deficit liquidity in the auction cut-offs too," he added.

Meanwhile, issuances of commercial paper rebounded in November.

Commercial paper is an unsecured form of short-term debt issued by corporations, serving as a financial tool primarily directed at addressing immediate financial obligations.