Additional Borrowing by Central Government – An Overview

Kumaresh Ramakrishnan
Head - Fixed Income

The bond markets have been spooked by the additional borrowing announced by the government yesterday. Though an additional borrowing of around Rs. 300-350 billion was factored in by the markets the figure of Rs. 730 billion (500 billion via Gilts + 230 billion via Tbill) was a negative surprise.

Government has not come out with the fiscal deficit number but if we take into account the higher borrowing then the fiscal deficit should print closer to 3.7% for FY18.

Given the fact that the RBI has already done OMO sales to the tune Rs. 900 billion, along with the normal borrowing by the government, the market's appetite for the additional borrowing is limited and we expect the yields to stay elevated in the near term.

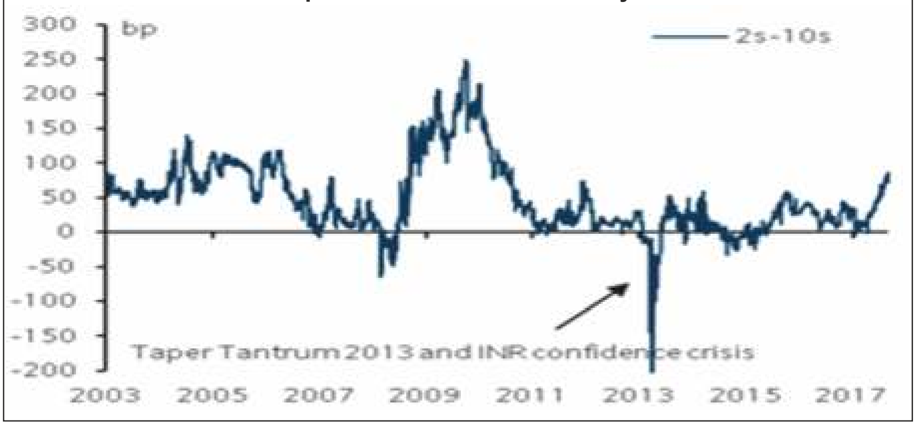
In our view the curve will steepen further as the majority of the fresh Gilt supply is concentrated in the 10-14yr segment (53% of the incremental borrowing). We do not expect the 10yr yield to go above 7.50% and expect the near term range for the benchmark to be 7.25-7.50%.

The next trigger for the markets will be the Union Budget and until then, the markets shall remain in an uncertain zone.

Tenor	Revised Q4FY18 share	Q4FY18 budgeted	Total H2FY18 Share	H1FY18 Share
5-9 Y	20%	12%	20%	19-26%
10-14 Y	53%	23%	51%	41-47%
15-19 Y	13%	12%	14%	13-19%
20 Y+	14%	12%	14%	14-20%

Source: RBI

The Steepness in Yield Curve is likely to Persist



Source: Bloomberg, Barclays