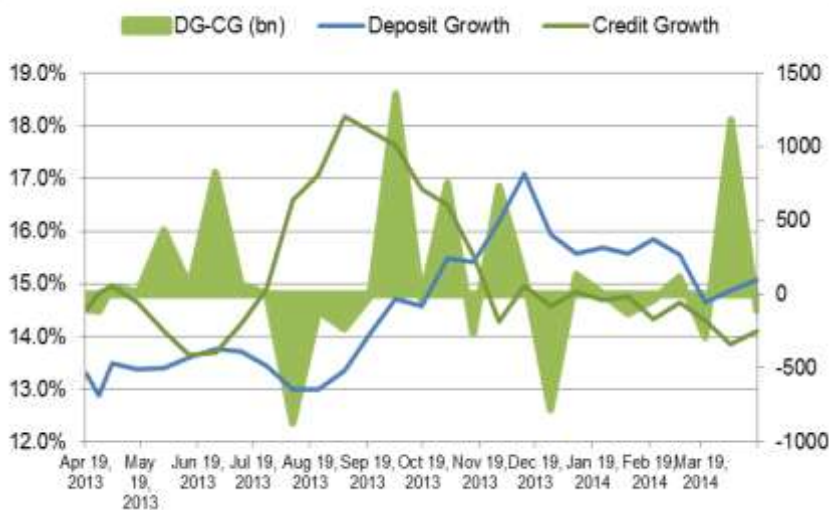


- Liquidity, we believe, may improve considerably this month. Money market yield curve is expected to marginally bull steepen. Our model suggests, May will end with a better figure on liquidity deficit.
- Liquidity deficit, which by April was seen at ~1.37tn, is expected to ease to 750-850bn. Government expenditure coupled with Interest and Redemption payment will support overnight rates.
- Currency in circulation which pushed up liquidity deficit in April may rather remain comfortably quite this time. We assume currency leakage to follow an annual growth path of ~9.5%
- As discussed in our previous note (*"Looking at subsiding demand in the initial days of April and RBI's policy it may rollover term repo worth -600bn."*), RBI has limited term repo to ~610bn. RBI is unlikely to announce more term repo this month (If it does, may keep maturity extremely short) unless system faces severe inflow outflow mismatch.
- Reserve money in the first three weeks of April itself rose by ~390bn. RBI has been pretty aggressive in accumulating FX reserves. We expect RBI to add ~300bn this month. However the probability of prognosis going wrong remains high given outlying election results may compel the central bank to tweak its stance with the then environment.
- First two weeks may see tad tight liquidity after which consistent inflows via redemption and interest payment will support overnight rates and short end of the money market.
- Spread between end June and early July may exacerbate from current levels of ~40bps.



Source: Reuters, RBI, Mycap. Estimates

Important numbers from RBI's B/L (in bn)				
Particulars	18-Apr	11-Apr	4-Apr	28-Mar
Currency in Circulation	13276	13134	12888	12835
State WMA	19.45	16.38	28.40	14.88
Cent. WMA	-	-	-	-
Govt. Cash Balance	1	60	150	534

Cash Inflows in Crs.			
Date	Instrument	Payment	Amount
3-May	Gsec	Interest	4157
5/6/7 May	Gsec&SDLs	Interest	1148
8-May	Tbills&SDLs	Int.&Redpm.	21334
9/10 May	SDLs	Interest	640
12-May	Gsec&SDLs	Interest	1125
15-May	Tbills&Gsec	Int&Redmp	48357
17-May	SDLs	Interest	94
19-May	SDLs&Gsec	Interest	420
20-May	Gsec&SDLs	Int.&Redmp.	8299
21-May	Gsec&SDLs	Int.&Redmp.	736
22-May	Tbills&SDLs	Int.&Redmp.	13654
23/24 May	Gsec&SDLs	Int.&Redmp.	3456
26-May	Gsec&SDLs	Int.&Redmp.	2758
27-May	SDLs	Interest	168
28-May	Gsec&SDLs	Int.&Redmp.	8851
29/30May	Tbills&Gsec	Int.&Redmp.	25582
<b>Total</b>			<b>140779</b>

Cash Outflow in Crs.		
Date	Instrument	Noti. Amount
2-May	Gsec Auction	16000
6-May	SDLs (estimated)	9000
7-May	T-bills Auction	15000
9-May	Gsec Auction	16000
13-May	T-bills Auction	15000
16-May	Gsec Auction	20000
20-May	SDLs (estimated)	10000
21-May	T-bills Auction	15000
23-May	Gsec Auction	16000
28-May	T-bills Auction	15000
30-May	Gsec Auction	16000
<b>Total</b>		<b>163000</b>

Parameters (Amt in bn)	Apr-14	May-14
Opening Liquidity	-1377	-1343
<b>A. Inflow s</b>	<b>2250</b>	<b>2348</b>
A1. Gsec&SDLs	719	742
A2. Tbills	550	666
A3. Govt. Expenditure	981	940
A4. OMO	0	0
<b>B. Outflow s</b>	<b>2216</b>	<b>1750</b>
B1. Gsec&SDLs	822	1010
B2. Tbills	993	800
B3. Govt. Revenue	170	335
B4. Currency in circulation	440	-25
B5. CRR	226	-70
B6. FX Intervention	-435	-300
Closing Liquidity	-1343	-746

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