

Issues in Development & Regulation of Money, Forex and G Sec. Markets

FINANCIAL MARKETS DEPARTMENT

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AUGUST 10, 2012

Money Markets

Major segments :

LAF, CALL, CBLO, REPO, CPs, CDs

MAJOR POLICY OBJECTIVES OF RBI

- Effective transmission of Monetary Policy
- Operating Target :WACR (Weighted Average Call Rate)
- LAF Comfort zone of RBI \pm 1% of NDTL
- Interest Rate Corridor: Reverse Repo-Repo-MSF

Issues

- Liquidity forecasting
- Three major factors :
 - Government balances
 - Currency in Circulation
 - Forex Intervention
- Dichotomy between Deposit and Credit growth

Operating tools – Related Issues

- Open Market Operations
- Impact on Yield curve
- Spread between T bills and G Sec 10 years
- Expected Impact of recent SLR cut

Major money market segments - Issues

- Call Money – Inter bank/PD Market
- CBLO : Circularity of funds – Volatility in rates
- CPs – Base Rate discipline
- CDs – High Proportion

Forex Market

- Volumes in the Market
- Market Volatility – Bid offer spread
 - Unidirectional bias
 - REER/NEER
- Factors (Global) – US downgrade
 - European Crisis
 - Slowing Growth

Domestic Factors :

- High CAD
- Huge Lumpy Oil Demand
- Gold imports
- Perceived policy paralysis
- Restrictions on FII investments
- Impact of Currency Futures/NDF

Measures initiated by RBI

Flow enhancing measures:

- Deregulation of NRE rates
- Increase in ceiling of FCNR(B) rates
- FII investment limits in G. Secs/Corporate Bonds
- EEFC measures

Administrative Measures :

- Past Performance based booking
- Cancellation and Rebooking
- Open Position/Intra-day limits
- Arbitrage between OTC and futures

Govt. Securities Market

Factors impacting markets

- Increasing Govt borrowing programme
- Primary Auction fatigue
- Role of Primary Dealers
 - Commitment/Devolvement, Exclusivity
- Fiscal Management – Rating Outlook
- FII investment limits

Liquidity of G Sec Markets

- SLR commitments – Buy to hold-HTM related issues
- Short sale of G Secs.
- Underdeveloped repo market
- Active consolidation by Govt.
- Derivatives market –
IRF-Cash Settlement