

STATE GOVERNMENT FINANCES- Weekly SGS

**Yield curve inverted at the longer end in
today's SGS auction**

NOVEMBER 22, 2022





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7 states raised Rs. 150 billion in today's auction, 18% lower than indicated

Weighted average cut-off of SGS rose by 1 bp to 7.68% today

Spread between 10-year SGS and G-sec yield remained unchanged at 41 bps today from last week

Seven raised Rs. 150 billion through state government securities (SGS) on November 22, 2022, nearly 18% lower than the Rs. 183 billion indicated for this week in the Q3 FY2023 auction calendar. The trend of lower-than-indicated SGS in November 2022, suggests a comfortable cash-flow position of the states following the release of two instalments of tax devolution to the state governments by the Government of India (GoI), on November 10, 2022. The weighted average cut-off of the SGS rose by 1 bp to 7.68% today from 7.67% in the last auction, despite a sharp increase in the weighted average tenor to 17 years from 12 years. The 10-year G-sec (7.26 GS 2032) yield increased to 7.29% today from 7.26% last Tuesday. Moreover, the weighted average cut-off of the 10-year SGS increased to 7.70% today from 7.67% last week. Accordingly, the spread between the 10-year SGS and G-sec yield remained unchanged at 41 bps today relative to last week.

Nine states (Chhattisgarh, Gujarat, Jharkhand, Kerala, Nagaland, Punjab, Rajasthan, Uttar Pradesh and West Bengal) did not participate in today's auction, even though they had indicated a combined borrowing of Rs. 116 billion for this week. Tamil Nadu and Goa together borrowed Rs. 7 billion less than indicated. However, Karnataka and Haryana issued additional SGS of Rs. 70 billion and Rs. 5 billion, respectively, beyond what they had indicated. Additionally, Meghalaya and Telangana, respectively, issued Rs. 4 billion and Rs. 10 billion SGS today even though they had not indicated their participate in today's auction. Notably, as much as 53% of the total issuance of Rs. 150 billion today was by Karnataka (Rs. 80 billion). After nil issuance in April-October 2022, Karnataka has now raised Rs. 120 billion in the last two auctions, a YoY rise of ~20%. Karnataka raised 15-year SGS at a higher cut-off of 7.74% compared to 20-year issuance at a cut-off of 7.66%, indicating an inverted curve. Moreover, Telangana raised 21-year and 22-year SGS and Tamil Nadu issued a 25-year paper at a cut-off of 7.63% each, lower than the weighted average cut-off of 10 SGS of 7.70%, indicating healthy appetite for longer tenor issuance.

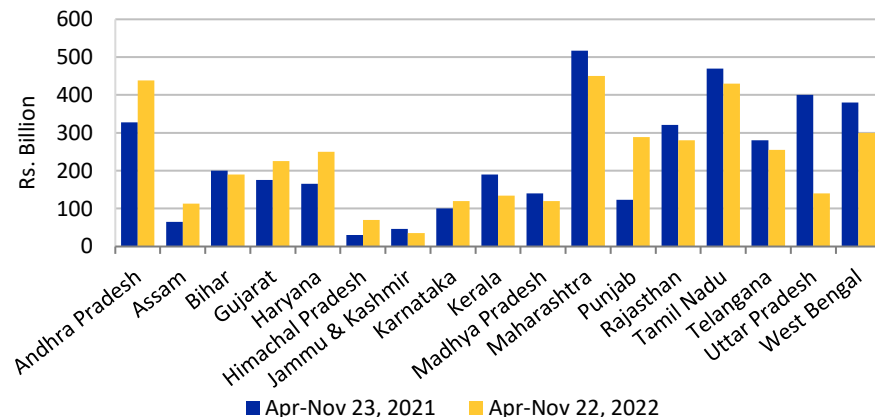
In today's auction, a modest Rs. 14 billion (or ~9% of the total) was in the in the shorter tenor, Rs. 21 billion (or ~14% of the total) was in the 10-year bucket and balance Rs. 115 billion (77% of the total) was in the longer tenor.

SGS issuance has eased by 3.7% YoY during Apr-Nov 22, 2022; Arunachal Pradesh, Chhattisgarh, Tripura and Odisha are yet to raise SGS in FY2023 so far

Exhibit: SGS issuances during FY2023 (so far)

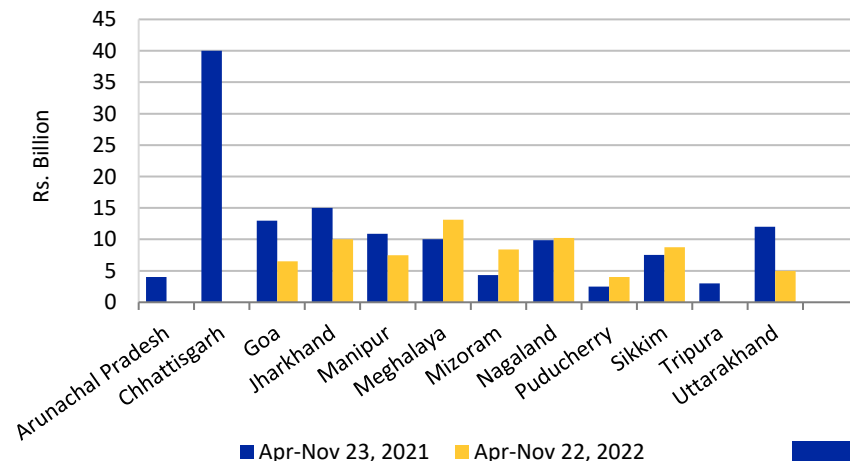
Amount in Rs. Billion	Indicated	Notified*	Raised	Cumulative till this week
Week of November 22, 2022	183	150	150	3,913
Week of November 23, 2021	128	87	81	4,062
Growth	43.0%	71.5%	84.2%	-3.7%

Exhibit: Cumulative SGS issuance during Apr-Nov 22, 2022, and year-ago level



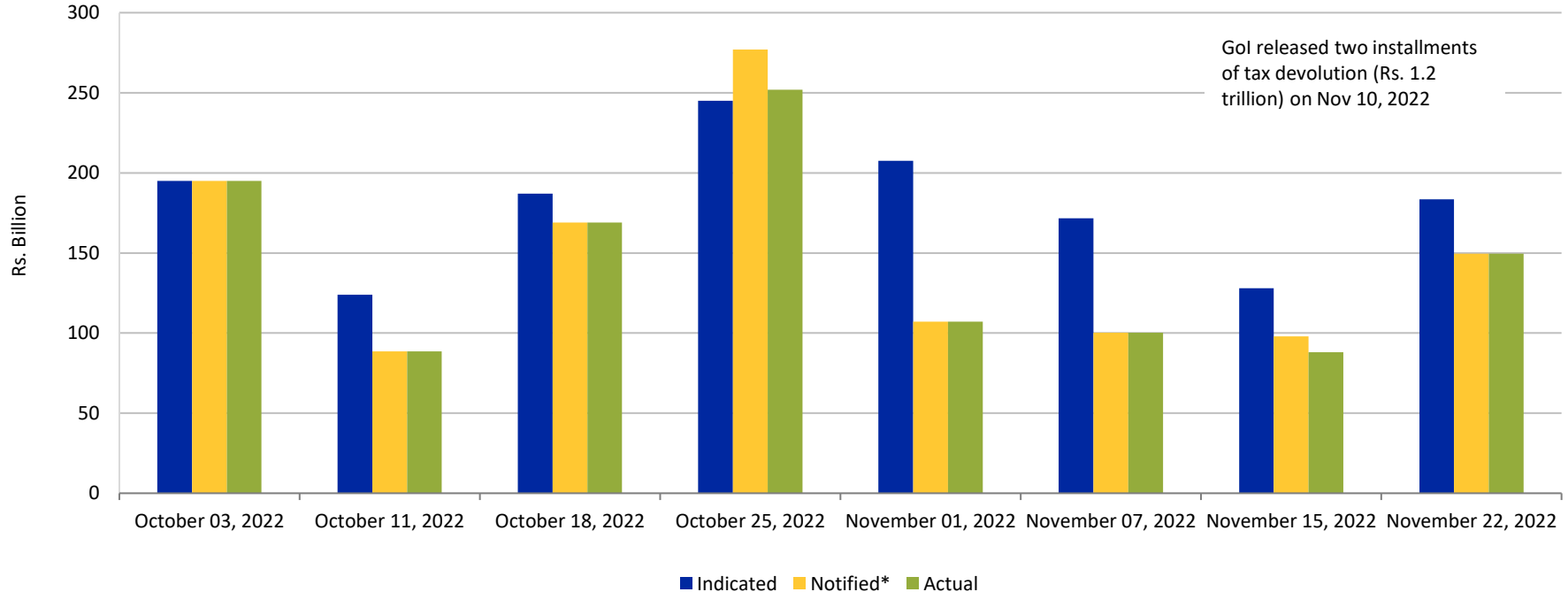
Note: *Including green shoe

Source: Reserve Bank of India (RBI); ICRA Research



Today's SGS issuance was 18.4% lower than the initially indicated amount; the gap between the indicated and issued amount has widened sharply in November 2022

Exhibit: Indicated, notified and actual SGS issuances in Q3 FY2023 (so far)

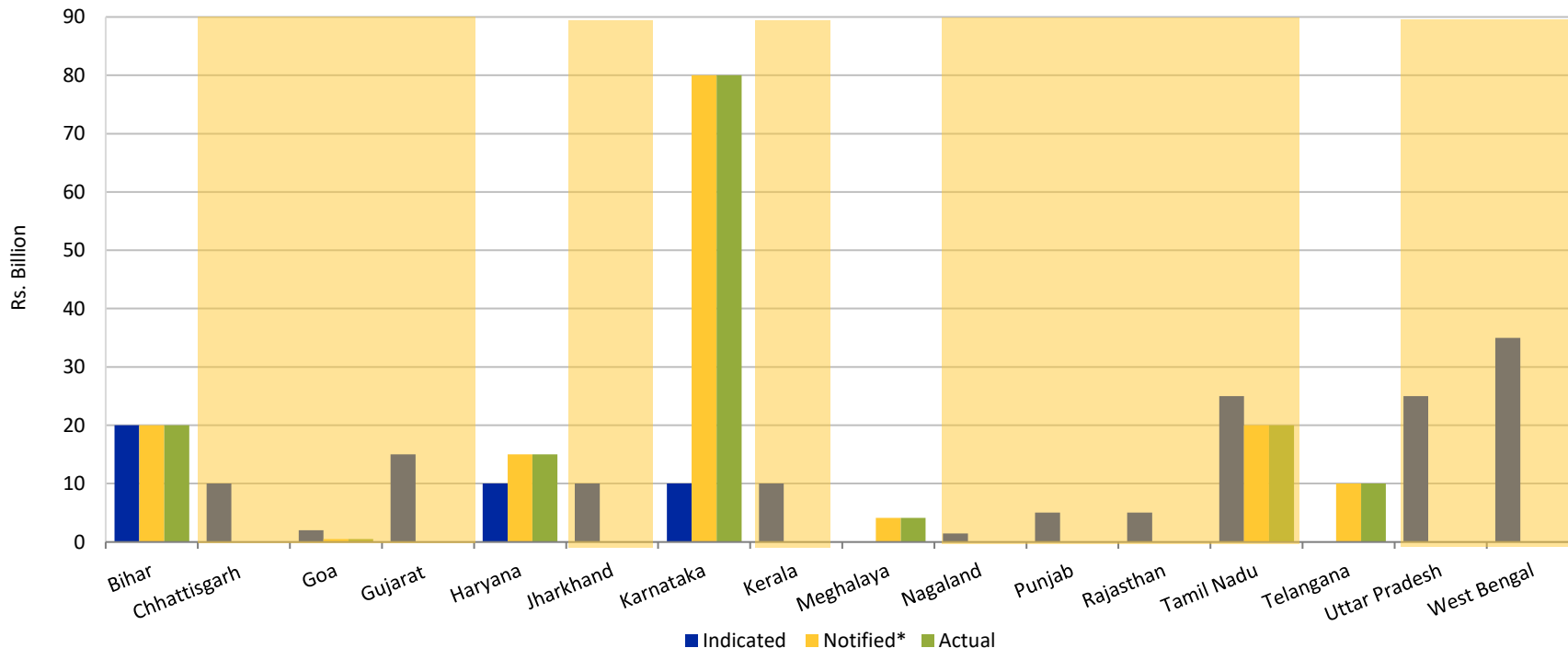


Note: *Including green shoe

Source: RBI; ICRA Research

Nine states that had indicated a combined issuance of Rs. 116 billion, did not participate; Tamil Nadu and Goa together raised Rs. 7 billion less SGS

Exhibit: State-wise indicated, notified and actual SGS issuance on November 22, 2022



Note: *Including green shoe

Source: RBI; ICRA Research

Weighted average cut-off of SGS rose by 1 bp to 7.68% today from last week; curve was inverted at the longer end

Exhibit: Tenor-wise SGS issuance and cut-offs on November 22, 2022

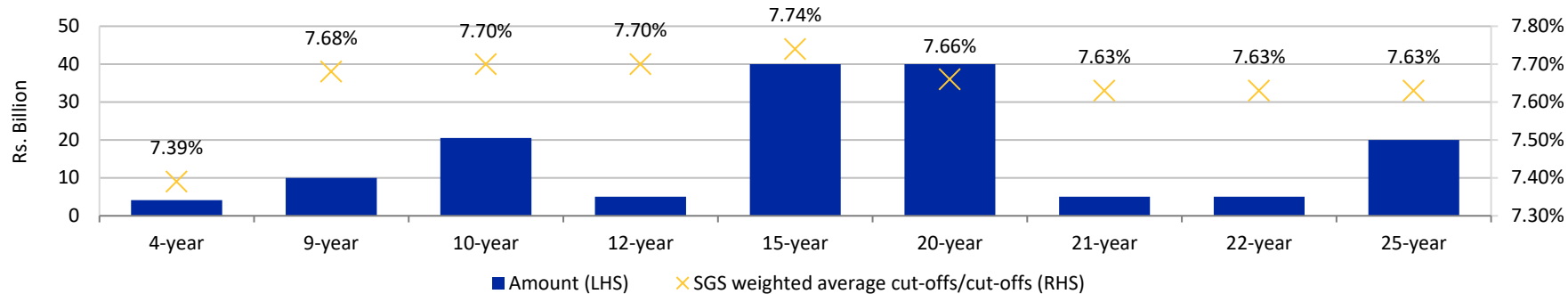
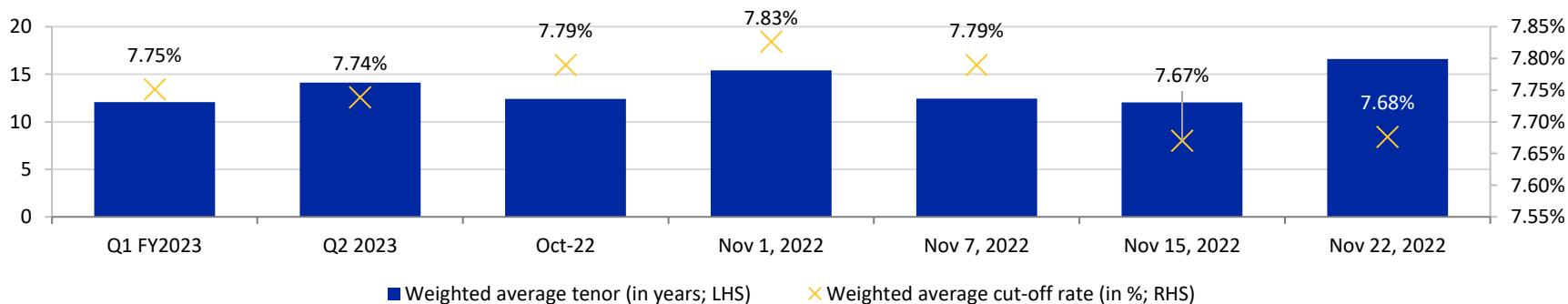
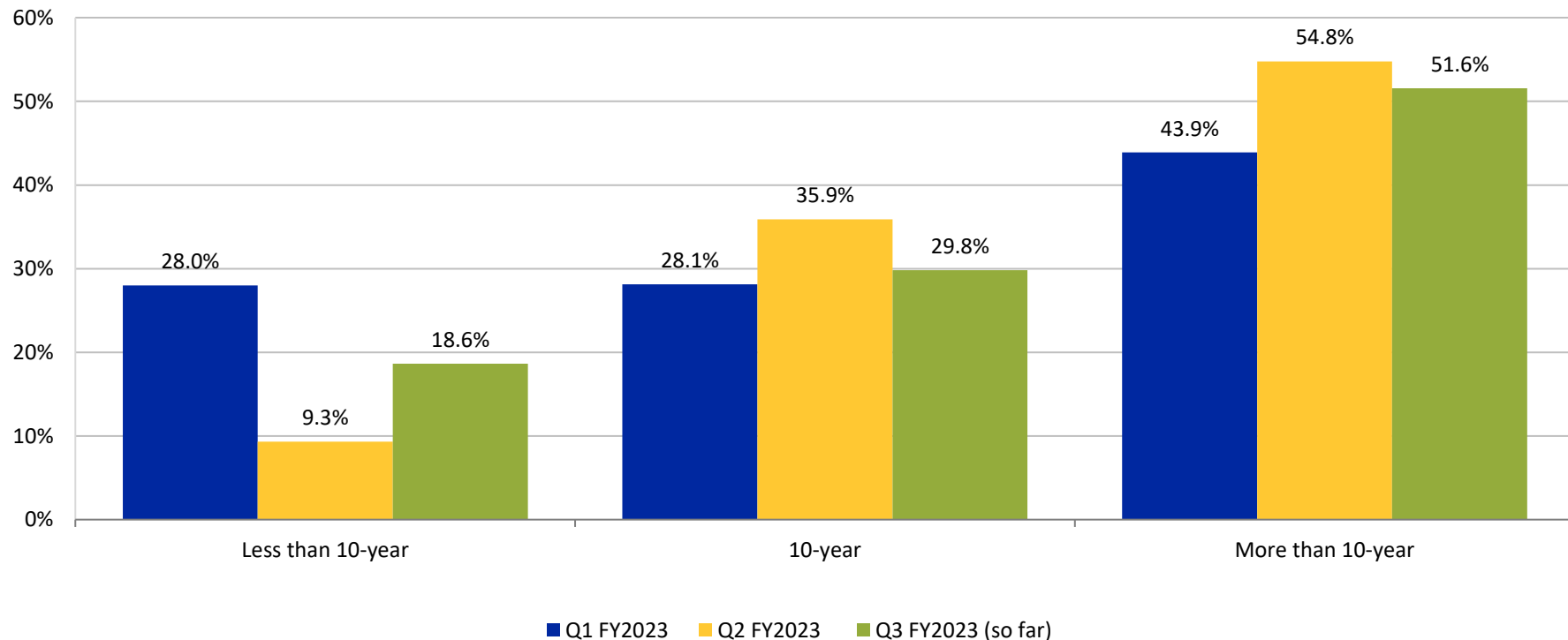


Exhibit: Weighted average cut-off and tenor of SGS during FY2023 (so far)



Issuance in the longer tenors has eased to ~52% of the total in Q3 FY2023 (so far) from ~55% in Q2 FY2023

Exhibit: Classification of SGS issuance in FY2023 (so far)



Spread between the 10-year SGS and G-sec yields unchanged at 41 bps today from last week

Exhibit: 10-year SGS and G-sec cut-offs

	October 25, 2022	November 1, 2022	November 7, 2022	November 15, 2022	November 22, 2022
Assam	7.84%	7.82%		7.67%	
Bihar	7.85%		7.83%	7.68%	7.70%
Goa	7.83%				7.69%
Haryana	7.81%				
Karnataka				7.67%	
Nagaland			7.82%		
Rajasthan	7.84%	7.82%			
Sikkim			7.82%		
Tamil Nadu	7.82%				
Weighted Average 10-year SGS cut-offs (A)	7.83%	7.82%	7.83%	7.67%	7.70%
Minimum 10-year SGS cut-off	7.81%	7.82%	7.82%	7.67%	7.69%
Maximum 10-year SGS cut-off	7.85%	7.82%	7.83%	7.68%	7.70%
10-year G-sec closing yield (B)	7.44%	7.40%	7.43%	7.26%	7.29%
Spread (A-B)	39 bps	42 bps	39 bps	41 bps	41 bps



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