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SMART INVESTING
Unexpected Fall in Global Prices to Hurt Indian Steel Makers in Q2

Market Trends

STOCK INDICES		% CHANGE
Nifty 50	10948.3	0.89
Sensex	37068.93	1.02
MSCI India	815.66	0.52
MSCI EM	2214.8	0.25
MSCI BRIC	586.36	0.11
MSCI World	8890.55	0.20
SX 40	21589.91	0.94
Nikkei	20460.93	0.09
Hang Seng	25703.5	0.34
Strait Times	3081.83	0.83

Values in US $, Gross — At 7 pm IST

OIL ($) DUBAI CRUDE 59.13 0.02 — Absolute Change

BOND 10-YR YIELD 6.55 0.02 — Figures in %

GOLD RATE
Prices per Troy Ounce ($)

	US	India
OPEN	1549.4	1697.34
LAST*	1547.0	1693.18

*At 10.30pm, After adjusting for import duty, Indian spot gold lower by $ 8.52 to US Comex gold price on Thursday. The premium on local gold is due to tight supply following import curbs.

FOREX RATE (₹-$ Exchange Rate)

OPEN	LAST*
71.94	71.79

Market on Twitter@ETMarkets

But for Rupee Fall, External Debt would have been $30b

Not Much Scope for Fiscal Stimulus, says Central Bank

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THE REGULATOR to inspect all NBFCs and banks together to understand intra- and inter-group transactions; to conduct on-site examination and off-site surveillance

Systemically Important NBFCs to Come Under Tighter RBI Scrutiny

Our Bureau

Mumbai: About 275 systemically important non-bank lenders, which would include entities from the Shriram Group and the Bajaj twins, will face tighter central bank scrutiny, particularly on their interlinkages with commercial banks, as Mint Road seeks to ensure greater stability in India's credit landscape.

RBI Annual Report FY19

Together, these NBFCs account for 85% of the total assets in the sector, and are at the forefront of ensuring last-mile credit to Indians buying television sets, air conditioners, home gadgets, or cars. NBFCs constitute around 12% of the total assets in the banking and non-banking space.

The Reserve Bank of India (RBI) will make concerted efforts this year to strengthen supervision of NBFCs. As part of the process, RBI will conduct an on-site examination and off-site surveillance, and examine market intelligence and annual certificates received from statutory auditors.

It will inspect all NBFCs and banks together to understand intra- and inter-group transactions and get a holistic view of NBFCs that have other NBFCs and banks in the same group. RBI will strengthen monitoring of core investment companies, which tap funds from the market and invest in or lend to group companies.

"To understand the systemic linkage between banks and NBFCs, and their interconnectedness, certain functions of supervisory departments are proposed to be

integrated to enable holistic understanding of systemic risks, linkages, contagion and risk build-up across entities," RBI said in its annual report.

There are 276 deposit-taking NBFCs with asset size of more than ₹500 crore that face greater on-site and off-site monitoring, and together they account for 85% of the sector's asset size. To weed out non-compliant or weak NBFCs, RBI has cancelled registrations of 1,604 non-banks for non-fulfilment of the criterion of the minimum net owned fund requirement of ₹2 crore.

RBI said that the emergence of stress following isolated but large credit events and a wider perception of liquidity shortages revealed the degree of interconnectedness in the financial system and the systemic ramifications.

In the last nine months, RBI has worked toward harmonising regulations for various categories of NBFCs, revising norms on liquidity risk management and risk weights.

It has also sought to bring all government-owned non-deposit taking systemically important NBFCs, and government-owned deposit taking NBFCs under the regulator's on-site inspection framework and off-site surveillance.

RECORD BOND INTEREST INCOME, REVISED FOREX VALUATION HELP

RBI Profits More than Double in FY19

Earns surplus of ₹1.23 L cr deploying its assets from ₹41 L cr balance sheet

Our Bureau

Mumbai: Reserve Bank of India's profits, or surplus income, more than doubled in the financial year ended June on the back of interest income from record bond purchases under open market operations (OMO) and revised valuation of foreign currency assets.

The central bank earned a surplus of ₹1.23 lakh crore deploying its assets from a balance sheet worth ₹41 lakh crore during FY19, according to its annual report released on Thursday.

This helped the central bank transfer a record ₹1.76 lakh crore to the government as transfer of surplus for FY'19, including ₹52,637 crore from its contingency fund.

This is unusually high transfer compared to an average of around ₹50,000 crore transferred by RBI over the last six years.

Market analysts attributed the central bank's exceptional performance to its record OMO purchases to infuse rupee liquidity in the markets since September 2018. RBI is estimated to have earned ₹30,000 crore interest on incremental bonds on its books.

Besides, the central bank also changed its methodology of calculating the value of the foreign currency assets to the average cost of purchases of the dollars, which helped it earn an additional ₹21,000 crore in terms of valuation gains.

RBI transferred part of its contingency fund as surplus to the government as per the recommendation of a committee headed by former RBI governor Bimal Jalan that looked into the economic capital framework for transfer of reserves from RBI. This risk provisioning made primarily from retained earnings is cumulatively referred to as the Contingent Risk Buffer (CRB) and has been recommended to be maintained within a range of 5.5%-6.5% of RBI's balance sheet.

The balance in the contingency fund as of June 30, 2019 stood at ₹1,96,344 crore, lower by ₹35,764 crore, or 15%, from ₹2,32,108 crore as of June 30, 2018.

The central bank's currency and gold revaluation reserves also dipped to ₹6.6 lakh crore as of June 2019 from ₹6.9 lakh crore a year earlier. This is despite a rise in gold reserves.

RBI bought 51.93 tonnes of gold last year, raising its total holdings to 618.16 tonnes, according to its annual report. The addition to the central bank's gold reserves is the most since it bought 200 tonnes from the International Monetary Fund in 2009-10.

Global gold prices have surged 20% this year and rallied to the highest level to since 2013 triggered by a trade war between the US and China. The value of gold in RBI reserves as of end June 2019 was pegged at $23 billion, up $1.6 billion over the previous week's levels.

FOR QUICKER TRANSMISSION OF POLICY RATE CUTS

Increased Focus on Liquidity Management

Stress on forecasting framework, estimation of currency in circulation and overall operational aspects

Our Bureau

Kolkata: The Reserve Bank of India (RBI) would focus on liquidity management this year to help achieve quicker transmission of policy rate cuts to the end user, even as it seeks to balance flows through various categories of lenders in an increasingly interlinked credit ecosystem.

Mint Road must solve the riddle on transmission: While rates have risen more quickly than policy rates did in an upcycle, the decline in end-user credit rates has been far slower than the pace at which RBI slashed benchmark rates.

Mint Road has lowered policy rates by 110 basis points since February. Initially, banks were reluctant to transmit the cuts to end borrowers and market watchers suggested tightness in liquidity was one of the reasons, apart from the stickiness in deposit rates.

RBI has ensured sufficient liquidity flow into the inter-bank system since then, prompting bank chiefs to make rates softer than before. In response to RBI's rate cuts and oral persuasion, banks have so far lowered interest rates by about 40 basis points on an average, while rate cuts remained asymmetric across sectors.

The monetary policy regulator said it would focus on refining the liquidity forecasting framework, sharpening the estimation of currency in circulation at various frequencies and an overall reviewing of operational aspects of the liquidity management framework, including aspects relating to structural liquidity balance and distributional asymmetry in liquidity.

In parallel, RBI would examine the sectoral credit flow trends to address the sector-wise variations in monetary transmission. So far, banks have transmitted the softer policy rates the most for home loan borrowers, while other segments were not equally privileged.

The primary objective of liquidity management is to align the WACR (weighted average call rate) with the policy repo rate. During 2018-19, the WACR generally traded below the policy repo rate until January 2019, but hardened intermittently thereafter and spiked in the year-end. During the first quarter, the WACR showed two-way movements around the policy repo rate.

In 2018-19, the monetary policy maker applied multiple tools to manage both frictional and durable liquidity. In total, Rs 6.4 lakh crore was injected, while Rs 42.8 lakh crore was absorbed through reverse repos. RBI also conducted as many as 27 open market purchase operations, aggregating about Rs 3 lakh crore during the year, its highest in any year.

Liquidity Push

RBI to examine sectoral credit flow trends to address sector-wise variations in monetary transmission

In 2018-19, it applied multiple tools to manage both frictional and durable liquidity

In total, ₹6.4 lakh crore was injected, while ₹42.8 lakh crore was absorbed through reverse repos

The central bank also conducted as many as 27 open market purchase operations, for ₹3 lakh cr, its highest in any year

FRESH HEADACHE FOR BANKING SYSTEM

Counterfeits of New ₹500 Currency Notes Surge 121%

Number of fake ₹2,000 notes grows 21.9%

Our Bureau

Mumbai: Currency counterfeiters seem to be figuring out ways to fake the new currency notes of ₹200, ₹500 and ₹2,000 which were introduced by the government after demonetisation, as the latest Reserve Bank of India data show significant spikes in cases of duplication of these notes.

Counterfeit notes in the new design of ₹500, which was introduced in 2017, increased by 121%, while for ₹2,000, it increased by 21.9 % during 2018-19 from the previous fiscal, as per data sourced from RBI's annual report 2018-19. The ₹200 denomination, which was introduced in August 2017, saw 12,728 counterfeit notes being detected up from 79 during the previous year.

In the same period, the incremental increase in circulation of ₹500 and ₹2,000 notes were just 18% and 21%, respectively, data from the report show, indicating that the increase in circulation of coun-

terfeited notes is not just a factor of increased volume of the usage of the note.

Even as RBI data suggest that the older notes of the same denominations were more prone to counterfeits, the incremental increase in duplication of the new notes may pose headache to the banking system as counterfeiters seem to be developing new ways to create fakes of these notes brought into circulation freshly.

"During 2018-19, out of the total Fake Indian Currency Notes (FICNs) detected in the banking sector, 5.6% were detected at the RBI and 94.4% were detected by other banks," as per the report released on Thursday.

The new currencies were brought into circulation by the RBI in a phased manner to weed out the old currency notes, which were said to be more prone to counterfeiting, in the immediate aftermath of demonetisation in November 2016.

While the new ₹2,000 currency notes slightly decreased to 329 crore pieces from 336 crore in the previous fiscal, for ₹500, the overall volume increased to 2,151 crore pieces in fiscal 2019 against 1,546 crore pieces.

In value terms, the share of ₹500 and ₹2,000 banknotes accounted for 82.2% of the total value of banknotes in circulation at end-March 2019, up from 80.2% at end-March 2018, RBI indicated in the report. "There was a sharp increase in the value of ₹500 bank notes in circulation – from 42.9% to 51.0% over the year," the central bank said.

Traders rolled over more of their short positions into September F&O series; Analysts expect Nifty's upside to be capped at 11,200-11,250 levels

Rollover Numbers Indicate Weak Sentiment will Continue in Sept

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Mumbai: Traders rolled over more of their short positions into the September series on continued concerns over economic slowdown in India and globally and US-China trade tensions, which trumped the measures announced by the government last week to boost liquidity and withdrawal of the controversial surcharge on FPIs registered as trusts.

Nifty ended the August series with a fall of 2.7% – the third consecutive series where the index has ended in the red – and the Bank Nifty fell 6% during the series. Nifty Metal index was the worst performer among sector indices on the NSE, with decline of 16% followed by Nifty PSU Bank index, Nifty Media and Bank Nifty that fell 6-13% in the series.

Sensex ended down 382.91 points or 1% at 37,068.93 and Nifty ended down 97.80 points or 0.9% at 10,948.30 on Thursday.

Market-wide rollovers in percentage terms were higher than average because most stocks came into physical settlement. But Nifty rollovers at 62% as per provisional data were lower than the three-month average of 76%, said analysts.

"The roll cost came down to as low as 38-40 bps compared to average of 50-55 bps on average as short side aggression was high. Nifty rollover is also lower than the three-month average," said Yogesh Radke, head of alternative and quantitative research at Edelweiss Securities.

"We have a cautious view on the market in the September series and we expect 11,200 – the 200-DMA for the Nifty – to be the resistance level," said Radke. "We need to see if the index sustains above that level. We see the Nifty finding support at 10,585, which is the swing low of February 2019."

Tepid corporate earnings exacerbated the market woes in the August series.

Continued on ▸▸ Smart Investing

Brokers Get More Time to Square off Partly-paid Shares

Sebi has extended the deadline for squaring off all client trades that have not been fully paid by one month. The new deadline for complying the Sebi guidelines is September 30, 2019. "Following representations from stock exchanges as well as market participants, it has been decided that effective deadline for implementation of guidelines... shall be extended by one month," said the Sebi circular. ET on Thursday reported brokers must unwind stock positions worth ₹2,500-3,000 crore in two days to comply Sebi's earlier deadline. – Our Bureau