MF investments in bank CDs touch year's low

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Mumbai, Oct 3: Mutual fund investments in bank certificate of deposits (CDs) as a percentage of debt assets under management (AUM) have touched the year's low in August as finance ministry's directive in July asking public sector banks to cap their bulk deposits had cut down bank CD issuances by 15-20% in the past two months.

Just about 42% of the total debt AUM of MFs was invested in bank CDs in August, according to data put up on the website of market regulator Securities and Exchange Board of India (Sebi). This figure was as high as 58% in March, the month when banks typically rush to issue CDs to shore up their balance sheet.

In July, the figure had dropped to 46.6%. This was the month the finance ministry issued its directive asking public sector banks to cap their bulk deposits, including certificate of deposits, to 15% of their total deposits for the current financial year. The move was aimed at improving the asset-liability management of banks.

Dwijendra Srivastava, head of fixed income at Sundaram MF, said that this directive had impacted bank CD issuances. "Issuances of CDs from banks have clearly declined in the past one month. Usually, there is a frenzy to issue CDs at the end of the half-yearly period but the frenzy is missing this year," he said. He added that the absolute credit numbers were now lower than absolute deposit numbers, which indicated that there is ample liquidity in the banking system and there is no need for a lot of CD issuances.

% OF DEBT AUM IN BANK CDs

Source: Sebi

The finance ministry had also restricted banks from raising more than 25% of their year-end bulk deposit base in the last quarter of a particular fiscal year to ensure there was no mad dash for high-cost deposits, which could spike up short-term rates.

Bulk deposits are typically large deposits in excess of ₹1 crore with interest rates 100-200 bps higher than retail deposits and with a maturity of less than one year.

Industry observers also believed that MF money had moved from CDs into corporate bonds and government securities in the past few months. "Investors are flocking to higher duration funds to get better returns in anticipation of a cut in interest rates in the near future," said a fixed income fund manager from a mid-sized fund house who did not want to be quoted. This is because long duration funds typically benefit from a higher movement in prices when interest rates fall, he explained.