Benchmark bond flat at Rs.99.09, yielding 5.98%. We are unlikely to see much move in the benchmark unless the state debt cutoffs are aggressive.

States selling Rs. 110 billion of bonds maturing in five-to-25 years today. The market is pretty comfortable with today's quantum and secondary market rates are pretty stable. Banks' preference is tilted towards Maharashtra and Kerala as the spread with the benchmark is pretty attractive. A large state-run insurance company should lap up Tamil Nadu's bonds.

India’s banking system liquidity surplus narrows to eight-month low on outflows due to hike in banks' CRR and GST payments.Surplus pegged at Rs.3.6 trillion, lowest since Sep. 30, and against Rs. 4.9 trillion last week.

Rates are however steady as credit demand has been muted because of lower demand for big-ticket corporate credit and rising caution among banks even as deposit growth has been above 10% on a sustained basis.

New Delhi might conduct one special auction of benchmark bond which could up probability of a new 10-year note.The special auction could be helped by RBI through secondary market transaction like they had done in February, and this will ensure yield stays below 6 % .

Benchmark note outstanding at Rs.913 billion, government typically stops selling a note once outstanding reaches close to Rs. 1.20 trillion. Regular auction cancelations have elongated the life of this paper, but the sizeable central bank holding has ensured that trading interest

weakens and yield stays in a very tight range.