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10-year G-Sec auctions: Govt's cost of borrowing going up

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(mailto:?subject=10-year%20G-Sec%20auctions%3A%20Govt%E2%80%99s%20cost%20of%20borrowing%20going%20up&body=Check%20out%20this%20link%20https%3A%2F%2Fwww.thehindu and-banking%2F10-yr-g-sec-auctions-govts-cost-of-borrowing-going-up%2Farticle64951668.ece)

Market players see 10-year G-Sec yield hardening to 7 per cent; yield of this paper has risen 24 basis points in a fortnight

The Reserve Bank of India (RBI) seems to have loosened its vice-like grip on the Government Securities (G-Secs) yields, going by the sharp 24 basis points rise in the yield of the newly issued 10-year G-Sec in the last fortnight.

This has implications for the cost of government borrowing and corporate bond issuances, which are priced at a spread to a specific on-the-run G-Sec/GS.

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Government Securities yields are going up on global cues – expectation that rising inflation and a strong labour market in the US could prompt the Fed to start a rate hike cycle as early as March and crude oil prices jumping to about $90 a barrel due to geopolitical risks – and fears that the government may borrow more in FY23 vs FY22.

RBI, last year, had highlighted that the weighted average cost of government borrowings through primary issuances of G-Secs during 2020-21 was at a 17-year low despite a jump in net market borrowings of the Central government.

But with the yields heading north, the government now has to pay more to borrow.

For example, the government raised monies at the second auction of the new 10-year G-Sec at a cut-off yield of 6.784 per cent (priced at ₹98.25) on January 28, 2022 against the cut-off yield of 6.54 per cent (priced at ₹100) at the maiden auction of this paper on January 14, 2022.

So, yield of the aforementioned paper has jumped about 24 basis points and its price has declined by ₹1.75. Bond yields and prices are inversely co-related and move in the opposite directions.

Hence, unless G-Sec yields correct, banks which bought the new 10-year G-Sec could face huge mark-to-market/MTM (investment depreciation) provisioning at the end of the current quarter.

There could be similar MTM provisioning on other G-Secs. Debt schemes of mutual funds are already facing the heat in the form of lower net asset values (NAVs) due to rising bond yields.

"We expect gross borrowing to be in the range of ₹12-13-lakh crore in FY23 against ₹12.05-lakh crore in FY22 (Budget Estimate/BE). As repayment is piling up with a quantum of ₹3.8-lakh crore in FY23 against ₹2.9-lakh crore in FY22, gross borrowing is unlikely to go down," said Madan Sabnavis, Chief Economist, and Economists Dipanwita Mazumdar and Sonal Badhan, Bank of Baroda.

Pressure of the yields

The BoB economists' observed that this is likely to put pressure on the yields (10-year currently at 6.7688 per cent) which is expected to touch the 7 per cent mark in FY23, albeit in a gradual manner. They noted that interest cost is likely to be about ₹9.3-lakh crore in FY23 against ₹8.1-lakh crore in FY22BE.

"Market is taking the yields up. Yield of the 10-year G-Sec could gradually go up to 7 per cent. If there is an announcement relating to tax concessions for foreign investors for investing in G-Secs in the Union Budget and G-secs are included in global bond indices, the bond market may rally and the yield of the 10-year G-Sec could soften to about 6.55 per cent. But this may not sustain," said Marzban Irani, CIO-Fixed Income, LIC Mutual Fund.

CARE Ratings, in a note, said the total market borrowings by the Central government so far in FY22 (April 9, 2021-January 28, 2022) is ₹10.95-lakh crore, 6 per cent less than that in the corresponding period of FY21 (₹11.67-lakh crore). The amount raised so far in FY22 is 91 per cent of the total budgeted borrowing limit of ₹12.05-lakh crore for the fiscal year.

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