Borrowing cost for states rises on increase in G-Sec yield

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The borrowing cost of State Development Loans (SDL), with a maturity of 10-years, rose sharply by 10 basis points to a 21-month high in Tuesday's auction due to a steep rise in yields on government securities in the last few days. The borrowing cost has touched its highest level after April 13, 2020.

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"The rise is in line with the rise in the yields on government securities and thus it has not been surprising," said Sandeep Yadav, senior vice president, head – fixed income, DSP Investment Managers.

In the SDL auction, 12 states raised `21,159 crore, which was `500 crore higher than the notified amount because Rajasthan has accepted an additional amount in five-year security. Of the 12 states, Bihar, Goa, Manipur, Uttar Pradesh and West Bengal raised funds via 10-year SDLs.

According to a CARE Edge report, the market borrowings by many states in the current financial year has been lower than a year ago. This could be attributed

In the past few days, yields on government securities have risen sharply due to the devolvement of bonds on Primary Dealers by the RBI in a weekly bond auction, and a sharp rise in US Treasury yields and Brent crude oil prices. This has dampened sentiments of traders and investors in the market, which led to a sell-off pushing the benchmark yield higher.

On Friday, the benchmark yield rose more than six basis points, while the new benchmark is also trading higher owing to low volume and uncertainty. The RBI devolved a new benchmark bond on Primary Dealers at its maiden auction after it received tepid demand from investors.

Global factors have raised an expectation among market participants that the central bank will soon hike interest rates. The US Federal Reserve has already announced a possible rate hike in this calendar year and tapering of its bond purchases. Rising Brent crude oil prices are also creating inflationary pressure because India imports a majority of crude oil from oil-producing countries.

Market participants expect yields on 10-year SDL to rise constantly in line with government securities as there is uncertainty among investors regarding

factors," a dealer with a private bank said.