Money & Banking

As bond yields harden further, all eyes on RBI

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With the yield on the two liquid 10-year Government Securities (G-Secs) hardening further by 5-7 basis points on Monday, all eyes are now on the next move of the Reserve Bank of India.

Overall, yields on the new 10-year benchmark (5.85 per cent GS 2030) and the earlier benchmark (5.77 per cent GS 2030) have risen about 30 and 28 basis points, respectively, since January-end.

In price terms, the new 10-year benchmark and the earlier benchmark declined about ₹2.14 and ₹1.93, respectively, since January-end in the secondary market. (Bond yields and prices move in opposite direction.)

The rise in yields comes in the backdrop of the government announcing in the Budget that it will borrow an additional ₹80,000 crore in February-March and the borrowing for FY22 would be ₹12-lakh crore.

Bond yields surge

5.77% GS 2030

	Price (₹)	Yield (%)
Feb-22	**96.76**	**6.228**
Feb-18	97.10	6.1792
Feb-12	97.95	6.057
Feb-05	97.44	6.1294
Jan-29	98.69	5.9524

5.85% GS 2030

	Price (₹)	Yield (%)
Feb-22	**97.44**	**6.2017**
Feb-18	97.94	6.1318
Feb-12	98.96	5.9905
Feb-05	98.37	6.0715
Jan-29	99.58	5.9056

Oversupply of govt paper

There are concerns that oversupply of government paper will have a crowding-out effect on private sector investments and increase the overall cost of borrowing in the economy.

State Bank of India's Chief Economic Adviser, Soumya Kanti Ghosh, has cautioned that any further upward movement in G-Sec yields, even by 10 bps from the current levels, could lead to mark-to-market (MTM) losses for banks. An MTM loss will require banks to make provisions for depreciation in investments.

Short-selling

In a report on G-Secs, Ghosh said that one of the reasons for the recent surge in yields might be short-selling by market players.

The report said the central bank will have to resort to unconventional tools, including speaking to market players/off-market interventions, open market operation in illiquid securities, and penalising short-sellers, to control the surge in bond market yields.

Madan Sabnavis, Chief Economist, CARE Ratings, said ever since the government announcement of additional borrowing, the markets have been spooked, with the 10-year G-Sec yield on the rise.

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COMMENTS