

## \$25b 'safe-haven' buys in 2 months, but super-low returns for RBI

### Synopsis

While the holdings may be safe, the low returns from those investments could crop the RBI's earnings, potentially reducing its payout to the government amid record low interest rates.

Feedback



The benchmark US 10-year yield was 1.88 percent at the beginning of the calendar year. It now yields 0.68 percent.

MUMBAI: India's holding of US treasuries surged by a record \$25.3 billion in just two months as the central bank sought safe haven assets amid a surge in forex reserves, preventing the rupee from climbing to uncompetitive levels.

"The dollar's status as a premier safe haven asset, especially in the aftermath of the pandemic, likely led to a proportionately higher share in RBI's incremental foreign currency investments," said Saugata Bhattacharya, chief economist at Axis Bank NSE -0.68%. "As a result of large foreign exchange reserve accretions by RBI earlier in FY21, the allocation to US dollar assets seems to have been at a historical high."

### RELATED

Rupee opens 22 paise down as dollar gains post Fed's upbeat economic outlook

Rupee settles 14 paise lower at 73.66 against US dollar

### RELATED COMPANIES

NSE	BSE
<b>Axis Bank Ltd.</b> 439.90 ↓ -3.00 (-0.68%)	▼

While the holdings may be safe, the low returns from those investments could crop the RBI's earnings, potentially reducing its payout to the government amid record low interest rates.

The benchmark US 10-year yield was 1.88 percent at the beginning of the calendar year. It now yields 0.68 percent.

"Future allocations into multiple currencies, however, will be determined by various global considerations," Bhattacharya said.

The central bank invested \$169.9 billion in May versus \$157.4 billion a month earlier, show latest available data from the US government. The pace of investment marginally rose in June with the local central bank investing another \$12.8 billion to \$182.7 billion.



Recommended by Colombia

Another reason might have been a reallocation out of Chinese yuan holdings.

“The moment you build assets, you have to invest somewhere as RBI cannot keep money idle,” said Madan Sabnavis, chief economist at CARE Ratings. “The quantum of investment has gone up. Lower interest rates on a higher base would result in interest income to an extent and compensate for the lower interest rates that are prevalent today.”

In May-June, the RBI shored up its forex reserves by about \$26 billion to \$506.8 billion, show data from the central bank. During the two-month period, the central bank bought a net of more than \$14 billion from the currency market.

Mint Road’s investment returns have a direct relation with possible dividend payments to New Delhi.

The RBI’s balance sheet increased by 30 per cent to Rs 53,34,800 crore as on June 30. The increase on the asset side was due to increase in domestic and foreign investments by 18.40 per cent and 27.28 per cent, respectively, show data from RBI’s annual report.

During the period, other income from foreign sources jumped 17 per cent to Rs 33,990 crore. This included a four-times surge in profits on sale and redemption of foreign securities.

“The RBI’s dividend payment could tend to be lower amidst record low interest rates,” said Sabnavis.

Japan and China remained as the top two sovereign investors in US Treasuries, with their holdings running into trillions of dollars.

---

*(What's moving **Sensex** and **Nifty**. Track **latest market news**, **stock tips** and **expert advice** on **ETMarkets**. Also, **ETMarkets.com** is now on Telegram. For fastest news alerts on financial markets, investment strategies and stocks alerts, **subscribe to our Telegram feeds**.)*

