Global Bond Yields: July 2020

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The current deep economic slowdown across economies have had investors increasingly seeking out 'safe-haven' government bonds amidst surplus liquidity. Also central banks have pursed accommodative policies with QE measures being spoken of. This had led to a rise in their prices and fall in yields given the inverse relationship between price and yield. Bond yields declined across economies in July'20, nearing record lows in some. The fall in bond yields was also mirrored to an extent in the inter-bank benchmark rates too.

Examined here is the movement of the benchmark 10-year government bond yields of 10 major economies in July'20 along with the LIBOR rates and the factors that have influenced their movements.

Key Highlights

- On average, the benchmark 10 year government bonds yields of major economies ended July lower than the start of the month.
- The range of the yield movement of the 10 year government bonds during the period 1 July- 31 July'20 varied from 3 to 40 bps across economies.
- UK, Canada and Brazil's 10 year benchmark government bond yields hit record lows in July'20.
- Brazil saw the sharpest fall in yields i.e. of 31 bps among the major economies.
- Germany and France's yields fell deeper into negative territory in July'20. Their yields declined by 14 bps each.
- US benchmark 10 year Treasury yields fell by 15 bps during the month. The benchmark yields dropped to the lowest level since early March'20.
- UK, South Korea, Canada and Australia saw their benchmark government bond yields fall by 9-11 bps.
- Japan and India witnessed only a marginal fall in yields at 3 bps and 1 bp respectively during the month. However, the yield of India's benchmark 10-year bonds in July'20 was at the lowest level since end 2008.
- The emerging market economies Brazil and India had the highest yields amongst the 10 major economies.
- South Korea's benchmark government bond yields fell to 12 month lows in July'20.
- The 3 and 6 months benchmark interbank interest rates i.e. LIBOR fell by 5 bps in July'20.

Table 1: 10 Year Government Bond Yields (%)			
Country	1-Jul-20	31-Jul-20	Range
US	0.68	0.53	0.53-0.68
UK	0.21	0.11	0.09-0.21
Germany	-0.39	-0.53	(-0.55)-(-0.39)
France	-0.06	-0.20	(-0.21)-(-0.09)
Japan	0.05	0.02	0.01-0.04
South Korea	1.41	1.30	1.28-1.42
Brazil	6.61	6.30	6.25-6.65
Australia	0.93	0.83	0.83-0.94
Canada	0.56*	0.47	0.45-0.58
India	5.84	5.83	5.76-5.86

Source: CNN, Bloomberg and RBI. * 2 July'20

Source: CNN, Bloomberg and Marketwatch. * 30 July'20 **Table 2: Benchmark Interest Rate**

	1-Jul-20	31-Jul-20	Range
3-mth LIBOR (USD)	0.30	0.25	0.25-0.30
6-mth LIBOR (USD)	0.37	0.31*	0.31-0.37

What has been driving bond yields?

Safe-haven demand primarily pulled down government bond yields in July'20. Concerns over economic growth have been heightened with the inflow of data indicating the worst economic contraction on record for the largest economies and the sustained increasing spread of the pandemic which has adversely impacted the conduct of economic activities. Central banks all over have pursued with accommodative policies in terms of both supply of liquidity and lowering of interest rates. Additionally, the prevailing abundant liquidity in the global markets consequent to the stimulus measures announced by the central banks by way of rate cuts and sizeable quantitative easing (long-term asset purchases) to aid economies to counter the pandemic led economic downturn have fuelled the fall in government bond yields in recent months. Economy specific reasons have also influenced the movement of yields in July'20.

- The gains in the European bonds (rise in price and fall in yields) during the month can be underpinned to the European Union's recovery fund (Euro 750 bn) that is to provide budgetary support to member states for the reconstruction of their economies hit by the pandemic through borrowings from the capital markets.
- US 10 year Treasury yields declined on expectations of additional support from the Federal Reserves and a new fiscal stimulus package.
- South Korea's central bank indicated that it would increase its sovereign bond buying if there was a spike in bond yields owing to increase supply. Foreign inflows into the country's bond markets have also been pushing down bond yields.
- UK gilt yields were driven to record low on increase safe haven buying following lower than estimated economic growth data and bleak outlook for the year.
- India's benchmark 10 year government bonds yields in July'20 fluctuated in the range of 5.76-5.86% and ended the month 6 bps lower than end June'20. The RBI's special open market purchase of government securities and expectations of more supportive measures by the central bank amid the huge supply of securities with the government increasing its market borrowings for the financial year by 53% supported the decline in yields. At the same time, limiting the fall in yields were supply concerns and the rise in monthly inflation above the RBI's target level which constraints the central banks ability to cut rates

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