Global Bond Yield Movement in March '21

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The bond sell-off gained traction in March and pushed bond yields to multi-month highs across economies.

Expectations of stronger growth to be fuelled by the broader reopening of the economy and the aggressive vaccination programme have raised the risk of higher inflation. This in turn has led to market speculation that central banks may move away from their accommodative monetary policies by raising interest rates and scaling back asset purchases earlier than anticipated. Markets have been seen to be discounting the central banks assurance of continued accommodative monetary policy.

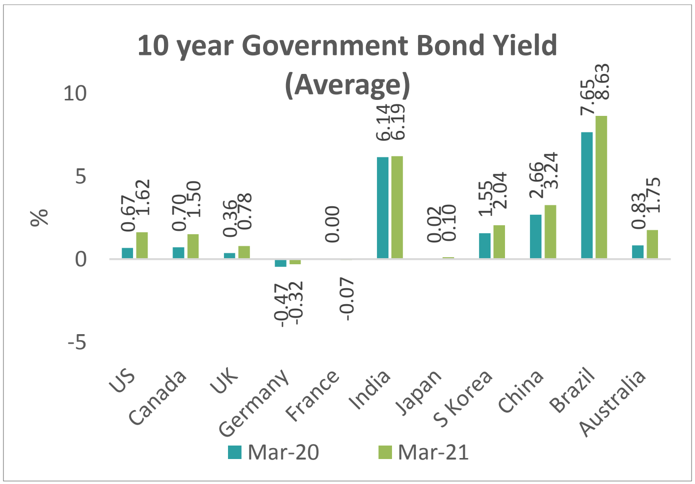
The low bond yields in the months following the pandemic induced lockdown were a factor of safe haven buying in the face of economic uncertainty and the easy monetary policies of central banks (low interest rate and asset purchases). The changing economic scenario has led to investors moving towards other riskier asset classes and away from government bonds.

Central banks on their part have continued with their bond purchases in an attempt to restrain the rise in bond yields and to convince markets that they would take necessary action to support yields at lower levels.

The increase in bond yields has raised borrowing costs in Europe, Asia and elsewhere, raising fears of tightening financial conditions which could affect economic recovery. However, despite the increase, in the historical context the bond yields continue to be lower.

The analysis of the benchmark 10-year benchmark government bond yields of 11 major economies in March '21

- The benchmark sovereign bond yields across all the 11 major economies have surged since the start of 2021.
- On a month-on-month basis, barring China, all the other economies witnessed an increase in bond yields.
- Brazil witnessed the sharpest rise in (average) yields by 90 bps (to 8.63%) during March'21, taking the yields to the highest levels since April'19. The benchmark bond yields have increase by 109 bps year to date.
- The yields rose to a fifteen-month high in the US, Canada, UK and Germany. In case of Japan and South Korea it increased to levels last seen in October'18 and November'18 respectively.
- Benchmark bond yields in Australia were at near two- year highs, while that of France and India rose to highest levels in over a year.
- US, Canada and Australia witnessed a month-on-month jump in yields of around 40 bps each. Yields hardened by around 20 bps in the UK and South Korea.
- In case of Germany, France and India, the rise in yields was in the range of 7 to 10 bps.
- The benchmark bond yield in China was largely stable at February'20 levels (3.25%).



10 Year Government Bond Yield

	Jan-21 (Avg)	Mar-21 (Avg)	Range: Mar'21
US	1.07	1.62	1.38 - 1.78
Canada	0.81	1.50	1.32 - 1.68
UK	0.28	0.78	0.68 - 0.91
Germany	-0.534	-0.32	(-)0.39 - 0.00
France	-0.307	-0.07	(-)0.14 - 0.002
India	5.89	6.19	6.11 - 6.27
Japan	0.03	0.10	0.06 - 0.16
S Korea	1.73	2.04	1.93 - 2.20
China	3.18	3.24	3.20 - 3.36
Brazil	7.54	8.63	8.05 - 9.36
Australia	1.05	1.75	1.62 - 1.87

Source: CNN, Bloomberg and RBI

Factors driving bond yields across economies in March'21

US: The benchmark 10- year Treasury yields (average) rose by 37 bps in March'21 from that in February'21 on growing expectation of a strong domestic economic recovery that led to a shift of investment to riskier asset classes. Yields were also propped up by the anticipated rise in Treasury bond issuances given the expansionary fiscal policy of the US government ($ 1.9 trn fiscal stimulus and the $ 2 trn infrastructure initiatives).

Europe: Signs of a rise in inflation and expectation of a further build up in the same led to an increase in euro zone government bond yields. The increase was however limited given the lockdown and restriction in the region and has raised concerns over the setback of this on economic recovery.

Canada: The rise in yields were driven by the favourable outlook for the domestic economy and the growing possibility the Bank of Canada would announce the tapering of its asset purchases in April'21.

Japan: Benchmark bond yields rose taking cues from the movement in US bond yields amid speculation that the Bank of Japan could reduce it bond buying programme in the coming months. The central bank has widen the band under which it allows the 10 year bond yield to move around the 0% target.

China: The near stable bond yields here has primarily been on account of the continued foreign inflows into the domestic bond markets in contrast to the sell-off in global bonds. Foreign investments into government bonds have risen given the faster than anticipated domestic economic recovery as well as the higher interest rates of Chinese debt securities with the policy maker not having adopted huge fiscal stimulus programmes or a loose monetary policy unlike most advanced economies.

India: Domestic factors and global cues drove yield movement of Indian sovereign bonds. Demand for government securities remained subdued given the prevailing and anticipated huge supply of securities on account of the high government borrowings in FY21 and FY22 amid the build-up in inflationary pressures. Unfavorable global market conditions i.e. the rise in global bond yields, increase in commodity prices along with the strengthening of the US Dollar, further weighed down demand for these securities. The RBIs OMO purchases and the cancellation of the last auction of government securities for FY21 provided limited support to cool down yields.

Outlook for the benchmark Indian Government Bonds

Domestic bond yields would continue to be pressured given that the sizeable issuances of government securities are planned for the coming months (Rs. 7.24 lakh crores which is 60% of the targeted borrowing for FY22 is to be raised during April-September'21) amid a resurgence in inflation and the continued sell-off in global bonds. At the same time the RBI is likely to announce measures to anchor bond yields at its upcoming policy meet. We expect the 10 year GSec yields to rule around the range of 6.15% - 6.22% in April'21 and the language of the monetary policy to be announced next view would be carefully awaited.

Contact:

Madan Sabnavis	Chief Economist	madan.sabnavis@careratings.com	+91-22-6837 4433
Author: Kavita Chacko	Senior Economist	kavita.chacko@careratings.com	+91-22-6837 4426
Mradul Mishra	(Media Contact)	mradul.mishra@careratings.com	+91-22-6754 3573

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel. : +91-22-6754 3456 I CIN: L67190MH1993PLC071691

Connect :