Global Bond Yield Movement in December'20

4 January, 2021 I Economics

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

Bond yields in 2020 fell in most economies despite the sharp increase in debt levels with governments resorting to borrowings to boost their economies from the pandemic led meltdown.

The rapid spread of Covid-19 across the world in 2-3 months and the consequent abrupt lockdown across countries in March'20, effected a sharp fall in the various risky assets of the financial markets. Safe-haven demand for Government bonds heightened as a result and led to their yields plunging to record lows in early 2020.

Although sovereign bond yields have since risen from their historic lows, they are nevertheless ruling below the levels seen at the start of 2020 in most cases. This is reflective of the sustained investor demand for risk-free sovereign bonds amid uncertainty over the strength and pace of the economic recovery. The low interest rate regime and bond purchases by the central banks as a part of the monetary stimulus to support the economy has also been keeping yields low.

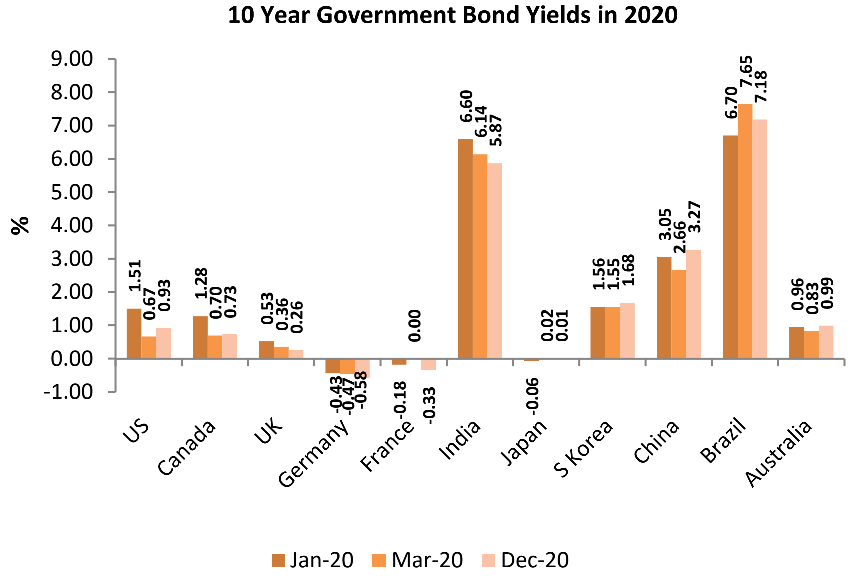
The global sovereign bonds markets in December'20 were volatile and exhibited a mixed trend with the average benchmark government bond yield increasing in some key economies and declining in others from that in the previous month.

Favourable developments such as additional stimulus announcements, the rollout of the vaccine, the Brexit deal and continued accommodative monetary policy by the major central banks raised investor sentiments and helped push yields higher during the month in some key economies. At the same time, the emergence of the new strain of the virus and the re-imposition of lockdown in various countries fuelled concerns over the deepening of the economic downturn. This lent support to risk-free sovereign bond buying, weighed down yields.

The analysis of the benchmark 10-year government bond yields of 11 major economies

- 4 economies viz. the US, Canada, South Korea, and Australia saw their bond yields rise in December'20 from a month ago.
- Germany, France, India, Japan, Brazil, and the UK witnessed a fall in their sovereign bond yields in December'20 (month-on-month).
- The benchmark yields across all the 11 economies were prone to fluctuations in December, moving in the range of 1 to 54 bps.
- Brazil saw the sharpest increase in average yields of 54 bps, from a month ago
- Germany and France's sovereign bond yields moved lower into the negative territory in December'20; to a 16 month low in the case of France.
- US and Canada saw their yields rise to the highest level in 10 months in December.

- The emerging market economies of Brazil and India had the highest sovereign bond yields amongst the 11 major economies.
- The benchmark government bond yields of US, Canada, UK, Germany, France and India continued to be lower than that in January' 20.
- Japan, South Korea, China, Brazil and Australia have witnessed a rise in their benchmark 10- year sovereign bond yields since January'20.



10 Year Government Bond Yield - Average (%)		
	Nov-20	Dec-20
US	0.87	0.93
Canada	0.69	0.73
UK	0.31	0.26
Germany	-0.57	-0.58
France	-0.32	-0.33
India	5.89	5.87
Japan	0.03	0.01
S Korea	1.61	1.68
China	3.27	3.27
Brazil	7.56	7.18
Australia	0.88	0.99

Source: CNN, Bloomberg and RBI

Factors driving bond yields across economies in December'20

US: The US 10 year Treasury yields in December'20 rose on optimism of an economic recovery fuelled by the vaccine and an additional fiscal stimulus that led to investors moving towards riskier assets. Improving economic data also lifted yields. The rise in yields was however limited with the Federal Reserve reiterating its accommodative monetary policy stance i.e. of maintaining interest rates at low levels and of buying $80 bn in Treasury's and $40 bn in mortgage bonds each month for a prolonged period, thereby supporting demand for Treasuries.

Europe: The resurgence of the corona virus cases in the region has led to the renewal of lockdowns and restrictions that comes as a setback to business and the economy. The heightened risk and uncertainty in the region have prompted the buying of risk-free sovereign bonds leading to their yields moving lower into the negative territory. The additional monetary stimulus (Euro 500 bn) by the European Central Bank and the expansion of its emergency bond purchase scheme by nine months also boosted demand for government bonds.

UK: The uncertainty associated with the signing of the Brexit deal and the fresh stringent lockdowns following the emergence of a new strain of the corona virus boosted demand for risk free government securities, lowering their yields.
Japan: Benchmark bond yields declined as the government announced a third fiscal stimulus package of $707 bn

India: The average benchmark 10- year GSec yields declined by 2 bps to 5.87% in December from a month ago. The decline in GSec yields was aided by the RBI's monetary policy decision to continue with the accommodative monetary policy for as long as necessary along with the conduct of OMO purchases and operation twist from time to time. The sharper than expected fall in retail inflation in November'20 also helped pull down yields. However, concerns over the large supply of government securities and the still elevated levels of inflation weighed on demand for these securities, limiting the decline in yields.

Outlook for the benchmark Indian Government Bonds

The continued OMO purchases by the RBI amid the high supply of government securities and prevailing price pressures would help maintain GSec yields within a limited range. We expect the 10-year benchmark government bond yields to trade in the range of 5.87 – 5.94% during the current month.

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com