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Corp bond yields rise on uptick in G-sec yields, withdrawal of G-SAP operations

FE BUREAU
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YIELDS ON CORPORATE bonds rated AA and above rose around 5-10 basis points in the secondary market between October 7 and October 11, across tenures, tracking the increase in yields on government securities and the withdrawal of G-SAP by the Reserve Bank of India (RBI) in the monetary policy.

However, on October 12, papers maturing in three years have seen marginal moderation in yields on little buying from fund houses. Between October 7 and 11, yields on the corporate bond of state-owned companies and companies having rating AA and above maturing in three years were trading around 5.27-32%, while those on 5-year and 10-year paper were hovering around 5.85-90% and 6.90-95%, respectively.

"The markets seem to have reacted to the policy announcement by RBI and halting G-SAP operations is definitely one of the triggers. Corporate bonds, are more or less moving in tandem with the G-Sec yields which has hardened as a result of the RBI policy announcements," said Ajay Manglunia, MD and Head Institutional Fixed Income at JM Financial.

In the past few days, yields on G-Sec has risen almost 8 basis points, mostly after monetary policy and hit the highest levels since April 17, 2020, but eased 2-3 bps in the last two days. The rise was witnessed after the central bank called off G-SAP operations and signalled the start of policy normalisation.

The central bank in the monetary policy had decided to discontinue G-SAP auctions till the need arises while assuring that they will conduct a G-SAP auction whenever the liquidity conditions demand and also continue to flexibly conduct other liquidity management operations including Operation Twist (OT) and regular open market operations (OMOs).

"Long duration bonds are facing a double whammy of rising crude oil prices and discontinuation of the G-SAP programme. In the absence of G-SAP, RBI's intervention will be tactical depending on the RBI's perception of the fair yield level. If crude remains elevated, the market will push the RBI to edges to check its comfort level on yields," said Pankaj Pathak, Fund Manager, Fixed Income at Quantum Asset Management.

Dealers with brokerage firms said that the investors are worried about rising crude oil prices in the international market, which could put pressure on domestic retail inflation in the coming months.

This was despite the fact that retail inflation has eased in September to 4.35%, due to favourable base effect and low food Inflation. Further, market participants expect food inflation is likely to be benign due to good Kharif output and adequate buffer stock of food grains, but fuel and metal prices may balance the trend of moderation in retail inflation going ahead.

Brent crude oil prices have risen sharply due to improved demand for oil as most economies are reviving on increase in vaccination pace, but the output remained steady. The Opec and allies earlier this month decided to maintain a steady and gradual increase in output. Brent crude oil prices were traded at $83.15 a barrel, for December maturity.