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IMPROVED SENTIMENTS

# Lower G-Sec supply caps yields from rising further

**The yield on benchmark bonds eased 18-20 bps since the decision to cancel weekly debt auctions on February 11 and 18**

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Mumbai, February 16

**CANCELLATION OF THE** second straight weekly bond auction by the government on account of comfortable cash balances has improved sentiments of traders and capped yields from rising further. Yields remained stable though retail inflation for January breached the Reserve Bank of India's (RBI's) upper end of the tolerance band of 6%.

The yield on benchmark bonds eased 18-20 bps since the cancellation of both the weekly debt auctions on February 11 and 18. The benchmark bond was trading at 6.6855% by the closing of the market on Wednesday. "Longer tenure yields of 10 year and above have been capped post RBI actions on auction cancellation and dovish RBI policy. We feel 10-year at around 7-7.10% is toppish, pricing in rate hikes already based on historical spreads. We expect bear steepening of the curve to continue," said Anand Bagri, head – domestic markets, RBL Bank.

Dealers with brokerage firms said the government has also got some comfort from the initial public offerings by LIC.

As per the issuance calendar for marketable dated securities for October-December FY22, the government was to sell securities worth ₹24,000 crore each on February 11 and 18.

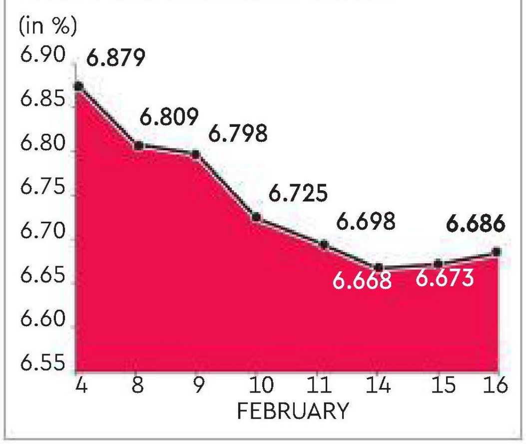
Similarly, ₹23,000 crore of debt sale is expected on February 25, but that too is expected to be cancelled.

"The RBI action has played some role in containing the yields, but it must be borne in mind that interest rates are market discovered and the LIC IPO has given some comfort," said Ajay Manglunia, MD and head – institutional fixed income at JM Financial.

In response to the higher inflation print of January, the market expects the central bank to adjust the variable rate reverse repo (VRRR) amount and normalise liquidity further. A hike in the repo or reverse repo rate will remain off the table. This is because the RBI feels high inflation is transitory and might focus more on pushing growth. Bagri said expectation from the RBI include increase in VRRR to tighten shorten end if CPI goes beyond 6.50% and government securities acquisition programme to cap long-term yields.

Apart from this, the US Treasury yields have moved up sharply after inflation hit a multi-year high. Currently, it is trading over 2%. Market participants expect yields on Indian government securities to remain range bound in the near term owing to low supply in FY22. "We estimate 6.65-6.75% as the near-term trading range," a HDFC Bank report said.

**Yield movement on 6.54% - 2032 benchmark bond**

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