

# Short tenure G-Sec yields ease on domestic cues

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**YIELDS ON SHORT** tenure government securities maturing between two and five years ease by 10-25 basis points over the last fortnight due to uncertainty over long-term interest rates and limited supply of new issuances in shorter tenure paper. The cancellation of weekly bond auctions also resulted in improved market sentiments.

Lower issuances of state development loans in 10-year-and-above tenures have led to a lack of supply of bonds. Between February 9 and February 24, yields on 2-year bonds eased 24 basis points, 3-year bonds by 16 basis points, 4-year bonds by 4 basis points, and 5-year bonds by 8 basis points.

“There is some amount of uncertainty in long-term interest rates given the evolving global macros and the way crude oil prices are moving. Thus, institutional investors want to lock in on low-to-medium duration bonds, instead of buying long-term bonds,” said Ajay Manglunia, MD and head – institutional fixed

income at JM Financial.

Market participants said the central bank has helped bond yields cool by cancelling the weekly bond auction and by keeping interest rates unchanged.

The longer end of the curve on government bonds will remain under pressure due to large borrowing being announced by the government for the next fiscal. While the movement in the short end will be based on liquidity conditions and the stance of the monetary policy committee. The buying on the short end of the curve is happening mostly through mutual funds and institutional buyers, which is followed by pensions funds leading to a sharp fall in yields on these instruments.

**Dealers with state-owned banks expect yields of short tenure bonds to remain range bound in coming days**



Dealers with state-owned banks expect yields of short tenor bonds to remain range bound in coming days and may not move significantly until supply comes into the market. “We expect levels to remain range bound from here, and it should subside once we have a fresh issuance of G-Sec and PSU bonds into the short to medium tenure,” Manglunia said.