THE HINDU BusinessLine



Money & Banking

# RBI may step in to keep G-Sec yields from rising

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Measures could include open market operation or further cut in reverse repo rate

The Reserve Bank of India (RBI) may announce an open market operation (OMO) to purchase government securities (G-Secs) or reduce the reverse repo rate further to keep the G-Sec yields from possibly spiking on Monday due the extra borrowing announced by the Government on Friday, say market experts.

They expect G-Sec yields to jump as the government, in an after market hours announcement on Friday, said it will borrow Rs 4.20 lakh crore more in FY21 on account of the COVID-19 pandemic. This will take the total government borrowing in FY21 to Rs 12 lakh crore.

Marzban Irani, CIO-Fixed Income, LIC Mutual Funds, observed that the extra borrowing is going to have a negative impact on the debt market as higher than expected supply of G-Sec papers will result in higher yields across G-Sec papers. Corporates yields are expected to follow the rising G-Sec yields.

"Yields should inch upwards since additional supply of G-Secs is difficult to absorb (around Rs.30,000 crores on weekly basis).

"The new 10 year benchmark (issued on Friday and carrying 5.79 per cent coupon rate) may chase 6 per cent (yield) and beyond, if the Government or the Reserve Bank of India (RBI) fail to come up with positive comments," he said.

Referring to the RBI coming up with several measures such as rate (repo and reverse repo) cuts, long-term repo operation, and cash reserve ratio cut to cool down the markets, Irani emphasised that the central bank has ample tools in its arsenal like further reduction in the reverse repo rate and OMO (purchase), which it might use to support the financial markets.

per cent on March 27 and from 4 per cent to 3.75 per cent on April 17 to encourage them to lend.

The central bank also cut the repo rate (the interest rate at which banks borrow funds from RBI to overcome short-term liquidity mismatches) from 5.15 per cent to 4.40 per cent on March 27. OMO purchase entails RBI buying select G-Secs from banks so that they have additional liquidity.

Bond market expert K Boovendran felt that the extra borrowing programme could result in hardening of G-Sec yields.

“They (RBI) may inject further liquidity in the market to enable banks to absorb further borrowings. They can also reduce reverse repo further.…I am expecting a 25 basis points cut in reverse repo rate to 3.50 per cent,” he said.

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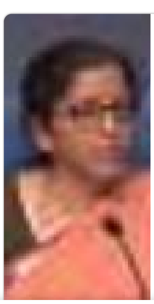

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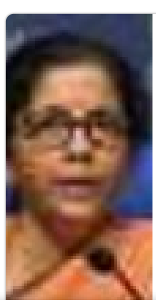

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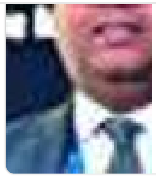

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