

# Bond yields crash on global index inclusion buzz, oil dip

## Rupee strengthens on fall in crude, but gives up gains before US Fed minutes

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Government bond yields plummeted on Wednesday as speculation of India's sovereign debt being included on global bond indexes and a recent slump in crude oil prices bolstered the market's appetite, dealers said.

Yield on the 10-year bond — '6.54 per cent 2032' — hurtled 10 basis points to close at 7.19 per cent on Wednesday. Bond prices and yields move inversely — one basis point fall in yield on the 10-year paper corresponds to a rise in price of roughly seven paise.

The rupee settled at 79.45 per US dollar as against 79.66 in the previous close.

The bond and currency markets reopened after an extended weekend as Monday and Tuesday were trading holidays on account of Independence Day and Parsi New Year, respectively.

On Tuesday, Goldman Sachs released a note, making a renewed case for inclusion of domestic government debt in a global bond index, saying such a move could prompt about \$30 billion of passive inflows, helping India finance its fiscal and current account deficits.

Bond traders said over the last couple of weeks, other major foreign bond houses had also circulated similar reports among investors.

Given that the Centre will have to announce the step in September for listing to be operational by March

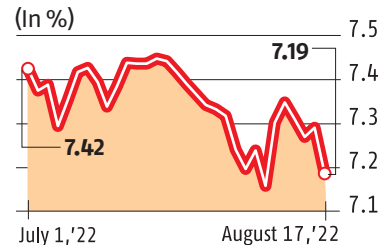
2023, the slew of reports over the past couple of weeks have added to the market's speculation.

"The feeling in the market is that someone knows something that others don't... there were rumours that the government is revisiting the idea of global bond listing after rupee weakened sharply over the last couple of months," a senior treasury official with a foreign bank said.

"The fall in crude oil has, of course, helped matters but crude has been steadily declining for some time. Bond yields wouldn't have fallen 10 basis points just on that development," he said.

Brent crude futures plummeted around 3 per cent on Tuesday, dropping to six-month lows, as concerns over slowing global economic growth

### 10-YEAR G-SEC YIELD



reduced demand for the commodity.

The most active Brent crude contract rose marginally on Wednesday, trading 0.1 per cent higher at \$92.47 per barrel by 0035 GMT, Reuters reported.

The issue of listing India's bonds globally has been a contentious one, with disagreements over taxation issues



ILLUSTRATION: BINAY SINHA

between the domestic government and foreign investors so far, preventing the process from gaining fruition.

In its report, Goldman Sachs said while progress was made on trading and operational issues, there had been no changes in current tax laws that could have facilitated bond index inclusion.

Anticipation of the government making the move — which would significantly improve demand-supply dynamics in the bond market by bringing in fresh investors — initially grew in March 2020 after the Reserve Bank of India permitted foreign investors to fully invest in specified government securities.

The RBI sets limits on the degree to which overseas investors can invest in domestic sovereign debt, with the current cap at 6 per cent of outstanding stock. "The market went through exactly the same process last year after Morgan Stanley released a report talking about bond index inclusion. It then ended badly for traders because the government made no such announcement. But when yields fall so sharply, traders have little option but to join the rally," a dealer with a primary dealership said.

Minutes of the Federal Reserves' July meeting, due late Wednesday, will provide cues on the pace of future rate hikes in the US. The Federal Reserve has already raised rates by 225 basis points in 2022, leading to a sharp strengthening of the dollar and exerting pressure on emerging market currencies such as the rupee.