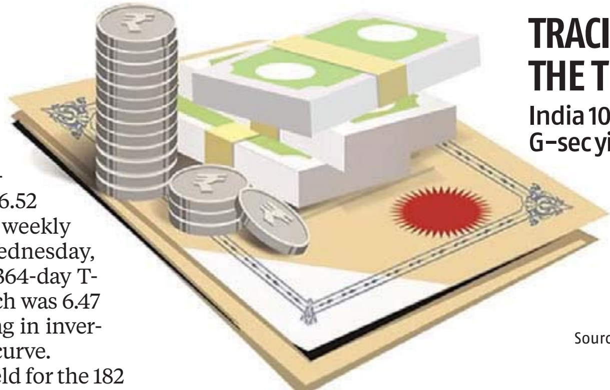
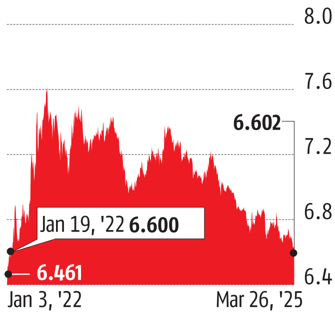
3-month T-bill cutoff set higher than 1-year, inverses yield curve

Cutoff yield on 91-day T-bill was set at 6.52%, higher than that of 364-day T-bill fixed at 6.47%

ANJALI KUMARI
Mumbai, 26 March



TRACING THE TREND
India 10-year G-sec yield (%)



Source: Bloomberg

The cutoff yield on the 91-day Treasury bill (T-bill) was set at 6.52 per cent on the weekly auction on Wednesday, higher than the 364-day T-bill auction, which was 6.47 per cent, resulting in inversion of the yield curve.

The cutoff yield for the 182 T-bill was also set at 6.52 per cent. While inversion between the 6-month and 1-year T-bills has been observed for an extended period, the inversion between the 91-day and 1-year T-bills occurred after a long gap.

Typically, the 364-day T-bill yield is higher than that of both the 91-day and 182-day.

The cutoff yield on 1-year T-bill was set 6 basis points (bps) higher compared to last week, while the yield on 6-month T-bill was lower by 9 bps on expectations of improvement in the liquidity situation.

In addition, the market is anticipating the Reserve Bank of India's (RBI's) Monetary Policy Committee (MPC) to change the stance to accommodative in its upcoming meeting starting April 7, apart from lowering the policy repo rate further by 25 bps.

The cutoff yield on 3-month T-bill was set 1 bps higher due to tepid demand from mutual funds, said dealers.

An inverted yield curve arises when short-term debt instruments offer higher yields than their long-term counterparts, despite having the same credit risk. This phenomenon is uncommon, as the typical yield curve slopes upward, reflecting higher yields for longer-term securities compared to shorter-term ones.

"There is demand in 1-year T-bill from banks because everybody is expecting that in the April policy, there will be rate cut of 25 bps, and second, there is a highly likely chance of changing the stance from neutral to accommodative, and lastly, the liquidity curve is weak. We do not see much deficits in April onwards. So, whatever we see, two-and-half trillion of deficit is behind us," said V R C Reddy, head of treasury at Karur Vysya Bank.

The net liquidity in the banking system was in a deficit of ₹1.57 trillion on Tuesday, according to the latest RBI data.

"Demand for the 3-month T-bill usually comes from mutual funds. But participation was not there today because they are going through redemption pressure," said the treasury head at a private bank.

On expectations of change in stance and rising speculations of additional rate cut in June, the benchmark government bond yield softened by around 3 bps on Wednesday to settle at 6.60 per cent, lowest since January 19, 2022. The benchmark yield has softened by 14 bps in March so far.

"The benchmark bond yield will fall further to 6.55 per cent if the RBI changes stance in April, and it will open the liquidity window and we might see further 4-5 bps decline in yields," said a dealer at a primary dealership.

After this fall, the spread between the 10-year benchmark bond yield and repo rate stood at 35 bps. Usually, the spread remains in the range of 60-80 bps.

Market now eyes the borrowing calendar of government securities for the next financial year, which is expected to be announced this week, said dealers.