Pause on rates: Bond yield eases sharply on RBI MPC’s dovish stance

Yield on the benchmark 6.54%-2032 bond fell 8 basis points and ended at 6.7248%, compared with 6.7983% in the previous trading session.

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Bond yields fell 8 basis points on Thursday after the Reserve Bank of India’s monetary policy committee (MPC) maintained its accommodative stance as well as a status quo on the key rates.

Yields also got support from cancellation of the weekly bond auction by the RBI earlier this week after the review of the Government of India’s cash position. Yield on the benchmark 6.54%-2032 bond fell 8 basis points and ended at 6.7248%, compared with 6.7983% in the previous trading session.

“Yields have taken support from the cancellation of the auction as announced by the RBI earlier this week, and now this dovish stance will mean that yields remain largely stable till March 2022,” said Puneet Pal, head – fixed income, PGIM India Mutual Fund.

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The market was broadly expecting restoration of the reverse repo rate corridor and a change in the stance from accommodative to neutral. Moreover, there were wide expectations of the announcement of Operation Twist and Open Market Operations. But, there was no announcement in terms of support for a higher borrowing programme. The governor in the post-policy press conference said the pressure on the borrowing programme could be lower with reliance on small savings likely to be higher than currently projected.

Market participants expect bond yields to remain range bound going forward, supported by comfortable liquidity and intervention from the RBI. The 10-year benchmark bond yield will trade in the range of 6.70-6.85% by March-end and 6.85-7.00% by June-end, HDFC Bank treasury research report said.

Meanwhile, the RBI enhanced the voluntary retention route to Rs 2.5 lakh crore from Rs 1.5 lakh crore. The increase in limit will help bring in new investors in the debt market and foreign portfolio investors can also buy proposed sovereign green bonds.

"Additional buyers in the market will help bond yields to anchor to some extent as the supply from April is huge and domestic investors might find it difficult to absorb," said Marzban Irani, CIO – debt, LIC Mutual Fund.