THE HINDU BusinessLine

G-Sec yields rise further on perceived liquidity tightening due to VRRR

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Government securities (G-Sec) yields went up further on Tuesday as market players perceived the surprise three-day variable reverse repo auction that the

Reserve Bank of India (RBI) conducted the previous day as a sign of tightening liquidity.

Yield on the 10-year benchmark G-Sec, carrying 6.10 per cent coupon, rose about three basis points to close at 6.4691 per cent, with its price declining about 24 paise to ₹97.3950.

Bond yields and price are inversely correlated and move in opposite directions. One basis point (bp) is equal to one-hundredth of a percentage point.

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Marzban Irani, CIO-Fixed Income, LIC Mutual Fund, said: “Yields are moving upwards gradually. After the advance tax, there is GST outflow. Plus, IPO funding is going on.

“...With hawkish statement from the Fed and Bank of England hiking rates, the domestic yields at the long end have also started inching upwards. Our 10-year benchmark G-Sec yield is expected to move towards 6.50-6.70 per cent range.”

‘Surplus liquidity’

Madan Sabnavis, Chief Economist, CARE Ratings, said: “The three-day variable rate reverse repo (VRRR) auction has given the impression that RBI is tightening. Every time RBI has done VRRR, they have always said very clearly that it is an optional instrument under the Liquidity Management Framework.

“But, I think, the market is panicking and this is the main trigger for the G-Sec yields to go up.”

He observed that the surprise three-day VRRR is being interpreted as tightening when it is not so.

“VRRR is just an avenue being given to Banks to park their surplus funds. So, instead of deploying funds at 3.35 per cent overnight, they are parking at 3.99 per cent in the three-day VRRR,” Sabnavis said.

He emphasised that the liquidity absorption that happens on the reverse repo front is not a case of tightening. The effect is temporary because the funds come back to the Banks after three days or seven days. The overall liquidity still remains in surplus.

Rupee strengthens

Meanwhile, the rupee strengthened by about 31 paise to close at 75.5950 per dollar against the previous close of 75.9025.

IFA Global, in a report, said the rupee was buoyed by a rebound in domestic equities and persistent sales of dollars by banks on account of corporate inflows.

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