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Will the Indian government bond yield soften further?

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The week from 30th August to 3rd September 2021 was very eventful with GDP data, fiscal deficit data and GST data bringing much needed relief to the bond market. The yield of Indian Benchmark 10-year bond fell from 6.22% on 30th August to 6.15% on 3rd September 2021 due to the positive market cues.

Indian real GDP for June quarter 2021-22 logged the growth of 20.1% year-on-year, which is very much in line with the market expectations bringing much needed relief to the market. The central government's fiscal deficit also stood at 21.3 % of the budget estimates at the end of July, which is way better than the previous financial year, when it soared to 103.1% of the estimate during the same period.

Though the GST collection during August 2021 was ₹1.12 lakh crore, down from ₹1.16 lakh crore during July 2021, it has crossed ₹1 lakh crore mark for two months in a row. It is a good sign of recovery and will ease the pressure on government revenue. Such robust collections will also aid the central government in releasing the GST compensation dues to states further easing the pressure on central government borrowing.

Good GDP data, low fiscal deficit and high GST collection have worked as an elixir to the government bond demand and led to the 7 basis point fall in 10-year benchmark bond yield last week. RBI is scheduled to release the borrowing calendar for central government for the second half of the FY 2021-22. We expect the borrowing number in the new calendar to be lower than the budget estimates. This will further strengthen the softening impact on the bond yields.

On the global front, US nonfarm payrolls increased by 2,35,000 (lower than expected) while the wages increased by more than expected. Increase in wages is expected to further increase the inflationary pressure in the US economy. The recent data on employment is mainly due to the labour supply issues being faced by the US economy in the wake of delta variant of COVID-19.

This variant is creating havoc in the world with China's PMI, European PMI and global PMI recording poor results in the month of August. In such a situation, we expect bond yields world over softening as it is a safer instrument than equity. European Union recorded decade high inflation at 3% in the month of August 2021, however, we expect the inflation in USA and EU to be resultant of supply side bottlenecks and transitory in nature.

In the wake of our reading of the global and domestic situation, we expect Indian benchmark 10-year bond yield to remain in the range of 6.15-6.20.

Happy Reading!!!

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