

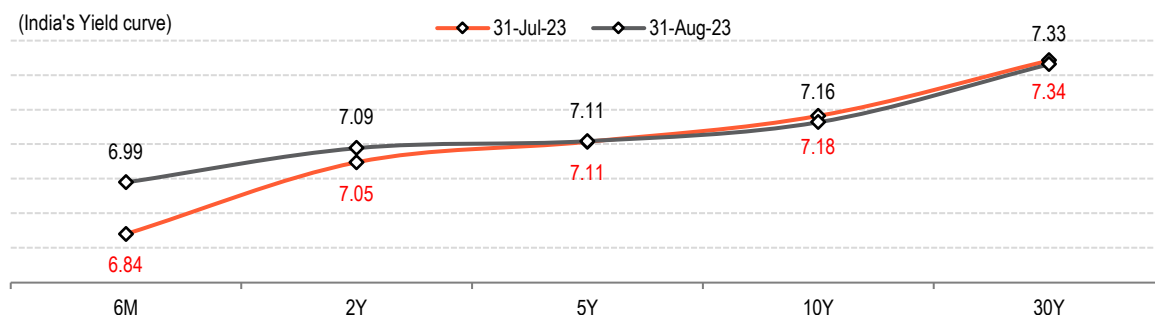
Table 1. 10Y Yields movement in Aug-23 over Jul-23

Countries	10Y sovereign yield, 31 Jul 2023	10Y sovereign yield, 31 Aug 2023	Change in 10Y yield in Aug/Jul'23, bps
Thailand	2.60	2.76	16
US	3.96	4.11	15
Indonesia	6.25	6.38	13
Singapore	3.04	3.13	9
Korea	3.77	3.83	6
UK	4.31	4.36	5
Japan	0.61	0.65	4
India	7.18	7.16	-1*
Germany	2.49	2.47	-3
China	2.66	2.58	-8

Source: Bloomberg, Bank of Baroda Research*Due to rounding off

Domestic 10Y yield inched down a bit by 1bps and traded in the range of 7.15-7.25% in Aug'23, in line with our estimate and compared to 7.06-7.18% in Jul'23. What has come out of this month's evolution of yield curve is that the gap between short and long end curve (6month and 30 Year paper) has reduced. From 50bps as on 31 Jul'23 it has fallen to 34bps as on 31 Aug'23.

Figure 1: Gap between short and long end part of the curve has fallen



Source: Bloomberg, Bank of Baroda Research

What auctions in the domestic market reflect?

In Aug'23, cut off yields for central government papers' remained broadly stable while for short end papers it inched up based on the evolving liquidity conditions.

Table 2. Cost of borrowing for central government papers were stable while short end it inched up

Type of Papers	Cut off yield as on 30 Jun 2023	Cut off yield as on 31 Jul 2023	Cut off yield as on 31 Aug 2023
Central Government Securities	7.18	7.24	7.25
SDL	7.41	7.39	7.43
Tbills	6.83	6.82	6.96

Source: Bank of Baroda Research, Note: Average cut off yield is taken to arrive at borrowing cost, Auction dates differ

Strain on liquidity was visible:

- Average system liquidity surplus was lower at Rs 1.2 lakh crore in Aug'23 compared to Rs 1.6 lakh crore in Jul'23. In fact in three days of the month for the first time this fiscal, system liquidity went into deficit. This reduction in liquidity was visible on account of maintaining incremental CRR and also due to GST outflows.
- Pressure on liquidity will slowly ease with review of RBI's incremental CRR in Sep'23.

Outlook on 10Y yield for the next 30days:

- *India's 10Y yield is expected to remain in the range of 7.15-7.25% in the current month.* Some comfort might be provided towards long end of the curve as high frequency price data is showing less than earlier pace of increase. Government's support is playing out well towards the same. Short end would continue to see some volatility till RBI's review of position on holding incremental CRR by banks. If RBI continues to extend the decision beyond 8th Sep, we might see some sell off in the short part of the curve.

Table 3: OIS rates inched up as RBI remained cautious on inflation

	As on 31 Jul 2023	As on 31 Aug 2023
OIS Rates		
1M	6.59	6.73
2M	6.63	6.73
9M	6.83	6.94
Corporate Spreads 10Y, bps		
AAA	37	37
AA+	67	68
AA	102	102

Source: Bloomberg, Bank of Baroda Research, Note: data as on the mentioned time point

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