

• Extract 1

Cash Squeeze Inverts India's Corporate Bond Yield Curve, by Divya Patil

The Reserve Bank of India's tight leash on liquidity is having an undesired effect on short-term borrowing costs for the nation's companies, making it more expensive to sell one-year commercial paper than longer-tenor notes.

The cost of issuing 12-month commercial paper has risen to 7.84 percent or 19 basis points more than average yields on notes maturing in three years, according to data compiled by Bloomberg. The gap had widened to as much as 20 basis points on Jan. 19, the most since February last year.

Excess cash with banks averaged 397 billion rupees (\$6.2 billion) last week, compared to a peak of more than 5 trillion rupees in March, according to Bloomberg Intelligence India Banking Liquidity Index. India's central bank is drawing liquidity out of the system as it seeks to keep inflation in check.

"Cash shortage is pushing up money market rates and inverting the yield curve" said Killoi Pandya, head of fixed income at Essel Finance AMC Ltd. "I expect inversion to persist at least till March."

Seasonal demand from mutual funds for three-year corporate debt is aggravating the credit curve inversion, said Pandya.

"Every year during this time, mutual funds tend to float a lot of fixed-maturity plans that have a tenor of around three years," he said. "This results in buying interest in three year corporate debt, and pushes yields down, and further inverts the curve."

Steepening Slope

India's corporate yield curve is the most inverted in 11 months

Spread between top-rated 3Y corporate bond yield and 1Y commercial paper rate

Basis Points



Source : Bloomberg-compiled data

• Extract 2

Yield curve steepens ahead of Trump's State of the Union speech, by Mark Decambre

Short-dated Treasury yields were flat on Tuesday while longer dated yields extended their climb ahead of President Donald Trump's State of the Union address. The moves for U.S. government paper also come as the Federal Reserve is set to kick off its two-day policy meeting with an updated outlook due Wednesday.

How are Treasuries performing?

The yield on the 10-year Treasury note TMUBMUSD10Y, +1.64% was up 3 basis point at 2.725%, the highest since April 2014, according to WSJ Market Data Group. The 30-year bond yield TMUBMUSD30Y, +1.34% climbed 4 basis points to 2.980%, its highest since Mar. 2017.

Meanwhile, the 2-year note yield TMUBMUSD02Y, +0.78% was virtually unchanged at 2.124%.

Bond prices move inversely to their yields.

What is driving markets?

Amid higher inflation prospects, market participants saw the yield curve steepen, reflecting a wider gap between short-dated and long-dated bond yields. The 10-year note yield and the 30-year bond yield are sensitive to shifting expectations for future price pressures.

Investors anticipate an economic boost from corporate tax cuts and other stimulus measures which could prompt the Federal Reserve to raise interest rates at a faster pace than the roughly three or four that the market has previously priced in, undercutting appetite for bonds.

The uptrend in yields for government paper has created some headwinds for a record-setting run in global equities, with the Dow Jones Industrial Average DJIA, +0.14% the S&P 500 index SPX, -0.06% and the Nasdaq Composite Index COMP, -0.35% fell for a second session in a row.

Richer bond yields can undercut demand for assets perceived as relatively risky like stocks, with investors tending to gravitate to safety of higher-yielding paper.

Later Tuesday, Trump will deliver his first official State of the Union address, which investors will keenly watch for signs of additional fiscal-stimulus measures to come. With the economy close to full capacity, analysts say the timing of Trump's pro-growth legislation could spur inflation faster than expected.

On Wednesday, Fed policy makers, in Chairwoman Janet Yellen's last meeting, will offer further details about the central bank's plan for reducing its crisis-era bond portfolio and communicate an updated economic and monetary policy outlook, which tends to have an outsize influence on short-date notes.