Debt Market Updates for June 2020

July 13, 2020

Summary

Both the central and state governments have witnessed a notable increase in their market borrowing in the current financial year. Central government borrowings through dated securities and T-bills in June 2020 was nearly unchanged from that in May 2020 but was notably higher than that in June 2019 (94%). During the month, the central government at its weekly auctions borrowed Rs.12,000 crores more than the intended amount by exercising the green shoe option. As of end June 2020, the government has raised 50% of the targeted borrowing of H1 2020-21. There was a 25% increase in the borrowing by state governments in June 2020 from that in May 2020 and here too the borrowing were higher than the notified amount by Rs. 5,711 crs as some states exercise the green shoe option.

The long term and short term market borrowings of corporates diverged in June 2020. After witnessing a marked increase in April-May 2020, there has been a moderation in the quantum of corporate bond issuances in June 2020. Corporate bond issuances were 33% lower in June 2020 on a month-on-month basis. On the other hand commercial paper issuances were 9% higher during the month. Borrowing from banks continued to be lackluster in the current financial year with the incremental bank credit growth contracting by 1.2% as on June 19, 2020 (y-o-y). The fund raising from overseas markets too has been lower this fiscal with ECB registrations in Apr-May 2020 being over 60% lower than that in Apr-May 2019.

There was a variance in the cost of funds in different segments of the debt markets in June 2020. The long term borrowing cost for state governments declined during the month while that for the central government and corporates increased. On the other hand, the cost of short term funds for the central government and corporates in June 2020 was lower than that in May 2020. The cost of bank borrowing declined to multi-year lows in June 2020

The secondary market yields of government and corporate debt securities declined sharply to 2 year lows in June 2020. The decline in yields was however higher in the case of corporate debt securities. Further, the credit risk of corporate bonds over government securities tightened in June 2020.

Table 1: Snapshot of the Indian Debt Market

Government		**Sep-19**	**Oct-19**	**Nov-19**	**Dec-19**	**Jan-20**	**Feb-20**	**Mar-20**	**Apr-20**	**May-20**	**Jun-20**
GSec	Rs. Crs	68,000	48,000	80,000	64,000	76,000	Nil	Nil	83,000	1,31,000	1,32,000
T-bills	Rs. Crs	64,000	48,000	66,000	68,000	65,000	51,000	99,000	140,000	1,80,000	1,80,000
SDLs	Rs. Crs	48,763	60,161	45,221	56,549	65,212	65,657	116,275	59,255	47,950	60,071
Corporates											
Bonds	Rs. Crs	58,502	49,924	52,889	64,781	83,142	84,747	60,005	79,472	78,623	52,587
CPs	Rs. Crs	1,65,963	1,86,543	1,74,384	1,80,682	1,10,476	1,40,644	2,11,439	1,32,660	1,14,793	1,24,963
Incremental bank credit*	Rs. Crs	-2,869	68,840	88,580	1,75,721	3,33,454	3,33,144	5,99,138	-97,445	-1,48,107	-1,25,831
ECB Registrations	$ Mn	4,889	3,415	2,116	2,097	8,401	4,175	7,437	996	1,490	

*Over Mar

Average Yields in Primary Markets (%)										
Government	**Sep-19**	**Oct-19**	**Nov-19**	**Dec-19**	**Jan-20**	**Feb-20**	**Mar-20**	**Apr-20**	**May-20**	**Jun-20**
GSecs	6.75	6.71	6.63	6.83	6.71	NA	NA	6.13	5.78	5.80
T-bills	5.47	5.29	5.08	5.07	5.19	5.17	5.15	3.93	3.55	3.44
SDLs	7.18	7.15	7.15	7.16	7.19	6.99	7.20	7.34	6.25	6.10
Corporates										
Bonds	8.10	7.87	8.35	8.60	7.92	7.56	8.02	6.98	7.18	7.47
CPs	5.69	5.74	5.52	5.49	5.67	5.66	6.13	5.26	4.79	3.99
Bank - MCLR*	8.45	8.35	8.31	8.30	8.25	8.21	8.20	8.00	7.85	7.70
ECBs #	1.17	1.46	2.03	1.41	1.24	2.01	1.07	1.70	1.61	
Average Yields in Secondary Markets (%)										
	Sep-19	**Oct-19**	**Nov-19**	**Dec-19**	**Jan-20**	**Feb-20**	**Mar-20**	**Apr-20**	**May-20**	**Jun-20**
10 yr GSecs	6.67	6.52	6.5	6.63	6.58	6.42	6.25	6.28	6.04	5.84
Corporate Bonds	8.19	7.73	7.68	8.16	7.53	7.66	7.86	7.72	7.47	6.80
Commercial Paper	5.72	5.39	5.35	5.25	5.39	5.35	5.88	4.82	4.21	3.87

* Median MCLR (1 year) for Scheduled Commercial Banks

#Weighted Average Margin over 6-month LIBOR or reference rate for Floating Rate Loans

Borrowings by central Government

A. Government Borrowings

A.1 Central government borrowings

The central government has ramped up borrowings in the ongoing fiscal year to meet its funding requirements. In the month of June 2020, the borrowings by the central government aggregated Rs. 1.32 lakh crore, Rs. 64,000 crore or 94% higher than that in June 2019 (Rs. 68,000 crore). During the first quarter of FY21, the central government borrowings were 57% higher totaling Rs. 3.46 lakh crore when compared with Rs. 2.21 lakh crore in Q1 FY20 and were 50% of the targeted borrowings of H1 FY21 (Rs. 6.98 lakh crore). These were also 12% more than the notified amount of Rs. 3.08 lakh crore in Q1 FY21 as the government has been accepting higher bids under the green shoe option.

In June 2020, the short term borrowings by the central government by way of treasury bills (T-bills) amounted to Rs. 1.8 lakh crore, same as in the previous month. However, the borrowings were Rs. 1 lakh crore (125%) more than Rs. 80,000 crore in June 2019. In Q1 FY21, the borrowings via T-bills totaled Rs. 5 lakh crore nearly double than Rs. 2.60 lakh crore in the corresponding quarter of the previous year.

A.2 State government borrowings

In the month of June 2020, 15 states issued State Development Loans (SDLs) and borrowed a total Rs. 60,071 crores, 25% higher than SDL borrowings worth Rs. 47,950 crores in the previous month and were also double than Rs. 29,851 crores market borrowings by states in June 2019. During the month, the SDLs borrowings were 11% higher than the notified amount of Rs. 54,360 crores as four states namely Kerala (Rs. 500 crores), Maharashtra (Rs. 2,500 crores), Rajasthan (Rs. 750 crores) accepted higher bids than notified in auctions. Cumulatively, the aggregate borrowings by the states totaled Rs. 1.67 lakh crores in Q1 FY21, double than Rs. 81,523 crores worth borrowings in Q1 FY20.

Among the states, Maharashtra borrowed the highest (Rs. 13,500 crores) followed by Tamil Nadu (Rs. 12,000 crores) and Rajasthan (Rs. 8,750 crores) in June 2020.

B. Bank credit off take

As on June 19, 2020, the outstanding aggregate bank credit amounted to Rs. 102.5 lakh crore, Rs. 1.26 lakh crore lower than end-March 2020. In terms of growth, the incremental bank credit contracted by 1.2% as on June 19, 2020.

Break-up of the sectoral bank credit off take during April-May 2020 reveals

a slower decline in the bank credit off take by the industrial and the services sector when compared with the corresponding period of FY20. Bank credit off take by industrial sector declined by 1.5% (v/s -2.5%) whereas that of the services sector fell by 2% (v/s -5.3%) in the first two months of FY21.

Of the 19 key industries, 15 industries registered contraction in the bank credit off take namely; chemicals, glass, engineering, leather, construction, rubber and plastic, food processing, petroleum and coal, textiles among others.

Table 2: Incremental Bank Credit Growth: Industry-wise

Contraction in Bank Credit

Industry	Apr-May'19	Apr-May'20
Chemicals & Chemical Products	-8.1	-10.2
Glass & Glassware	-0.2	-7.0
Leather & Leather Products	-0.1	-4.4
Mining & Quarrying (incl. Coal)	-0.9	-4.2
Construction	-2.1	-3.7
Rubber, Plastic & their Products	0.0	-3.5
Gems & Jewellery	-8.8	-3.5
Other Industries	8.7	-3.2
Food Processing	-3.4	-3.1
Petroleum, Coal Products & Nuclear Fuels	-16.7	-2.6
Beverage & Tobacco	-5.6	-2.5
Textiles	-4.5	-1.7
Industries	-2.5	-1.5
All Engineering	-2.1	-1.3
Cement & Cement Products	-0.3	-0.8

Growth in Bank Credit

Industry	Apr-May'19	Apr-May'20
Vehicles &Transport Equipment	-1.3	2.3
Paper & Paper Products	-0.9	2.0
Wood & Wood Products	-2.9	1.6
Basic Metal & Metal Product	-5.4	1.2
Infrastructure	-1.3	0.1

Source: RBI

C. Corporate Bond Issuances

Based on data from Prime Database, in June 2020, corporate bond issuances (public as well as private placements) amounted to Rs. 52,587 crore, 33% lower than a month ago (Rs. 78,623 crore in May 2020). In Q1 FY21, the total corporate bond issuances amounted to Rs. 2.11 lakh crore, 60% higher than Rs. 1.32 lakh crore in the same period last year. The higher issuances can be ascribed to the RBI's TLTRO whereby banks are required to invest these funds in investment grade corporate bonds.

In terms of sectoral debt issuances, financial services/investment had the highest 28% share in total issuances during the month of June 2020 followed by banking/term lending (26%) and housing finance (23%). In June 2020 nearly 91% of the issuances carried a rating of AA- and above out of which 70% of the issuances had a rating of AAA followed by AA (14%), AA+ (3%) and AA- (6%). Nearly 8% of the issuances had A rating during the month.

Table 3 : Select Sectoral Corporate Bond (debt) Issuances – June 2020

Industry	Issue Amount Rs Cr
Automobiles- Passenger Cars/Lcv/Tractors/Trucks	700
Banking/Term Lending	13,593
Cement & Construction Materials	850
Diversified	500
Engineering	75
Fertilizers	120
Financial Services/Investments	14,663
Hotels, Resorts, Restaurants & Tourism	300
Household & Personal Products	310
Housing Finance	11,854
Housing/Civil Construction/Real Estate	1,100
Pharmaceuticals & Drugs	100
Power Generation & Supply	1,450
Roads & Highways	2,700
Shipbuilding (Incl Repairing/ Breaking)	2,000
Steel/Sponge Iron/Pig Iron	1,400
Textiles	350
Travel/Transportation/Courier(Passenger/Cargo)	100
Grand Total	**52,165**

Source: Provisional Data from Prime Database

D. Commercial Paper Issuances

Commercial paper issuances (as per RBI) in June 2020 aggregated Rs 1.24 lakh crs, 42% lower than the corresponding period last year but 9% higher than the previous month. In the first quarter of FY21, total issuances have aggregated Rs 3.7 lakh crs, 40% lower than corresponding period last year. The decline so far this year can be attributed to the pandemic led lockdown and the consequent lower requirement of short term funds by corporates coupled with the low demand from mutual funds.

Table 4: Sectoral Commercial Paper Issuances* – June 2020

Industry	% share
Banking/Term Lending	21.2
Oil Exploration/Drilling/Refining	15.6
Power Generation & Supply	12.2
Telecommunications	11.4
Financial Services/Investments	9.6
Housing Finance	4.9
Others	25.2

Note: * provisional data as on 10th July 2020.
Source: Prime Database

Sectoral issuances

- Banking/Term lending accounted for around 1/5th of total issuances in June 2020, followed by oil exploration (15.6%) and power generation and supply (12.2%)
- Public sector undertakings (like Indian Oil Corporation, NABARD, NTPC etc) accounted for 46% of CP issuances in June 2020 and are higher than 32% share in May 2020.

E. External Commercial Borrowings (ECB)

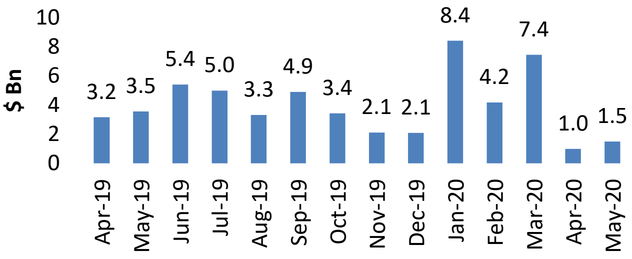
Indian corporates overseas borrowings in May 2020 was higher than that in the previous month but continued to be notably lower than that during 2019-20.The external commercial borrowing (ECB) registrations during the month at $1.5 bn was $0.5 bn higher than that in April 2020 and was $2.1 bn lower than that in May 2019.

The lower fund raising from foreign markets can in part be attributed to the pandemic led economic and business disruptions and uncertainty that has made business reluctant to add to their liabilities

The external borrowings in May 2020 continued to be dominated by the financial services sector that accounted for half of the total ECB registrations during the month. Petroleum, power, rubber and plastic products manufactures were the other major borrowers in May 2020, accounting for 31% of the ECB registrations.

In terms of purpose of borrowing, 49% of the borrowings were intended for on-lending and 20% was towards refinancing of past borrowings. Nearly 25% of the borrowings were intended for import of capital goods, meeting working capital requirements, new projects and infrastructure development

Chart 1: ECB Registrations : April 2019 - May 2020



Source: RBI

Table 5: Sectoral Share in ECB registrations: May 2020

Sectors	% share
Financial Services	49.7
Manufacture of coke and refined petroleum products	13.4
Electricity, gas, steam and air conditioning supply	9.2
Manufacture of rubber and plastic products	8.4
Manufacture of motor vehicles, trailers and semi-trailers	3.5
Manufacture of chemicals and chemical products	3.4
Warehousing and support activities for transportation	2.7
Manufacture of computer, electronic and optical products	2.6
Others	7.0

Source: RBI

Cost of borrowings

A. Central and State Government

A.1 GSec: The cost of fresh borrowings for the central government rose marginally in June 2020. The weighted average yield of central government borrowings was at 5.80%, 2 bps higher than that in May 2020 (5.78%). However, it was 1.13% lower when compared with 6.92% in June 2019. The rise in borrowing cost during the month can in part be ascribed to supply fatigue amongst investors in the absence of measures by the RBI to absorb excess supply of securities though the surplus liquidity in the banking system limited the upside in yields.

***A.2 T-bills*:** In June 2020, the cost of borrowing for short-term borrowings of the central government declined for 5th successive month. The weighted average yield of T-bills for the month at 3.44% was 10 bps lower than the yield of 3.55% in May 2020 and 264 bps lower than that in June 2019 (6.08%).

The cost of borrowings across various maturities has moderated in June 2020 compared with the previous month. The weighted average yield of 91 days T-Bills declined by 6 bps to 3.31%, 181 days T-bills was 16 bps lower at 3.46% and 364-days was 10 bps lesser at 3.56% than a month ago level.

A.3 State Development Loans: The cost of borrowing for the state government decline in June 2020. The weighted average yield declined by 15 bps to 6.10% compared with 6.25% in the previous month. Amongst states, the cost of borrowing was the lowest for Maharashtra (5.31%) while that for Telangana was the highest at 6.82% during the month.

B. Bank Lending Rates (MCLR and WALR)

The marginal cost of lending rate (MCLR) of schedule commercial banks declined further in June 2020 to the lowest levels since April 2016. The median 1 year MCLR of scheduled commercial banks for June 2020 at 7.70% was 15 bp lower than a month ago and 50 bps lower than March 2020. The RBI has cut key interest (repo) rate by 250 bps since February 2019. The median 1 year MCLR of scheduled commercial banks (SCBs) has declined by 110 bps since then. In terms of bank groups, public sector banks have witnessed a higher decline in their lending rate than the private sector banks. The median 1 year MCLR of public sector banks in June 2020 at 7.63% was 132 bps lower than that of private sector banks (8.95%). Public sector banks MCLR (median 1 year) has declined by 112 bps since February 2019 while that of private sector banks has fallen by 33 bps during this period.

The weighted average lending rate (WALR) of fresh rupee loans sanctioned by scheduled commercial banks increased by 2 bps to 8.52% in May 2020 from that in April 2020. The WALR has declined by 127 bps since February 2019. The decline here has been higher in case of private sector banks than public sector banks. The WALR of public sector banks have declined by 113 bps since February 2019 while that of private sector banks fell by 144 bps.

C. Corporate Bonds

The borrowing cost for the corporates increased in June 2020 due to uncertainty surrounding COVID-19 pandemic. The weighted average yield of corporate bond issuances increased in June 2020 by 29 basis points to 7.47% compared with the previous month (7.18% in May 2020). However, it was 135 bps lower than 8.82% in June 2019.

- The cost of issuances for four key segments, i.e. All India Financial Institutions (AIFs)[1], Housing Finance Companies (HFCs), Non-Banking Financial companies (NBFCs) and Non-NBFCs in the AAA rating category and the consequent changes in the yields shows that there has been an increase in the cost of borrowings for AIFs while that for HFCs and NBFCs has moderated.When compared with May 2020, the weighted average yield of AIFs increased by 25 bps in June 2020 to 6.86% in June 2020.
- On the other hand, the cost of borrowing for NBFCs fell by 50 bps whereas that of HFCs declined by 47 bps in June 2020 vis-à-vis May 2020.

Table 6: Issuer-wise corporate bond yields in the primary markets

AAA rated	AIFs	HFCs	NBFCs	Others*
Apr-19	8.32	8.35	8.74	8.75
May-19	8.23	8.45	8.62	8.79
Jun-19	7.93	8.07	8.62	8.17
Jul-19	7.41	7.92	8.52	8.33
Aug-19	7.63	7.81	8.36	7.03
Sep-19	7.57	7.35	8.19	7.75
Oct-19	7.37	7.97	7.72	NA
Nov-19	7.17	7.25	7.79	9.05
Dec-19	7.74	7.36	8.34	6.72
Jan-20	7.23	7.36	8.05	7.56
Feb-20	6.94	7.24	7.78	6.91
Mar-20	7.30	7.70	7.57	7.62
Apr-20	6.69	7.21	7.68	7.11
May-20	6.61	7.12	7.47	7.03
Jun-20	6.86	6.65	6.97	6.99

*Others include banks and manufacturing companies.
Source: Prime Database; CARE Ratings' Calculation

[1] AIFs include public sector undertakings such as NABARD, SIDBI, Indian Railway Finance Corporation Ltd.

D. Commercial Paper

The cost of borrowing via commercial paper declined for the third consecutive month with the weighted average yields falling to 3.99% in June 2020, 80 bps lower than last month. Notable decline on m-o-m basis was recorded in case of housing finance companies (1.05%) and AIFIs (95 bps) while NBFCs have registered an increase of 76 bps in June 2020. Almost all CP issuances (99.9%) during the month had a credit rating of A1+ category (very high degree of safety of lowest credit risk).

- After a steep decline in the weighted average yields of NBFCs in May 2020, the yields have seen an uptick from 4.84% in May 2020 to 5.60% in June 2020. 28% of the total issuances in June have been above the weighted average yield with a few NBFCs raising funds as high as 9.5%.
- The weighted average yield for HFCs was 3.81% in June, 1.05% lower than the previous month. The cumulative decline in the last two months has been 1.85% while the y-o-y decline has been 3.42%. More than 85% of the total issuances in the HFC sector have been below the weighted average yield for the month (3.81%).
- AIFIs raised funds at a weighted average yield of 3.6% in June 2020 compared with 4.54% recorded in May 2020. The yields have recorded a notable decline of 2.86% on y-o-y basis.
- Sub-sectors like cement (3.45%), pharmaceuticals (3.8%), telecommunication (3.88%) and transport (4.15%) have seen yields lower than the weighted average yield for the others segment (4.16%). The yields in the power generation (6.05%) and housing – real estate (6.20%) were at elevated levels in June 2020.
- The weighted average yields of all the four segments have registered notable decline in yields in June 2020 compared with June 2019.

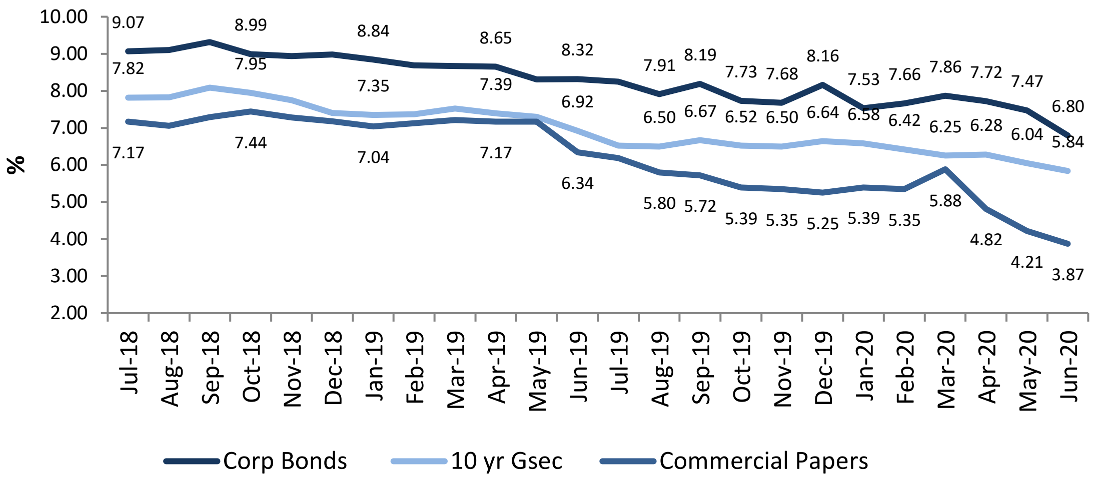
Table 7: Issuer-wise commercial paper yields in the primary markets

	NBFC	HFC	AIFI	Others	Weighted average
Jun-19	7.20	7.23	6.46	6.78	6.78
Jul-19	6.87	6.71	6.12	6.49	6.49
Aug-19	6.45	6.43	5.78	6.03	6.10
Sep-19	6.02	5.79	5.47	5.82	5.69
Oct-19	6.15	5.93	5.44	5.64	5.74
Nov-19	6.20	5.74	5.17	5.55	5.52
Dec-19	6.15	5.39	5.13	5.53	5.49
Jan-20	6.01	6.06	5.31	5.94	5.67
Feb-20	6.13	6.02	5.38	5.67	5.66
Mar-20	9.84	5.29	5.73	5.75	6.13
Apr-20	6.31	5.66	4.91	5.83	5.26
May-20	4.84	4.86	4.54	4.94	4.79
Jun-20	5.60	3.81	3.60	4.16	3.99

Source: Prime database, CARE Ratings calculation
*Others include telecom, power, ports, textiles, cement, fertilizers, etc.

A. Secondary market yields

Chart 2: Secondary Market Yields : Gsecs, Corporate Bonds and Commercial Papers



Source: FBIL, RBI, FIMMDA and CARE Ratings calculations. Corporate Bonds yields are the weighted average yields across rating categories

The secondary market yields of government and corporate debt securities declined sharply to 2 year lows in June 2020. The decline in yields has been higher in the case of corporate debt securities. The average yields of the benchmark 10 year GSec declined by 21 bps in June 2020 from May 2020 while the average corporate bond yields declined by 68 bps during this period. Similarly, in case of commercial papers, the average yields declined by 34 bps taking the yields on these instruments to a low 3.87% in June 2020.

The fall in GSec yields in June 2020 can be attributed to the liquidity surplus in the banking system that has led to banks increasingly buying government securities coupled with the continued safe haven buying of these securities on heightened economic concerns. Expectations of measures by the RBI that would limit the rise in yields also aided the fall in yields during the month. At the same time concerns over the supply of central government securities in the coming future limited the decline in yields.

Continued healthy demand across investor categories (banks, mutual funds, insurance companies) for corporate bonds pulled down corporate bond yields during June 2020. There has been increased buying of corporate bonds by banks consequent to the RBI's targeted long term repo operations announced in end March 2020 that stipulated deployment of funds borrowed by banks in the acquisition of corporate bonds from the secondary markets. The sustained liquidity surplus in the banking system also supported demand for corporate bonds (higher credit rated) by banks.

The decline in yields of commercial paper has primarily been on account of increased demand from mutual funds amid increased inflows into their liquid funds and the reinvesting of funds from maturing paper. The lower issuance of commercial papers by companies on account of lockdown led lower requirement of funds and fewer issuances of certificates of deposits by banks due to surplus liquidity in the banking system has also been a factor driving demand for commercial papers in the secondary markets.

Table 8: Corporate Bond Spreads over GSec: 10-year maturity

Month end (%)	GSec yields	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
31-Jan-19	7.28	1.29	1.68	1.88	2.29	2.99	3.99	4.29	5.29	5.54	6.04
28-Feb-19	7.41	1.4	1.7	1.94	2.4	3.1	4.1	4.4	5.4	5.65	6.15
29-Mar-19	7.35	1.08	1.45	1.68	2.12	2.82	3.82	4.12	5.12	5.37	5.87
30-Apr-19	7.41	1.13	1.47	1.75	2.13	2.83	3.83	4.13	5.13	5.38	5.88
31-May-19	7.03	1.18	1.5	1.77	2.15	2.85	3.85	4.15	5.15	5.4	5.9
28-Jun-19	6.88	1.25	1.56	1.84	2.21	2.91	3.91	4.21	5.21	5.46	5.96
31-Jul-19	6.37	1.39	1.75	2.01	2.35	3.35	4.05	4.35	5.35	5.6	6.1
30-Aug-19	6.56	1	1.39	1.63	1.97	2.97	3.67	3.97	4.97	5.22	5.72
30-Sep-19	6.7	1.05	1.39	1.69	2.02	3.02	3.72	4.02	5.02	5.27	5.77
31-Oct-19	6.45	1.28	1.6	1.88	2.2	3.6	3.9	4.7	5.2	5.45	5.95
29-Nov-19	6.47	1.12	1.42	1.7	1.95	3.35	3.65	4.45	4.95	5.2	5.7
31-Dec-19	6.56	1.01	1.31	1.56	1.92	3.32	3.62	4.42	4.92	5.17	5.67
31-Jan-20	6.6	0.99	1.27	1.54	1.82	2.82	3.32	3.82	4.07	4.32	4.57
28-Feb-20	6.37	0.34	0.71	1.02	1.39	2.14	2.39	2.89	3.39	3.64	3.89
31-Mar-20	6.14	0.81	1.13	1.53	1.73	2.73	3.23	3.73	3.98	4.23	4.48
30-Apr-20	6.28	1.2	1.54	1.86	2	3	3.5	4	4.25	4.5	4.75
29-May-20	6.01	1.21	1.66	2.03	2.41	3.41	3.91	4.41	4.66	4.91	5.16
30-Jun-20	5.89	0.86	1.38	1.81	2.2	3.2	3.7	4.2	4.45	4.7	4.95

Source: FIMMDA

The credit risk of corporate bonds over government securities tightened in June 2020 (on a month-on-month basis) for the first time since February 2020. The spread between GSecs and corporate bonds narrowed across credit rating categories in June 2020 from that in May 2020.

The comparison of yield spreads on the last day of June 2020 with that of end May 2020 showed that the yield spread decline by 34 bps and 27 bps for bonds carrying ratings of AAA and AA+ respectively, while it narrowed by 20 bps for bonds with ratings in the category of AA- to BBB-.

The narrowing of spreads can be attributed to the increased investor participation in the secondary markets of corporate bond especially for the higher investment grade bonds consequent to the RBI's targeted long term repo operations and liquidity surplus in the banking system. Further, the easing of lockdown and gradual resumption of economic activity across various regions gave rise to hopes of economic recovery and boosted investor sentiments.

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