Borrowers postpone bond issuances on volatile yields

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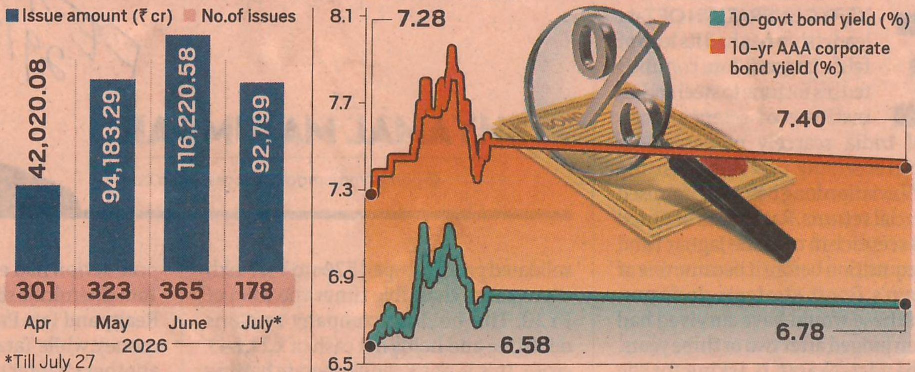
RENEWED GEOPOLITICAL UNCERTAINTIES and heightened market volatility are prompting corporate bond issuers to stay on the sidelines, making it harder and costlier for borrowers to access the market.

After a rush to lock in lower yields in June, activity has slowed over the past two weeks. Listed issuances stood at ₹58,781 crore in July till (27th), down from ₹98,995 crore in June, according to Prime Database. Overall issuances, including private placements, stood at ₹92,799 crore, compared with ₹1.16 lakh crore in June. Major issuances have been largely absent over the past two weeks.

"The recurring cycle of escalation and temporary de-escalation in the West Asia crisis has created an unusually volatile environment for global financial markets. Every fresh military development has triggered sharp spikes in crude oil prices, only to be followed by equally sharp corrections whenever temporary ceasefires or diplomatic efforts emerge," said Venkatakrishnan Srinivasan, founder and managing partner, Rockfort Fincap LLP.

"This headline-driven market has made it extremely difficult for issuers and investors to establish any meaningful pricing benchmark. This has once again prompted borrowers to adopt a wait-and-watch approach," he added.

LOSING STEAM



Source : primedatabase.com

Oil prices surged to $100 a barrel before easing to around $83 in a short span, reflecting the uncertainty. The rupee also came under pressure, pushing the benchmark 10-year G-Sec yield above 6.80% before it eased to around 6.76% as crude prices fell.

Consequently, the yield on the 10-year AAA-rated bond rose 10-15 basis points to 7.55% before easing to around 7.40%, according to Bloomberg data. The yield on the three-year bond rose by as much as 25 basis points.

Bond yields had fallen sharply in June following measures by the central bank and the government to support the rupee. This triggered a surge in issuances in June and early July as borrowers rushed to lock in lower yields. In contrast, issuers had deferred borrowing plans in April and May amid elevated yields and persistent geopolitical tensions.

Market participants also said issuers are holding off ahead of the monetary policy announcement scheduled for next week.

"After the renewed strikes, corporate bond yields have gone up by 10 bps, which led to a slowdown in issuances. However, I expect the inflows from the RBI's measures to support yields," said Puneel Pal, head of fixed income, PGIM Mutual Fund.

"High volatility is not good for any market. That has dented sentiment and kept yields volatile. Once markets calm down, activity should pick up, but for now the persistence of volatility is the main factor holding back issuances," he added.

Srinivasan said investors have become increasingly selective, with long-tenor AAA issuers expected to continue attracting demand. "Similar to April and May, we expect another shallow month for the primary bond market, with overall corporate bond issuances likely to decline sharply as issuers defer borrowings until market conditions stabilise," he said.

Market participants expect issuers to return once conditions stabilise and geopolitical tensions ease, giving them greater confidence to raise funds at more predictable yields and better pricing.

"Once crude oil prices, one of the key drivers of bond yields, begin to decline, we may see a revival in corporate bond issuances in the coming months," said Mataprasad Pandey, vice-president, Arete Capital.