Low premiums on parts of Indian credit prompt calls for RBI help

Tightening premiums are often a sign of a strong credit market, but recently it's more about dislocations in the yield curve due to central bank interventions.

As the Reserve Bank of India (RBI) tries to tame borrowing costs amid the pandemic, spreads on five- and 10-year rupee corporate bonds that usually move in lockstep have diverged, with premiums on the shorter notes falling. The problem is that it's not happening because of strong demand.

It's a byproduct of the RBI focusing on keeping the benchmark 10-year sovereign yield from rising. That's sparking an increase in corporate premiums based on the rate, while some shorter company spreads decline.

“The RBI should probably pay more attention to corporate bond spreads across the curve,” said Suyash Choudhary, head of fixed income at IDFC AMC. “This would also entail curbing spreads on semi-liquid government bonds that then directly compete with corporate bonds, especially in the medium-duration space where corporate bond issuance needs may be higher.”

The dislocation is affecting debt sales too. The number of rupee corporate bond issues due in more than five years since February 1, when the government announced higher-than-expected borrowings, has jumped to 66, the most in four years for the period, Bloomberg-compiled data show. Issues with tenors of as much as five years dropped to 166, the least in eight years.

Reserve Bank of India