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Surging Bond Yields: Banks' Treasury Income to Decline

Benchmark government bond yields rose sharply in the past quarter, impacting banks' treasury income.

Bond yields represent the return an investor gets on a bond, and treasury income refers to the gains banks make from their investment portfolios, primarily government securities.

KEY EXAM POINTS

- The benchmark **10-year government bond yield** rose about **44 basis points** in the past quarter, ending **September** at around **7.19%**.
- This is compared with roughly **6.75%** three months prior, while **five-year yields** climbed by an even sharper **47 bps**.
- Banks are expected to post a nearly **60% fall** in treasury income for the **July-September quarter** from a year earlier.
- Analysts at **Jefferies** estimate aggregate treasury gains in the fiscal second quarter to be **₹5,500 crore**, down **58%** from **₹13,100 crore** a year earlier.
- Sequentially, this income is expected to be **23% lower** compared with **₹7,100 crore** in the **June quarter**.
- **Public sector banks** will feel a more pronounced effect due to their larger **government securities portfolios**.

DID YOU KNOW..!?

A **bond yield** is the return an investor receives on a bond, expressed as a percentage, and moves **inversely** to its price.

Government Securities (G-Secs) are debt instruments issued by the **Central** or **State Governments** to borrow money.

The **Reserve Bank of India (RBI)** manages the issuance of government bonds and conducts **Open Market Operations (OMO)** to influence liquidity and interest rates.

Banks hold government securities in their **investment portfolios**, which are categorized as **Held-to-Maturity (HTM)**, **Available-for-Sale (AFS)**, or **Held-for-Trading (HFT)**.

A **basis point (bps)** is a common unit of measure for interest rates and other financial percentages, equal to **one-hundredth of a percentage point** (**0.01%**).

Monetary policy, controlled by the **RBI**, influences bond yields through tools like the **repo rate** and **reverse repo rate**.

Rising **inflation** typically leads to **higher bond yields** as investors demand greater compensation for the eroding purchasing power of future payments.

REVISION FLASHCARD

Banks' treasury income to fall by nearly 60% due to surging government bond yields.

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