



Brickwork expects more special open market operations by RBI

By IndUS Business Journal -December 20, 2019

Mumbai: Brickwork Ratings on Friday said it expects more special Open Market Operations (OMOs) by the Reserve Bank of India (RBI) aimed at lowering yields on long term bonds.

The OMO are similar to the US Federal Reserve's "operational twist" — swapping short-term treasury securities for long term government debts — conducted in 2011-12.

The RBI had announced that it will simultaneously buy and sell government bonds worth Rs 10,000 crore each on December 23 through OMOs.

Brickwork said that in a bid to contain the rising yields on the longer end of the yield curve, the RBI has strategically arranged this debt-to-money market swap.

The move will improve both liquidity and bond yields as it will "suck out the government bonds of long duration (10 years) and pump in short duration (about 6 months) worth Rs 100 billion" through special OMOs.

"More such swaps may follow as it might prevent steepening of the yield curve (which could be on account of expectations of higher fiscal deficit) even as it improves liquidity for the long-term investors and provides flexibility to the government in raising long term resources for managing the fiscal deficit," **Brickwork** said on Friday.

Siddhartha Khemka, Head – Retail Research, Motilal Oswal Financial Services said that market sentiments got boosted on Friday post the RBI's decision to conduct special OMOs to bring down long-term yields which was cheered by the market with gains in banking stocks.

"The RBI would buy Rs 10,000 crore worth of the current benchmark 10-year bonds while selling four bonds maturing in 2020 for an equivalent amount on December 23, 2019. This will bridge the liquidity gap and lower rates without expanding the RBI's balance sheet," Khemka said. (IANS)