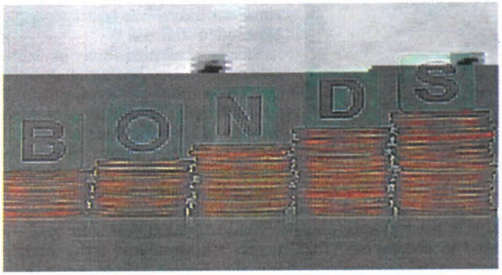
How yields for bonds shrunk in 2020



The Bank of Tanzania (BoT) week on week government debt instruments (bonds) auction reports have indicated a declining trend in yields offered by the central bank since the start of 2020.

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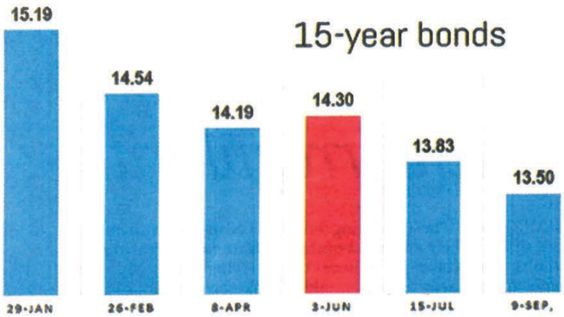
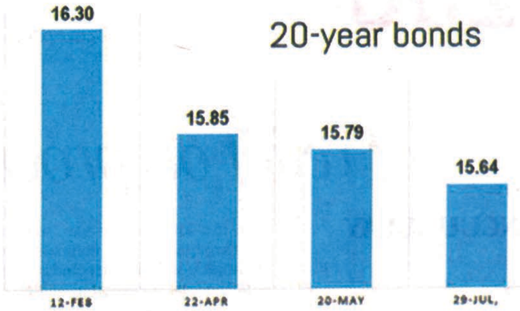
Despite yield decrease, investor appetite for the bonds remains high as 17 of 18 auction results have resulted in oversubscription

2020 trends for yields of bonds of different maturities (in percentage)





10-year bonds

Yields to maturity for 10-year bonds fell to 11.49 in August from 12.90 in March

2-year bonds

Yields to maturity for 2-year bonds fell to 7.09 in August from 10.26 in January

TheCitizenData

Infographics by Halili Letea , Nuru Abdallah

Source: Bank of Tanzania (BoT)

Why investors unperturbed by low Treasury bond yields

SECURITIES. **Despite fall in yields, investors have kept injecting their cash into government securities more than in any other investment avenue**

By Josephine Christopher
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Dar es Salaam. Yields on Treasury bonds (T-Bonds) have dipped significantly during the past few months - but this has had no impact on investor preferences.

With the world battling the Covid-19 pandemic, investor appetite for government securities has remained high, resulting in oversubscription for the papers in both primary and secondary markets.

Domestically, investors' rate of returns for the 20-year T-Bond - assuming the investors will hold the assets until its maturity - dropped to 15.63 percent in July, down from 16.29 percent in February.

As for the 15-year T-Bond, yields dropped from 15.19 percent in January to 13.83 percent in July, while that of the 10-year went down to 11.49 percent in August from 12.89 percent in March.

Investor's rate of returns for the 2-year T-Bond dropped to 7.09 percent in August from

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10.26 percent in January.

But despite the fall in yields, investors keep injecting their cash into the government securities than in any other investment avenue, including unit trust, real estate and even in some fixed accounts among others.

Analysts say to understand why the situation has been that way, it is essential to understand who are the key players in these investment avenues.

Dar es Salaam Stock Exchange (DSE) chief executive officer Moremi Marwa says the situation explains the fact that Tanzania's bonds market was currently dominated by financial institutions which have more liquidity now due to the monetary policies designed by the Bank of Tanzania (BoT).

In May, BoT announced some key monetary policy measures which it said would protect the financial sector's stability, and cushion the economy in the wake of the Covid-19 malady which had slowed economic activities around the globe.

The measures included lowering the statutory minimum reserve requirement – the amount of cash banks must maintain as reserves - from seven to six percent. This was meant to provide the banks with additional liquidity.

The BoT also reduced the discount rate – the level of interest at which commercial banks borrow from the central bank – from seven to five percent to allow them access cheaper loans hence signalling lower lending interest rates.

Among the measures, the BoT allowed commercial banks to borrow from it [the BoT] with less collateral than before by reducing haircuts on government securities from 10 percent to five percent for T-Bills and from 40 percent to 20 percent for T-Bonds.

According to Mr Marwa, these and other BoT initiatives were at play with regard to investors' appetite for government securities.

"Financial institutions are the majority bond purchasers in the country and they opt for government securities because they cannot invest into equities due to regulations limitations," he said.

He said banks have been using these funds to buy T-Bonds at the primary market and later trade them at the secondary market.

He said the increased demand has also been a result of the increasing retail investors in the local financial markets.

"The demand has also surged because people have become more informed and this has boosted the number of participants in the market," says the DSE chief.

The uncertainty in the global economy as a result of the Covid-19 pandemic has also pushed investors in the government securities side because it's a risk-free investment, he says.

Why are yields falling?

Like any other financial assets, bonds are affected by the market forces of demand and supply. Bond prices rise when demand outweighs supply and fall when there is insufficient demand.

"The yields or returns on the bonds fall when its price increases and rise when the prices fall," Arch Financial and Investment Advisory Limited director Mazengo Kasilati told *The Citizen* recently.

Analysts say the long term government securities remain as relevant as ever in an uncertain and complex market environment.

Despite the decreasing yields challenges, Mr Kasilati says, investors believe fixed income investments still have a place in a well-diversified portfolio.

"Bonds have a fixed coupon rate which an investor or bond holder must receive periodically, and the good thing is that there is full faith in the government to repay its debts," he said.

That is why people even bid as high as above 100 percent price level, because the coupon payments, which may be made quarterly, twice yearly or annually, are expected to provide regular, predictable income to investor, elaborates Mr Kasilati.

In Tanzania, the 2-year T-Bond is offered with a fixed coupon rate of 7.82 percent. The other bonds (and their coupon rates shown in brackets) are as follows: 5-year bond (9.18 percent); 7-year bond (10.08 percent); 10-year bond (11.44 percent); 15-year bond (13.5 percent), and 20-year bond (15.49 percent).

For his part, Mr Raphael Masumbuko, the chief executive officer of Zan Securities Limited - a brokerage and investment advisory company - said investors still opt for government bonds because they do provide diversification benefits.

"With enough liquidity in the market - especially in financial institutions - investment in bonds seems like a good idea for business diversification," he said.

Mr Masumbuko also said that the availability of liquidity also creates an opportunity for people with project ideas to source funding from the financial markets.

He added that, in the long run, the availability of liquidity has also bolstered the growth of credits extended to different areas of the private sector, such as trade and personal loans.