

RELATIONSHIP BETWEEN SOVEREIGN BOND YIELDS AND FX



The information contained here is based on or derived from information generally available to the public from sources believed to be reliable. No representation or warranty is made or implied that it is accurate or complete. This has been prepared solely for information purposes and for private circulation and does not constitute any solicitation to buy or sell any instrument, or to engage in any trading strategy. Markets can be volatile and opinions may change without notice. The opinion expressed here is solely that of the author and does not purport to represent the views of Axis Bank.

There is a lead lag relationship between Sovereign bond yield (leading) vs. the respective FX rate (lagging). This lead lag relationship is so pronounced across all currencies that we may safely assume a strong causality from yields to FX. The CDS cost is deducted from the sovereign yield to arrive at the "risk free carry" for the currency- the higher this carry, the stronger the currency. Evidence from Indonesia, Thailand, South Korea, Turkey & South Africa is presented in the following charts

Indonesian Rupiah



The information contained here is based on or derived from information generally available to the public from sources believed to be reliable. No representation or warranty is made or implied that it is accurate or complete. This has been prepared solely for information purposes and for private circulation and does not constitute any solicitation to buy or sell any instrument, or to engage in any trading strategy. Markets can be volatile and opinions may change without notice. The opinion expressed here is solely that of the author and does not purport to represent the views of Axis Bank.

Thai Baht


The information contained here is based on or derived from information generally available to the public from sources believed to be reliable. No representation or warranty is made or implied that it is accurate or complete. This has been prepared solely for information purposes and for private circulation and does not constitute any solicitation to buy or sell any instrument, or to engage in any trading strategy. Markets can be volatile and opinions may change without notice. The opinion expressed here is solely that of the author and does not purport to represent the views of Axis Bank.

Korean Won


The information contained here is based on or derived from information generally available to the public from sources believed to be reliable. No representation or warranty is made or implied that it is accurate or complete. This has been prepared solely for information purposes and for private circulation and does not constitute any solicitation to buy or sell any instrument, or to engage in any trading strategy. Markets can be volatile and opinions may change without notice. The opinion expressed here is solely that of the author and does not purport to represent the views of Axis Bank.

Turkish Lira


The information contained here is based on or derived from information generally available to the public from sources believed to be reliable. No representation or warranty is made or implied that it is accurate or complete. This has been prepared solely for information purposes and for private circulation and does not constitute any solicitation to buy or sell any instrument, or to engage in any trading strategy. Markets can be volatile and opinions may change without notice. The opinion expressed here is solely that of the author and does not purport to represent the views of Axis Bank.

South African Rand


If CDS spreads are exploding, while bond yields are moving up at a slower pace, then FX depreciation would happen. Similarly, if bond yields come off while CDS spreads remain elevated, FX would remain in depreciation mode.

Strategist

Anupam K Mitra, AVP

Axis Bank

Treasury, Global Markets Group

Contact details – 66043222, 42026622. anupam.mitra@axisbank.com

The information contained here is based on or derived from information generally available to the public from sources believed to be reliable. No representation or warranty is made or implied that it is accurate or complete. This has been prepared solely for information purposes and for private circulation and does not constitute any solicitation to buy or sell any instrument, or to engage in any trading strategy. Markets can be volatile and opinions may change without notice. The opinion expressed here is solely that of the author and does not purport to represent the views of Axis Bank.