

Negative Yield Bonds

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In News

- China sold negative-yield debt for the first time, and this saw a high demand from investors across Europe.

What are Negative-yield Bonds?

- The NYBs are debt instruments that **offer to pay the investor a maturity amount lower than the purchase** price of the bond.
- The NYBs are generally **issued by central banks or governments**, and investors pay interest to the borrower to keep their money with them.

Relationship between Bond Price and Yield:

- A bond's price moves inversely with its yield or interest rate; the higher the price of a bond, the lower the yield.
- The reason for the inverse relationship between price and yield is due, in part, to bonds being fixed-rate investments.
- Investors might sell their bonds if it's expected that interest rates will rise in the coming months and opt for the higher-rate bonds later on.
- Conversely, bond investors might buy bonds, driving the prices higher, if they believe interest rates will fall in the future because existing fixed-rate bonds will have a higher rate or yield.

Why do investors buy them?

- Negative-yield bonds attract investments during times of stress and uncertainty as investors look to protect their capital from significant erosion.
- At a time when the world is battling the Covid-19

pandemic and interest rates in developed markets across Europe are much lower.

- Hence, investors are looking for relatively better-yielding debt instruments to safeguard their interests.

Current High Demand of Negative-yield Bonds

- The 10-year and 15-year bonds are offering positive returns is a big attraction at a time when interest rates in Europe have dropped significantly.
- It is important to note that while the majority of the large economies are facing a contraction in their GDP for 2020-21, China is one country that is set to witness positive growth in these challenging times.
- Europe, the US and other parts of the world are facing a second wave of Covid-19 cases and China has demonstrated that it has controlled the spread of the pandemic and is therefore seen as a more stable region.