Bond Markets

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Bond Markets Latest News

U.S. President Donald Trump has not only disrupted international trade rules but has also sought to challenge the independence of the U.S. Central Bank (Federal Reserve).

About Bond Market

- The bond market is a **financial marketplace** where investors **buy and sell debt securities**, **primarily bonds,** issued by governments, corporations, or institutions.

About Bonds and Inflation Impact

- A **bond** is a **financial instrument** that **promises a fixed return** (face value) at the end of a specific period, unlike **equity**, which has no fixed term or guaranteed returns.
- **Bonds** are generally **safer investments** used to **hedge against risks** or act as a **store of value**.
- **Bond yields** are **inversely proportional** to their **market price**: when **prices fall**, **yields rise**.

- **Inflation** erodes the **real returns** from bonds. If **inflation exceeds bond yield**, investors **lose purchasing power**.
- When **inflation expectations rise**, the **Central Bank** typically **raises interest rates**, causing **bond prices to fall** and **yields to rise**, impacting **investment decisions** across the economy.
- **Currency depreciation** also impacts **foreign bondholders** negatively, reducing their **real returns** when converting back to their home currency.

About the Indian Bond Market

- The **Indian Bond Market** is a **vital segment** of the financial system where **government entities, corporations, and financial institutions** raise funds by **issuing bonds**.
- **Investors** provide loans to the **issuers** and, in return, receive **periodic interest payments** and **principal repayment** upon maturity.

Structure of the Indian Bond Market

- **Primary Bond Market:** In the **Primary Market**, **new bonds** are issued by the **government**, **corporations**, or **financial institutions** to raise capital.
    - **Government Securities (G-Secs)**: Bonds issued by **Central and State Governments**, including **Treasury Bills** (short-term) and **Government Bonds** (long-term).
    - **Corporate Bonds**: Bonds issued by **private or public companies**, credit-rated based on their **creditworthiness**.
    - **Municipal Bonds**: Issued by **local governing bodies** for funding **public infrastructure projects**.
    - **Public Sector Undertaking (PSU) Bonds**: Bonds issued by **government-owned corporations**.
    - **Green Bonds**: Dedicated bonds for financing **environmentally sustainable projects**.
    - **Masala Bonds**: **Rupee-denominated bonds** issued in **foreign markets**.
- **Secondary Bond Market:** In the **Secondary Market**, **previously issued bonds** are **traded among investors**.
    - Examples include instruments like **Treasury Bills (T-Bills)**, **Commercial Papers (CPs)**, and **Certificates of Deposit (CDs)**.

Bond Markets FAQs

Q1. What is a bond market?

Ans. The bond market is a financial marketplace where investors buy and sell debt securities, primarily bonds, issued by governments, corporations, or institutions.

Q2. What are government securities (G-Secs)?

Ans. Government securities (G-Secs) are bonds issued by a government to borrow money from the public, considered among the safest investments due to sovereign backing.

Q3. What is the difference between primary and secondary bond markets?

Ans. In the primary market, bonds are issued and sold for the first time; in the secondary market, investors trade existing bonds among themselves.

Q4. Who regulates the bond market in India?

Ans. The Reserve Bank of India (RBI) regulates the government bond market, while the Securities and Exchange Board of India (SEBI) regulates corporate bond markets.

Source: TH
