

March 10, 2026

Rise in Short-Tenor Yields – An Investment Opportunity?

What's the Point?

- Over the past couple of months, there has been a sharper rise in yields of shorter-tenor instruments compared to longer-tenor ones owing to tighter liquidity conditions on account of seasonal factors, RBI's FX intervention, Credit growth outpacing Deposit mobilisation etc.
- At the shorter end, Commercial Papers (CPs), Certificate of Deposits (CDs) and Corporate yields have risen more than comparable Government Securities owing to divergent demand-supply dynamics.
- Current environment creates investment case for shorter-duration funds, which may offer a blend of higher yields, relatively lower duration risk and potential for gains if yields soften.

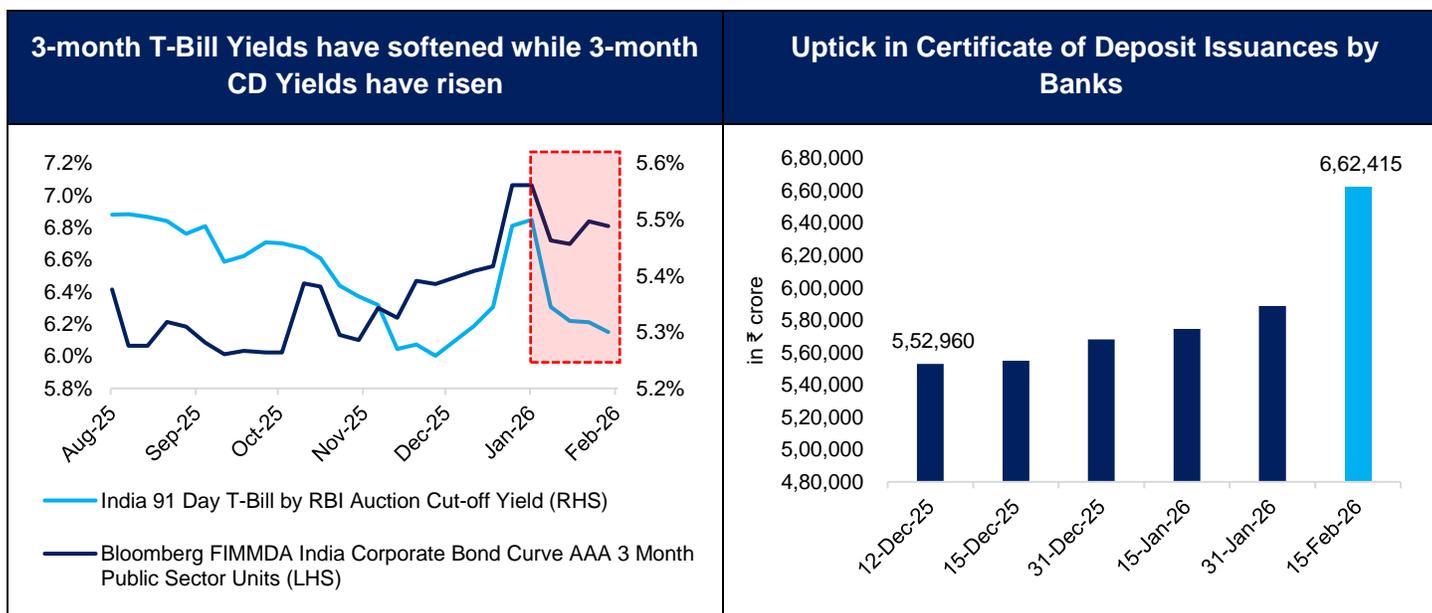
Past couple of months have seen rise in bond yields along with a flattening of the Yield Curve i.e. sharper rise in yields of shorter-tenor instruments compared to longer-tenor ones. This rise has been more noteworthy in Commercial Papers (CPs), Certificates of Deposits (CDs) and Corporate Bonds compared to Government Securities (G-Sec).

Money Market Divergence: Yield movement of CDs vis-à-vis Treasury Bills

The Reserve Bank of India (RBI) has been proactive about maintaining ample liquidity in the system and has made use of liquidity management tools such as Open Market Operations (OMOs), FX swaps, Variable Rate Repo and others to aid transmission of rate cuts. However, demand supply dynamics in different segments of the Money Market have resulted in divergence in yield movement.

Over the past several months, **91-day Treasury Bill yields have moderated from their peak levels seen in late August 2025**. Yields have softened by 20 bps from 5.51% on 28-Aug-25 to 5.31% on 05-Mar-26. This movement reflects **RBI's proactive liquidity management efforts**.

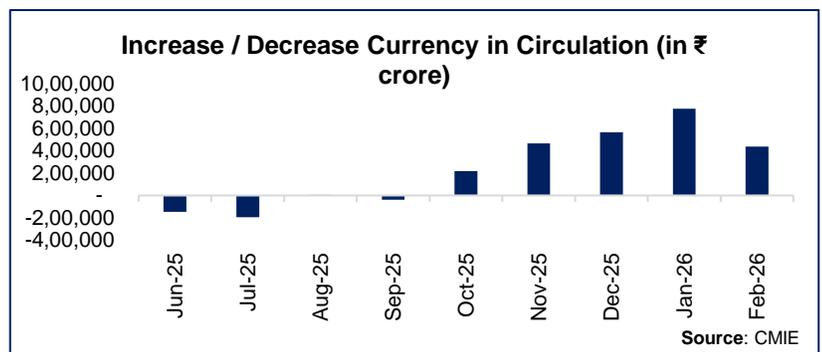
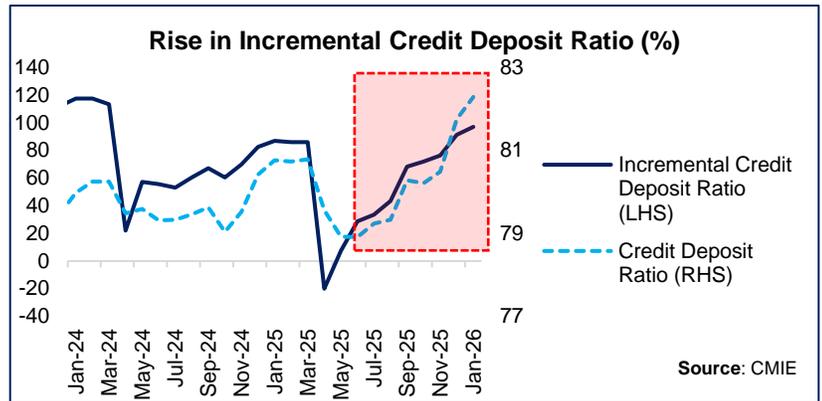
In contrast, **yields on three-month CDs have moved higher over the same period**, resulting in a widening spread over comparable-maturity T-Bills. For instance, yields of 3-month AAA PSU CDs have risen by 76 bps from 6.41% to 7.17% between 28-Aug-25 and 05-Mar-26. This **divergence between yields of Short-term T-Bills and CDs reflects funding dynamics within the banking system** rather than a broad-based tightening of financial condition.



Source: Bloomberg, Centre for Monitoring Indian Economy (CMIE)

Why have Yields moved higher over the past couple of months?

- **Credit Growth outpacing deposit mobilisation:** Certificates of Deposits (CD) yields have risen primarily because credit growth has outpaced deposit mobilisation, pushing up the incremental credit-deposit ratio. To bridge this gap, banks have **increased reliance on Certificates of Deposits** for short-term funding. Higher issuance has added supply to the market, leading to upward pressure on yields, even as T-Bill yields moderated.
- **Tightening of Systemic Liquidity:** Systemic liquidity trends have also contributed to rise in yields. Over the past few months, interbank liquidity moderated due to seasonal factors, RBI's FX intervention, higher government cash balances with the RBI and increase in currency in circulation. As **short-tenor instruments are more sensitive to liquidity conditions**, yields at the shorter end have reacted more compared to the longer end.



Investment Case for Shorter-Duration Funds

As fiscal year-end pressures ease and government spending picks up, liquidity conditions could improve, potentially leading to moderation in short-term yields. Further, spreads of short-tenor corporate bonds and CDs over comparable-maturity G-Secs remain elevated vis-à-vis historical levels, indicating relative attractiveness.

At the same time, **global developments such as geopolitical tensions in the Middle East warrant monitoring.** A sustained rise in crude oil prices could have implications for India's Current Account Deficit (CAD), Rupee stability and consequently, systemic liquidity conditions, with the eventual impact likely depending on the duration of the conflict. In such an environment, certain **debt scheme categories having shorter-duration** such as Money Market, Low Duration and Short-Term may **offer a blend of relatively higher yields, lower duration risk and potential for gains if yields soften once liquidity normalises.**

Sources: RBI, Bloomberg, CMIE and other publicly available information.

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