

Rupee, bond may face more headwinds

Dollar demand, lingering geopolitical concerns may weigh on currency

ANJALI KUMARI

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The rupee is likely to open on a weak note on Monday, weighed down by persistent dollar demand by domestic market participants and lingering geopolitical concerns, dealers said.

Short positions remain elevated, with traders continuing to buy dollars only after a brief bout of selling in the previous session. Uncertainty over global developments, including potential disruptions to India's oil imports from Venezuela, has also dampedened sentiment.

Market participants expect the currency to trade in the 90-90.5 per dollar range.

The local currency settled at 90.21 per dollar on Friday.

"The rupee looks weak as there are a lot of short positions and domestic participants are continuing to buy dollars, barring a brief bout of selling seen on Friday. The uncertainty over how the ongoing crisis could play out for India, particularly the risk of reduced oil imports from Venezuela, may also weigh on sentiment," said Anil Kumar Bhansali, head of treasury and executive director, Finrex Treasury Advisors LLP.

The central bank's outstanding net short dollar position in the rupee forward market rose further to \$66.04 billion by the end of November, against \$63.6 billion by end of October, latest data by the RBI showed.

The local currency weakened by 4.74 per cent in 2025, emerging as one of the worst performers among Asian peers.

The weakness was driven by uncertainty around US trade policies, and persistently high interest rates in developed markets such as the US and

Japan, key sources of carry trade capital and sustained FII outflows. This comes as global capital gravitates towards higher return markets.

Meanwhile, the bond market is bracing for renewed supply pressure in the January-March quarter after states and Union Territories (UTs) announced plans to raise up to ₹4.99 trillion through state development loans (SDLs). This is expected to keep yields elevated and the spreads wide.

Market participants said the heavy weekly supply, estimated at ₹40,000-50,000 crore, comes at a time when rate-cut expectations are muted. This is limiting demand appetite and raising the risk of a near-term uptick in SDL and government bond yields, despite intermittent support from the Reserve Bank of India's (RBI's) open market operations (OMOs).

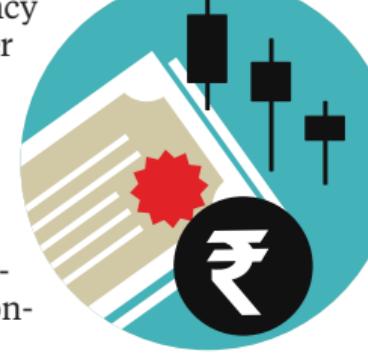
The yield on the benchmark 10-year government bond is expected to open 3-4 basis points (bps) higher on Monday. It settled at 6.6 per cent on Friday.

"As an immediate effect, the yield (on the benchmark bond) may rise by 3-4 bps on Monday because the borrowing is on the higher end of expectations," said a dealer at a state-owned bank.

"It might rise further towards 6.75 per cent and the spread may widen also," he added.

The planned issuance is higher than the ₹4.73 trillion seen in the corresponding quarter of the previous financial year.

Market participants said the heavy supply could weigh on the market, particularly as yield spreads are already wide at around 80-100 bps between central government securities and SDLs on 10-year bonds.



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