

Lower-than-anticipated jobs number in US and comments by Fed officials hinting at the end of tightening lift sentiment; Rupee gains 0.4% benefiting from a weaker dollar

Rupee and Bonds Gain Sharply on Hopes Fed Nearing End to Hikes

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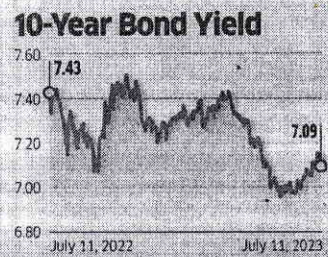
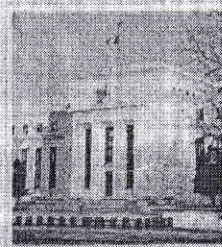
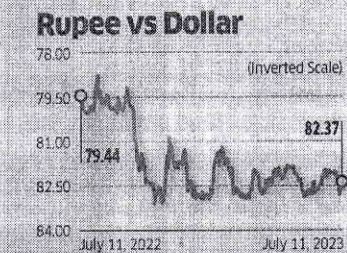
Mumbai: After weakening sharply last week, government bonds and the rupee have staged a smart recovery as concerns over how much higher US interest rates may head have been soothed by a lower-than-anticipated American jobs number and comments by Fed officials hinting at the end of tightening.

Yield on the 10-year benchmark government bond has eased 7 basis points from its close of 7.16% on Friday, largely tracking a steep decline in US government borrowing costs.

Bond prices and yields move inversely. One basis point is 0.01 percentage point. A fall in sovereign bond yields makes it cheaper for companies to raise funds through debt issuances as the government's borrowing cost is the benchmark used to determine corporate cost of borrowing.

Meanwhile, the rupee has strengthened 0.4% from its close of 82.74 per US dollar on Friday as Asian currencies have largely benefited from a weaker dollar globally following signals from the Fed. The rupee, which had weakened almost 1% versus the dollar in the previous week, settled at 82.37 per dollar on Tuesday.

"Dollar weakened amid a decline in US inflation expectations and on



the back of lower US bond yields. The USD/CNH (yuan) pair cooled off from highs of 7.27 to around 7.20 which also assisted the rupee. For USD/INR, the overall range play is to continue between 82.10-82.70 for some more time,"

Bonds have seen almost a 15-basis point selloff from last month so there is a bit of value buying, say analysts

nearing the end of its tightening cycle. The 10-year US bond yield fell as much as 14 basis points from its high on Monday following the comments.

Lower US bond yields increase the appeal of higher-yielding debt in emerging markets for global investors.

"Bonds have seen almost a 15-basis point selloff from last month so there is a bit of value buying. As US yields have come off over the last two-three days, we've seen some relief here. The overarching factor would be dollar rates," Nitin Agarwal, head of trading at ANZ said.

While the decline in US yields prompted some traders to cover short bets in Indian bonds—thereby dragging down domestic yields—the substantial volumes in the special segment of the Clearcorp Repo Order-Matching trade platform suggested that the view ahead was uncertain, traders said. Transactions in the special segment largely reflect build-up of short positions.

Moreover, overall bond transac-

tion volumes, as reflected in the trades received by the Clearing Corporation of India for settlement, have dropped in the first seven trading days of July vis-à-vis the same time period a month ago. Dwindling volumes generally suggest a lack of risk appetite.

"There are key event risks. Inflation data is on the 12th and there is concern over vegetable prices. Then, there is the Fed meeting outcome on June 14. Traders do not want to build up exposure," Naveen Singh, head of trading at ICICI Securities Primary Dealership said.

CCIL data showed that from July 1 to July 10, the clearing house had received trades worth Rs 12.29 lakh crore including outright trades and repo trades. The sum for the same period the previous month was Rs 14.28 lakh crore.