

₹ falls, bonds weaken on US inflation data

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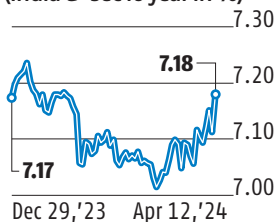
The rupee and government bonds weakened on Friday following higher-than-expected US Consumer Price Index (CPI) for March which came in at 3.5 per cent, against the anticipated 3.4 per cent. The yield on the benchmark 10-year government bond surged by 7 basis points (bps) reaching its highest level in over two months, tracing the rise in US Treasury yields. The 10-year bond yield settled at 7.18 per cent, the highest since January 24, against 7.11 per cent on Thursday. The benchmark yield has risen by 12 bps in April so far. Bond yields and prices are inversely related.

“These levels should hold off, and not move beyond 7.20 per cent (yield on benchmark bond). There are no local reasons for bonds to sell off,” said Naveen Singh, vice-president of ICICI Securities Primary Dealership. “And external factors have their own limitations in terms of creating bigger sell-offs. If there is an upside in India CPI data, then we may have a bigger challenge. Till the time, India CPI is safe. I do not think there should be a major sell-off. There is no reason why the market has to continue to follow what is happening in the US,” Singh said.

The rupee depreciated by 23 basis points as the dollar index strengthened to 105.82 amidst growing expectations of a rate cut by the European Central Bank in June, while the likelihood of a rate cut in the US diminished. The rupee settled at ₹83.42 per dollar on Friday, against ₹83.19 a dollar

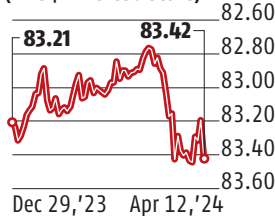
THE TRAJECTORY

(India G-Sec 10 year in %)



IN THE RED

(₹ vs \$ inverted scale)



Source: Bloomberg

on Thursday. The local unit fell by 0.1 per cent in the week.

“The dollar index rose leading to weakness in all currencies, including the rupee. Despite this, the strength of the Indian economy is expected to support the rupee. As a result, the rupee is likely to experience sideways movement with increased volatility, maintaining a range between ₹83.15 a dollar and ₹83.55 per dollar,” said Jateen Trivedi, VP, Research Analyst — Commodity and Currency, LKP Securities.

According to CME’s FedWatch tool, only 25 per cent of traders expect the US Federal Reserve to cut rates in June. State-owned banks sold dollars on behalf of the central bank during the end of trading hours, which protected the rupee from hitting new closing low, said market participants.