

# Bonds, ₹ gain after US Fed raises hopes

## Overnight swap rates reflect domestic rate cuts in June

ANJALI KUMARI

Mumbai, 14 December

Government bonds and the rupee gained on Thursday after the US Federal Reserve meeting signalled an end of the rate tightening path and raised expectations to cut interest rates thrice in 2024. The US rate setting panel decided to keep key rates unchanged at 5.25-5.50 per cent for the consecutive third meeting.

The yield on the benchmark 10-year government bond settled 6 basis points (bps) lower at 7.20 per cent, almost a three-month low, whereas the local currency settled at ₹83.33 per US dollar, against ₹83.40 per dollar on Wednesday.

Traders expect the benchmark yield to trade between 7.10 and 7.25 per cent in the near term, given the positive sentiment.

“A part of how rates will pan out for us will be a function of how quickly inflation moves domestically. While, of course, there is an impact of global factors on Indian rates, I don’t see a runaway rally happening immediately in the bond market,” a treasury head at a private bank said.

Meanwhile, overnight indexed swap (OIS) rates, a crucial indicator reflecting expectations for interest rate changes, hints that domestic markets have advanced their projections for the Reserve Bank of India (RBI) to implement monetary policy easing in June 2024, as opposed to the earlier expectation of rate cuts in August 2024.

OIS rates, the principal tool for hedging interest rate risk in India, slumped on Thursday after the US Federal Reserve meet outcome on Wednesday. The 1-year OIS rate fell by 9 bps to settle at 6.73 per cent — the lowest in six months — whereas the 5-year OIS rate fell by 15 bps to settle at 6.25 per cent, the lowest in five months.

“The OIS market seems to be seeing normalisation of liquidity as early as January, and then maybe followed by a change in stance in February and a rate cut in June. That seems highly likely or at least liquidity is likely to go from deficit to surplus along with a change in stance,” said Vikas Goel, managing director and chief executive, PNB Gilts.

“Rates falling from 6.85 per cent currently to 6.25 per cent effectively mean a reduction of about 50 bps. What was being talked about in August now has been brought ahead to June because as of now, it looks like the Fed is going to move in March,” he added.

According to Goel,



## RBI to hold VRR auction after 6 mths

The Reserve Bank of India (RBI) will conduct a seven-day variable rate repo auction (VRR) auction on Friday to inject up to ₹1 trillion into the banking system in view of outflows due to advance tax collection and the goods and services tax payment, the central bank said on Thursday. The last time RBI conducted a VRR auction was on June 19. “The 14-day VRRR auction conducted on December 01, 2023 and subscribed for ₹22,468 crore is maturing and allowed to be reversed on December 15, 2023. Furthermore, in view of likely outflows from the banking system on account of advance tax and GST payments, it has been decided to conduct a 7-day variable rate repo auction,” RBI said. The 7-day VRR auction is expected to see firm demand from banks as liquidity in the system remains in a deficit mode, market participants said.

ANJALI KUMARI

although the dot plot says three the market seems to be discounting at least four cuts from the Fed. “That means our rate cutting cycle can start as early as June.”

The rupee had hit a new closing low against the greenback on Wednesday due to continuous demand from importers for the dollar ahead of the US Federal Reserve meeting.

On Thursday, the dollar index, which measures the strength of the greenback against a basket of six major currencies, fell to 102.54 against 103.95 on Wednesday.

“Rupee traded positive as the dollar index dropped below 102.4 after the Fed hinted at rate cuts soon in 2024. Inflation has been in a downward trend, which will help the economy. The rupee broadly is in a sideways trend between ₹83.15 and ₹83.45 per dollar,” said Jateen Trivedi, vice president, research analyst at LKP Securities.