Rupee, govt bonds fall on US bond yield surge

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Rupee and government bonds weakened on Friday after the yield on the benchmark 10-year US Treasury bond surged by around 10 basis points (bps) to reach 4.29 per cent and the dollar index rose by 0.57 per cent, climbing to 103.50.

The hardening of US yields was due to a significant uptick in Producer Price Index (PPI) prices, which signifies an unfavourable situation.

Consequently, investors found themselves pondering whether the US Federal Reserve (Fed) may wait for a longer time than expected for cutting rates. According to CME's FedWatch tool, rate cut expectations for June fell to 61 per cent from 74 per cent, a week ago. The rupee depreciated up to 82.97 per dollar in the beginning of trade before it reversed some losses on the back of foreign inflows. The local currency settled at 82.88 a dollar on Friday, against 82.82 on Thursday. It depreciated by 17 paisa in the week ended Friday.

"There is technical resistance around 82.97 a dollar. The rupee should trade in the current band until the Fed meeting next week," said a dealer at a large state-owned bank.

"Rupee may breach 83 on March 29 as it is a non-trading day for us on account of Good Friday but the US market will be open. And, there will be trades in the non-deliverable forward (NDF) market," he added.

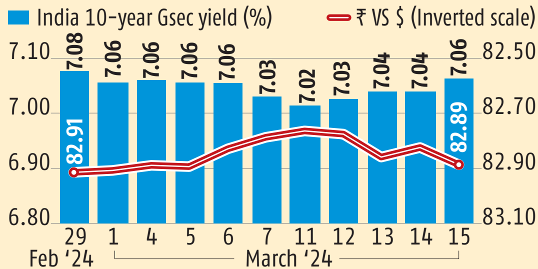
Arbitrage trades between the outright foreign exchange over-the-counter (OTC) and the NDF markets enable investors to capitalise on price differentials among securities across various markets.

However, such trades have the potential to amplify price trends. Meanwhile, yield on the benchmark 10-year government bond rose by 2 bps to settle at 7.06 per cent on Friday, against 7.04 per cent on Thursday.

"Our market is relatively better placed than the US because of the inflows. There is resistance around 7.07-7.08 per cent (yield on the benchmark bond)," a dealer at a state-owned bank said.

"There shouldn't be much selling because the domestic market is quite resilient," he added.

A LOOK AT THE TREND



Source: Bloomberg; Compiled by BS Research Bureau