

Govt bonds, ₹ fall on strong US data

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Both government bonds and the rupee on Friday weakened sharply after recent data showed a continued resilience in the US economy, even amid aggressive rate hikes by the US Federal Reserve.

The US gross domestic product (GDP) grew 2.4 per cent between April and June, exceeding expectations of an increase of around 1.8 per cent. This growth was spurred primarily by consumer expenditure and investment.

With the release of this data, the dollar index, which measures the strength of the US dollar against six major currencies, rose to 101.76 from 100.52 on Thursday. As a result, the rupee depreciated by 0.4 per cent, ending at 82.26 per US dollar, as opposed to 81.94 a dollar on Thursday.

Meanwhile, government bond yields increased marginally, with the benchmark yield reaching a more than three-month high. This was in line with the rise in US Treasury yields, according to dealers. After the initial increase, the benchmark yield fluctuated within a confined range of 7.16-7.18 per cent throughout the trading session.

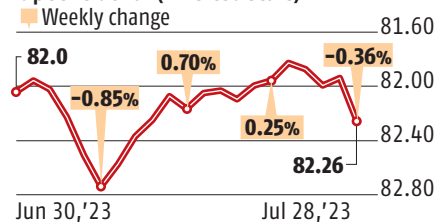
"The market reacted to the US yields and fell in the morning," a dealer at a primary dealership said. "There was some value buying at 7.18 per cent yield (on the benchmark 10-year bond), and the yield has remained range bound since then." The yield on the benchmark 10-year bond rose by 4 basis points, settling at 7.16 per cent. "The scales now appear to favour a further rise in India's domestic 10-year yield, and we predict the path clearing beyond 7.20 per cent. We anticipate a range of 7.10-7.25 per cent in the near term, with the balance of risks skewed towards the upper end of this range," said a report by HDFC.

This report also highlighted that banks deposited ₹93,761 crore at the Reserve Bank of India's (RBI's) 14-day Variable Rate Reverse Repo auction, instead of the notified amount of ₹1.5 trillion, which subsequently supported yields. At home, the RBI is expected to maintain the repo rate for the current financial year. However, the implementation of monetary tightening may be achieved by rapidly withdrawing liquidity over the coming months.

Earlier this week, the US rate-setting panel



Rupee vs dollar (Inverted scale)



Source: Bloomberg

Demand at weekly gov't bond auction softer than expected

The demand at ₹33,000 crore weekly government bond auction was softer than expected, dealers said. The Reserve Bank of India set the cut-off yield for the 7.06 per cent, 2028 bond at 7.16 per cent, for the 7.26 per cent, and 2033 bond at 7.18 per cent, and for 7.30 per cent, 2053 bond at 7.38 per cent. "The cut off yield was a little higher than the yield in the secondary market," a dealer at a state-owned bank said. "The nationalised banks were the major bidders, and then there was some short covering." **BS REPORTER**

increased rates by 25 basis points on Wednesday, a move that was expected by the market. The market was largely expected to refrain from further rate hikes after July.

"Powell said the rate trajectory would be dependent on data, and we have additional data due for release, such as personal consumption data," mentioned a dealer at a primary dealership. "A single data point cannot change the rate view."