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Bond yields jump as Re skids on rising oil

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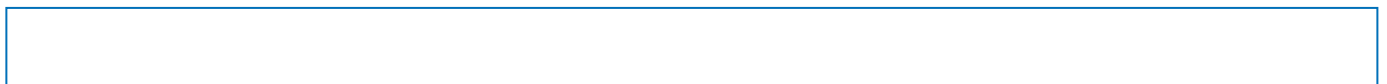
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Bond yields hit an 18-month intra-day on Tuesday even as the rupee weakened against the dollar primarily due to crude oil prices shooting up. Expectations of liquidity normalisation measures in the upcoming Monetary Policy statement also played on the financial market sentiments.

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The yield on the 10-year government bond rose to 6.27 per cent in intra-day trade compared to Monday's 6.24 per cent, before closing the day at 6.26 per cent.

The rupee fell 13 paise to its weakest closing since August 11 at 74.44 against the dollar.

Oil at 3-year high

“With oil prices at a three-year high, a weak rupee adds to the inflationary risk. The market is fearing that the RBI will announce liquidity normalisation measures on Friday and that is pushing yields higher,” said Anindya Banerjee, DVP, Currency Derivatives and Interest Rate Derivatives at Kotak Securities.

Brent crude futures, the global oil benchmark, advanced 0.54 per cent to \$81.70 a barrel.

“The rupee has been feeling the pricks of a soaring trade deficit, a steady dollar rebound, and seven-year high moving crude oil prices. OPEC+ decided to continue with its planned 400,000 bpd output increase, despite pressure from countries to add more oil to stabilise prices thereby hurting oil-importing nations. Fears of further defaults by Evergrande are dragging the risk-off sentiment and continue to underpin the dollar rebound, thereby putting USD-INR pair under pressure,” said Amit Pabari, Managing Director, CR Forex.

Monetary Policy signals

“With the economy getting back on track and inflation rising, the market is awaiting a further signal from the Monetary Policy on liquidity normalisation and it is expected that rates will rise. Despite a better than expected auction calendar and strong upward bias

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Moody's, the market is likely to await a further signal from the RBI. There are also concerns over commodity prices," said Alok Singh, Chief Investment Officer, BOI AXA Mutual Fund

Care Ratings noted that the policy comes in the backdrop of an uneven improvement in the domestic economic conditions but there is the looming spectre of rising global commodity prices that portends a surge in domestic inflation. "The rise in bond yields, subdued credit offtake, and ample liquidity in the banking system are other aspects that the MPC must contend with and address," it noted.

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