

Bond yields likely to fall; Re may strengthen

Government bond yields are expected to fall further this week, in the absence of gilts auction. However, traders will be cautious ahead of the Union Budget scheduled later in the week.

The yield on the 10-year benchmark bond 8.15 per cent 2022 ended at 7.80 on Friday, compared with the previous close of 7.81 per cent. The last bond auction worth Rs 12,000 crore was cancelled, giving support to yields.

“The yield on the benchmark bond is expected to trade between 7.80-7.77 per cent, with a downward bias,” said a dealer with a private bank.

The Street is expecting the government’s gross market borrowing for the next financial year to be higher than this year. However, it also expects the Reserve Bank of India to cut the repo rate further in the mid-quarter review of the monetary policy next month. That will provide comfort to the bond market in the near term.

The rupee is expected to strengthen against the dollar from current levels this week, driven by foreign fund inflows. The rupee ended at 54.18 on Friday, compared with the previous close of Rs 54.48 per dollar. It closed stronger on the back of custodian inflows from foreign banks and private sector banks.

“Next week, I expect the trading range of the rupee between Rs 53.75-54.50 against the dollar,” said Sandeep Gonsalves, forex consultant and dealer, Mecklai & Mecklai.

Traders may avoid holding heavy positions as they await presentation of the Budget. The euro’s movement would also provide direction to the rupee’s movement.

(Business Standard)