Publication: **The Asian Age**

Date: **June 07, 2022**

Link

Bond yield spikes to 7.5 per cent for first time in three years

The rate setting panel has begun its three deliberations on Monday with the outcome being announced on Wednesday

Mumbai: Ahead of the central bank's monetary policy meet, India's benchmark 10-year bond yield rose to its highest levels since March 2019 on Monday as markets expect the central bank to hike rates by 25-40 basis points with inflation remaining stubbornly high for several months.

Economists also expect the central bank to revise the inflation forecast higher, possibly indicating inflation remaining close to 7 per cent for most part of calendar year 2022. The Reserve Bank of India (RBI) will continue to focus on taking on inflation and signaling its intent to continue raising rate and normalising liquidity.

The rate setting panel has begun its three deliberations on Monday with the outcome being announced on Wednesday.

India's benchmark 10-year bond yield ended trading at 7.4996 per cent, up 4 basis points from its previous close. The yield rose as high as 7.5143 per cent, its highest since March 20, 2019. Yields have jumped by more than 100 basis points in 2022 amid global tightening and as the RBI turned hawkish with an out-of-turn rate hike of 40 basis points, off record lows, in a surprise move on May 4.

Ajay Manglunia, managing director and head institutional fixed income at JM Financial said, "With the RBI's bi-monthly policy announcement expected to raise rates this week, markets have been gearing up for an aggressive rate hike of maybe 50 basis points. It's not only the need of the hour but a required step to fight with worrying inflation. As we see that participants in the market wish to stay light and may enter back in the market once we are nearing the end of rate hike cycles with yields at the right levels. From the last few weeks, there has been a continuous rise in yields and we expect it to settle down once there is clarity on the measures that will be spelt out in the policy on Monday by RBI.

Bond traders are concerned higher oil prices will add to India's already elevated inflation and push the central bank toward more aggressive rate hikes. Oil prices hit $120 a barrel on Monday after Saudi Arabia raised crude prices for July and amid doubts that an increased OPEC monthly output target will help to ease tight supply.

The nation relies on imports to meet about three quarters of its oil needs, and higher prices threaten to accelerate inflation. Last month, the RBI governor Shaktikanta Das signalled several rate hikes in order to bring down the stubbornly high inflation within the central bank's comfort zone and said that expectations of higher rates is a 'no brainer'. The retail inflation, which RBI factors in while arriving at its monetary policy, galloped for a seventh straight month at 7.79 per cent in April, mainly on account of surging commodity prices, including fuel, due to ongoing Russia-Ukraine war. The May CPI could come at 7.1 per cent due to a sharp increase in tomato prices.

India's 5-year OIS rate was being quoted at 7.08 per cent, 6 bps above its previous close.