

### Key Headlines

- The rupee ended at a one-month high on Friday tracking gains in the stock market. While the improving outlook of the monsoon led to bond yields softening further. The rupee ended at 63.56 compared with the previous closing level of 63.73. It had ended at 63.52 on May 22.
- Dollar sale by banks and exporters helped the rupee to appreciate. Concerns pertaining to interest rate hike by the US Federal Reserve have eased and the monsoon outlook has improved which is helping the markets
- The improving outlook of the monsoon will help to soften inflation and that is positive for the bond market. The Reserve Bank of India (RBI) is in discussion with the government to set the foreign institutional investors (FIIs) limit for government debt in rupee terms instead of dollars. This is positive for the bond market

### Market Outlook

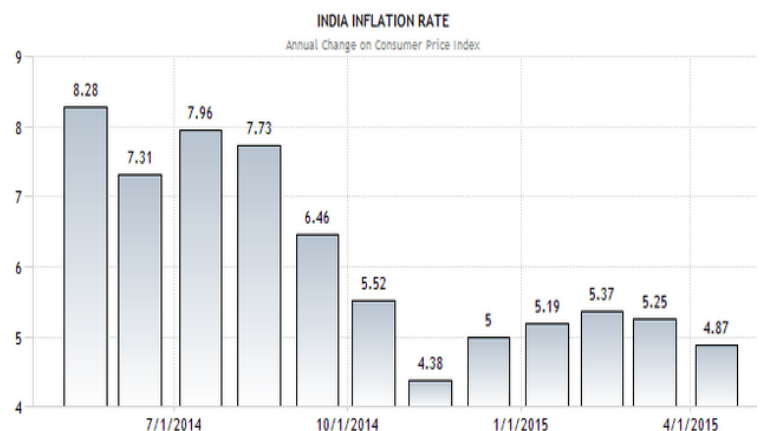
Indian sovereign bonds due in 2024 rose the most in five weeks and the rupee climbed on speculation demand for the nation's assets will be sustained after the US Federal Reserve said it will raise interest rates gradually.

Fed chair Janet Yellen on Wednesday signalled a pickup in the US economy is keeping it on track to lift borrowing costs this year, though subsequent increases are likely to be more gradual than anticipated earlier. That reduced chances of sudden outflows from emerging markets. Policy makers also lowered their longer-term projections for US rates.

The FII limit for government debt currently stands at \$30 billion and is near full. A shift from dollar to rupee will lead to enhancement of the limit.

As investors speculate on the timing of the first US rate increase, the yield on the 2024 securities has jumped 21 basis points this quarter amid concern a rebound in Brent crude oil prices and potentially deficient monsoon rains will fan inflation.

The Fed's statement suggests that the lift-off won't be as harsh as people expected and further clarity on the Fed's rate action will help restore stability for Indian bonds.



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