Bond yields remain stable on the last day of this financial year as the markets await India's April-September borrowing plan due today.

Benchmark bond at Rs. 97.87, yielding 6.14%, against Rs. 97.88 and 6.14% previous close. Banks want to protect valuations for the year end. So, the 10-year 5.85%, 2030 bond yield would not rise above 6.15% today .

Indications on how RBI would manage the ultra-accommodative measures in the new financial year will be watched in monetary policy meeting next week.

Earlier,the markets expected narrowing of the corridor between the reverse repo and the repo rate, and rollback of some other ultra-accommodative. In the current context, it is most likely that RBI would stay put and maintain its accommodative stance for long .

There are competing factors at work- broadly indicating that the economy would continue to stay with lower growth and higher inflation in the year ahead .

Base effect impact can result in elevated numbers both in growth and inflation but as the year passes by, the optical illusion would fade .

While large section of the markets remains complacent on the assumption that there would be no demand led inflation, the supply side factors and global inflation would play bigger role in Inflation trajectory being elevated closer to 7 % on an average in the next year .

As has been the case with FY 21, Bond negatives include continuing Uptick in inflation on account of higher global commodity prices and expanding CB balance sheet , large issuances and Rising global yields.

The often repeated global bond inclusion may have to wait longer.India has the lowest real yield in the entire world as of now and it is less prudent to expect Foreign capital to chase the bonds at these levels.

The bond positive factor mainly revolves around the growth uncertainty sparked by rising cases , the possibility of subsequent lockdowns in some cities and the deceleration in demand .

In the absence of credit pickup, banks have no other option except to stay invested with the only borrower in the town especially when the domestic liquidity is set to stay at elevated levels and

Precautionary savings could keep the flood of deposits pouring .

On balance,

- Markets may continue with their ' Tandav ' much to the chagrin of policy makers - real yield could be a much referred term for sure .
- The funding rate can stay lower but 10 year Yields can well be closer to 7 % during the year for all wrong reasons.