

Benchmark 5.85% bond maturing in 2030 is at Rs. 99.13 , yielding 5.97%, against Rs.99.09 and 5.98% yesterday.

RBI will buy bonds worth up to Rs. 350 billion under its GSAP tomorrow. The auction will include the benchmark and six other papers.

Admittedly, Wholesale price inflation has not been the prime determinant of monetary policy in India for over seven years, but there can be no doubt the latest print would have made the authorities both at Northbloc and Mint Street bit panicky. While RBI has not really ignored WPI inflation since adopting CPI for policy purposes, it is considered to the extent it is likely to influence CPI inflation. And this influence could be substantial in the coming months.

The base effect becomes even more unfavourable in May. Even if the index remains unchanged, WPI inflation will again jump past 12%. And that looks likely to be the best-case scenario because prices for several items have gathered substantial sequential momentum.

While higher inflation is likely to prevail, Growth is widely expected to contract 3.8% sequentially in April-June against initial projection of an expansion of 1.5%. Beyond August, rising inflationary pressures and the risk of tighter global financial conditions may pressure RBI to assign a greater weighting to inflation.

RBI seems to be continuously targeting the 10-year yield near 6% notwithstanding the growth inflation dynamics and this is set to have significant longer term negative implications .

