

# Short-covering, FPI limit hike talk lift bond prices

Experts say yields to remain elevated on potential rate hike later this year

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**Mumbai:** Indian sovereign bond prices surged on Thursday on fresh buying and short covering by a few market participants bolstered by talks that the government may consider hiking the investment limit of foreign portfolio investors (FPI) by March-end, dealers said.

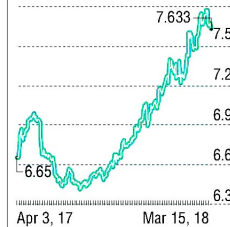
The 7.17%-2028 gilt ended at Rs 96.83 (7.63%) on Thursday compared to Rs 96.48 (7.68%) at the close of the previous session.

"There are talks doing round that the government may consider hiking the investment limit for the FPIs, and this supported the case of fresh buying at the time when the buying has been muted for quite some time," said a bonds trader with private asset management.

"However, we have to see whether the rally sustains as the market participants await more clarity on this," the trader added.

As on March 15, foreign-portfolio investments net bought Rs 1.90 lakh crore worth of Indian government bonds, or 99.57% of the total

**10-YR GOVT BOND YIELD In %**



## SUPPLY-DEMAND EQUILIBRIUM

- RBI had earlier said that the limits of FPI investment in debt securities would be increased in phases to reach 5% of the outstanding stock by March 2018
- FPIs have been consistently selling Indian government bonds since February 20, taking their net sold position to Rs 10,979 crore in the past 13 trading days

investment limit of Rs 1.913 lakh crore as allowed by the government, data from depositories showed on Thursday.

"If the government feels that macroeconomic fundamentals are stable and manageable and that there is a need for FPI investment so that rising yields can be softened, then it may go for a

hike," a government official said on Wednesday.

The Reserve Bank of India (RBI) had on October 6, 2015, said that the limits of FPI investment in debt securities would be increased in phases to reach 5% of the outstanding stock by March 2018.

ICRA, the domestic unit of Moody's investor services

expects the magnitude of foreign institutional investors (FII) inflows to remain subdued in March 2018, particularly given the limited headroom relative to the present limits for investment in debt.

Aditi Nayar, principal economist with ICRA Ltd., in a recent note, opined that Indian bond yields are likely to remain elevated on potential rate hike toward the latter part of 2018, concerns regarding demand for G-sec from banks and FPIs, caution on the fiscal outlook and rising global yields.

FPIs have been consistently selling Indian government bonds since February 20, taking their net sold position to Rs 10,979 crore in the past 13 trading days, data from NSDL website showed.

On a similar cautionary note, Standard Chartered Bank expects yields to remain elevated owing to unfavourable supply-demand dynamics, muted demand from the nationalised banks, and lack of indications from the central bank on the hike in FPI investments limits in Indian debt. —**TickerNews Service**