# Bond yield sharply rises after RBI's surprise rate hike

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Yields on the 10-year government bonds surged more than 25 basis points on Wednesday after the Reserve Bank of India (RBI) hiked the repo rate by 40 basis points to 4.40%. The 10-year benchmark 6.54%-2032 bond yield ended at 7.3783%, against the 7.12% close on Monday. The financial markets were closed on Tuesday on account of Eid-UI-Fitr.

gBond yields, which were hovering around 7.15%, have inched upwards to 7.40%. Due to regular auctions going ahead, yields are expected to move upwards as further rate hike expectations increase. Global rate hikes will also impact the domestic sentiment, said Marzban Irani, CIO – debt, LIC Mutual Fund.

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Dealers said the central bank has turned more hawkish than its statement in the April policy. The rate hikes have started, the policy corridor has been restored to 25 bps and liquidity is being withdrawn, Axis Mutual Fund said in a statement.

The move by the RBI is intended to keep the inflation lower, which has surged over the upper tolerance band due to higher food prices, rising commodity prices and fuel prices. The increase in the CRR will allow banks to park more funds with the central bank.

Dealers with brokerage firms expect the borrowing cost for the government to increase. Devolvement in some auctions is also expected in coming days due to low demand from investors.

"On an immediate basis, borrowing costs will go up. With additional rate hike expectations, this cost might remain higher for the next two quarters," Irani said.