Need for an Advance Action

How does world market perform?

- The global raw material prices are on rising trend—copper is worth USD 10,000, aluminium and steel prices are rising every day and petroleum based inputs are on top.
- This is due to the rapidly recovering US economy primarily as a result of its super-effective vaccination program.
- Both US bond yields and the 10-2 spread have retreated over the past month, suggesting that the market will manage the huge government borrowing requirement.
- And this can maintain its high-level liquidity drip into the market without affecting other factors.

What are the future prospects?

- Now, there are gathering signs of excessive risk-taking in both equities and bonds markets.
- Also, the dollar has been sliding since mid-2020 due to the huge stimulus given by the US economy.
- Later, commodities market will be on growth so also the bond yields and the dollar will get held up well.

How does Indian markets perform?

- Since the start of 2020, rupee has taken two major hits, each one triggered by the Coronavirus.
- However, in the interim, it was able to regain a reasonable amount of value due to dollar weakness, enthusiastic global investment sentiment and RBI's huge pile of reserves.
- Despite the fact that investment sentiment deteriorated—a net outflow of $1.4 bn in April versus a net inflow of $1.8 bn in March—RBI was able to pick the rupee back up quickly.
- This despite the fact that the second wave of the virus was spreading very rapidly.
- RBI was able to reduce the NDF spread, which is an indicator of investment sentiment, from well over 15 paise to 2-3 paise last week.

How is the trend now?

- After the assembly elections, the NDF spread has rised sharply, indicating a sharp deterioration in sentiment.
- However, RBI has been able to keep the rupee from the downward trend.
- Now forward premiums are rising, suggesting that much of the intervention in the forward market has increased the domestic liquidity.
- Given that the mix of state lockdowns which likely to impact supply chains again and the soaring global raw material prices, RBI needs to prevent another sharp drop in the rupee.

Source: Financial Express

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