Q6

Indian Government Bond Yields are influenced by which of the following? 1. Actions of the United States Federal Reserve 2. Actions of the Reserve bank of India 3. Inflation and short-term interest rates Select the correct answer using the code given below (a) 1 and 2 only (b) 2 only (c) 3 only (d) 1, 2 and 3 Official key: D.

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Indian economy, budget, schemes - Prelims GS Paper I.

Explanation

(a)

1 and 2 only. Inflation and short rates also move the G-sec curve.

(b)

2 only. Fed action and inflation are in the same yield story.

(c)

3 only. Under-counts policy rates at home and abroad.

(d) Official key

All three. Fed, RBI, and inflation/short rates all price Indian government bonds.

Summary

Official key is (d) 1, 2 and 3. Indian G-sec yields move with RBI policy, with US Fed spillovers, and with inflation and short-term rates. None of the three is idle.

Related possible facts

These can be asked in a future Prelims paper.

Term structure

Short rate plus inflation premium plus term premium.

Fed spillover

EM bond yields often rise when the Fed tightens.