

Bonds stronger on cash rate expectations

April 12, 2011

AAP

The Australian bond market opened stronger on Tuesday on expectations that the central bank may keep the cash rate on hold for some time.

At 0830 (AEST), the June 10-year bond futures contract was trading at 94.325 (implying a yield of 5.675 per cent), up from 94.315 (5.685 per cent) on Monday.

The June three-year bond futures contract was unchanged from its previous close of 94.760 (5.240 per cent).

FIIG Securities associate director Andrew Hicks said the local bond market had found technical support, perhaps due to market expectations that the Reserve Bank of Australia (RBA) could hold the cash rate steady for months to come.

The RBA board kept the cash rate at 4.75 per cent after its regular monthly meeting on Tuesday last week.

The cash rate was last raised, by a quarter of a percentage point, in November last year, in a pre-emptive move against inflation amid the threat of rising commodity prices and a tightening labour market.

"With the ECB (European Central Bank) tightening, the prospect of higher rates is still there, but probably not in the short-term," Mr Hicks said.

During Tuesday's local session, National Australia Bank releases its monthly business survey for March.

Mr Hicks said the survey was not usually a market-mover.

In the short-term, the focus would be on the US, where retail sales data are due on Wednesday night (AEST) and reporting season has just begun, he said.