

# Jitters before Budget pull rupee down 43p

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The rupee weakened sharply versus the dollar on Tuesday, as investors turned risk averse and sought the safety of the US currency ahead of two crucial events on Wednesday — the Union Budget and the Federal Reserve's monetary policy statement.

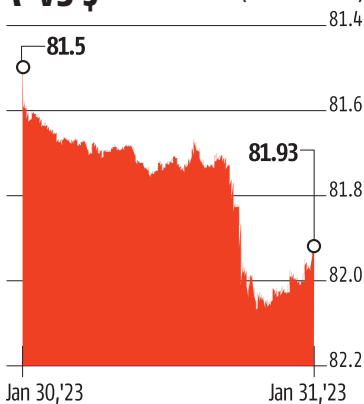
The domestic currency settled at 81.93 per dollar against 81.50 on Monday. Intraday, the rupee weakened past the psychologically significant 82 per dollar mark, hitting a low of 82.07 per dollar.

Government bond yields declined ahead of the Budget statement as traders were of the view that the fall in prices over the past week had been overdone, dealers said. Yield on the 10-year benchmark bond settled six basis points lower at 7.34 per cent. Bond prices and yields move inversely. In the previous week, the 10-year bond yield had climbed to its highest levels since early November as the market braced for heavy supply of debt in the coming year.

In the Budget, the Centre is widely expected to announce a reduction in

₹ VS \$

(inverted scale)



Source: Bloomberg

its fiscal deficit target to 5.8-5.9 per cent of GDP for the next financial year. A higher-than-expected fiscal deficit target could cause bonds and the rupee to weaken, especially as India's sovereign rating is constrained by its high debt-to-GDP ratio.

Tuesday's low was the weakest intraday level for the rupee versus the US dollar since January 10, *Bloomberg* data showed.