

₹ gains as Fed hints at slower US rate hikes

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The rupee and government bonds strengthened sharply on Thursday after Federal Reserve Chairman Jerome Powell hinted that going forward, the US central bank may reduce the pace of what has been an extremely aggressive policy tightening cycle so far in 2022.

The domestic currency closed at 81.22 per dollar on Thursday as against 81.43 per dollar at previous close. The rupee has appreciated 0.6 per cent over the last couple of days. So far in 2022, however, the local unit has depreciated 8.5 per cent versus the greenback.

Late Wednesday, Powell said at the Brookings Institute, that smaller rate increases by the Fed were likely going ahead. The US dollar index fell to a low of 105.31 during Indian trading hours on Thursday. The index had closed at 105.95 on

Wednesday.

So far in 2022, the Fed has hiked rates by a total of 375 bps, leading to a stronger dollar and diminishing the appeal of emerging market assets.

Yield on the 10-year government bond settled seven basis points lower at 7.21 per cent on Thursday. Bond prices and yields move inversely. A fall of one basis point in the 10-year bond yield corresponds to a rise in price of roughly 7 paise.

Apart from tracking a decline in US bond yields following Powell's comments, Indian sovereign bonds also gained after the release of India's second quarter GDP data post market hours on Wednesday. The data, which showed GDP growth slowing to 6.3 per cent in July-September from 13.5 per cent in April-June, has led to bond traders hoping for a slower pace of rate increases by the Reserve Bank of India, dealers said.