Short-covering drives ₹ towards 90 vs $

ANJALI KUMARI
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The rupee's weakness against the dollar continued on Tuesday, with the Indian currency hurtling toward the closely watched 90 a dollar and facing renewed selling pressure on multiple fronts.

Traders said a wave of short-covering (buying back) by speculators, combined with steady dollar demand from importers, kept the currency under pressure throughout the day.

The rupee fell up to 89.96 during the day before regaining some strength to settle at 89.88 — a new closing low — against the previous close of 89.56.

Its recoup by the end of the trade was likely due to intervention by the Reserve Bank of India (RBI) through dollar sales, said dealers.

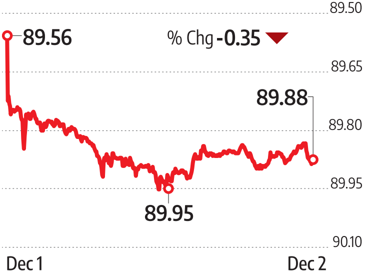
The 90 mark has become a critical psychological and technical barrier for the market. Dealers said that a cluster of buy-stop orders was likely positioned just above this zone, raising the stakes for the RBI.

They said the central bank's presence was essential at this stage to prevent traders from becoming too comfortable with one-way depreciation.

If left unchecked, this can rapidly translate into heightened volatility in the exchange rate. Turn to Page 6 ▶

Under pressure

₹ vs $ spot (inverted scale)



Source: Bloomberg
Compiled by BS Research Bureau

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Nifty Bank rejig trims HDFC, ICICI heft

NSE Indices, the index administration arm of the National Stock Exchange (NSE), has revised its computation methodology, triggering a steep reduction in the weightings of HDFC Bank and ICICI Bank in the widely tracked Nifty Bank index. The rejig is expected to lead to cumulative passive outflows of nearly ₹6,000 crore from the banking majors.

■ Indices fall for 3rd day on FII selling, weak rupee; Sensex tanks 504 pts

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Short covering drives rupee towards 90/$

"The RBI must remain active below 90. If the pair starts sustaining above this zone, the market could quickly shift into a higher trending phase toward 91.00 or even more," said Anindya Banerjee, head, commodity and currency, Kotak Securities. The rupee this year depreciated 4.7 per cent so far, and is the worst-performing Asian currency. "Pressure is going to continue with the amount of outflows we are seeing," said a dealer at a state-owned bank. "If we breach 90, the next resistance is seen at 91.5," he added.

Several headwinds continue to weigh on the rupee. Foreign portfolio investors have been net sellers of Indian equities in recent sessions. In addition, lingering uncertainties on the India-United States (India-US) trade deal have kept sentiment dampened.

"The adverse tariff on India has added to depreciation pressure by eroding investor sentiment," said Gaura Sen Gupta, chief economist, IDFC First Bank.

As of October, the real effective exchange rate of the rupee remained largely unchanged at 97.47 against 97.4 in September. The RBI's short dollar forward positions increased to \$63 billion by the end of October from \$59 billion in September. Since September, the forward books started rising, led by the RBI adding buy-sell swaps to reduce the liquidity drain from spot market intervention.