

# ₹ logs first weekly gain in a month



## But declines against \$ to end week at 79.8

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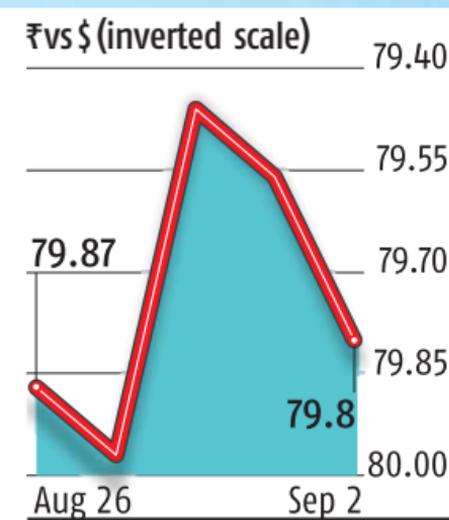
Mumbai, 2 September

The rupee weakened sharply against the dollar on Friday due to a hefty increase in crude oil prices and as a fall in jobless claims data in the US strengthened the case for the Federal Reserve to raise interest rates amid an overheating economy, dealers said. The domestic currency, however, logged its first weekly gain in four weeks, as heavy overseas inflows in equities and a strong defence of the rupee by the Reserve Bank of India (RBI) bolstered the local unit.

The rupee settled at 79.80 per US dollar on Friday as against 79.56 at previous close. For the week, the rupee appreciated 0.1 per cent, displaying resilience against a strengthening greenback.

In fact, for the week gone by, the rupee fared better than 15 emerging market currencies, ranking as the best performer within its peers. Most other emerging market currencies depreciated 0.3-3 per cent against the dollar last week. "It manages to log the first weekly gain in four and biggest gainer among Asian peers amid month-end dollar inflows from MSCI rebalancing. In the month gone, foreign institutions have bought worth \$6.79 billion in equities and \$538 million in debt," Dilip Parmar, research analyst at HDFC Securities said.

Data released on Thursday showed that initial jobless claims in the US fell to a two-month low of 232,000 last week, reflecting persistent tightness in the labour market. The US dollar index, which measures the US currency against six major rival currencies, climbed to a fresh 20-year high of 109.61 on Friday. With US inflation having persisted around 40-year highs for several months now, the Federal Reserve has hiked interest rates by 225 basis points so far in 2022. It is expected to raise rates again at its next meeting at the end of this month. Higher US interest rates lead to a stronger dollar, typically reducing global investors' appetite for emerging market assets. "Hawkish Fed bets and firmer US 10-year UST yields is keeping dollar demand strong. At the same



time, Fed is also clear that future trajectory of rate hikes will be data dependent and thus every major US data holds key importance in creating volatility in the market," Kunal Sodhani, Vice-President, Global Trading Centre, Shinhan Bank said. Sodhani sees a range of 79.3-80.2 per dollar over the near term. Meanwhile, speculation of a reduction in output by major oil producers and exporters led to a sharp increase in global crude prices. Brent crude futures rose \$2.72, or 2.9 per cent, to \$95.08 a barrel by 0900 GMT (2.30 pm IST) and US West Texas Intermediate (WTI) crude futures advanced \$2.62, or 3 per cent, to \$89.23, Reuters reported.

Concerns of weak global growth — intensified by fresh Covid restrictions in China — also eroded appetite for emerging market currencies such as the rupee, traders said. "The risk-off moods and higher crude oil prices also weighed on the local unit. After a steady opening, the rupee remained under pressure throughout the day following dollar demand from importers," Parmar said.

### Forex reserves

Data released on Friday showed that the RBI's headline foreign exchange reserves were at \$561.05 billion as on August 26, \$3 billion lower than the previous week. The decline was primarily due to a \$2.6 billion fall in foreign exchange assets to \$498.65 billion.

As on July 29, the RBI's reserves were at \$573.88 billion. The central bank has been heavily intervening in the currency market through dollar sales in order to prevent excessive volatility in the rupee. The reserves have fallen by about \$70 billion since late February, which was when Russia invaded Ukraine. Earlier this week, the rupee had touched a fresh low of 80.13 per US dollar. The domestic currency has depreciated 6.8 per cent versus the dollar so far in 2022.