

RBI keeps ₹ afloat amid US bond rout

Selloff in equities continues; domestic 10-year G-sec yield flat

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The Reserve Bank of India (RBI) intervened in the foreign exchange market through dollar sales, which helped the Indian rupee from hitting an all-time low on Wednesday, dealers said.

Amid elevated US Treasury yields and a stronger greenback, the rupee settled at 83.24 versus the dollar, slightly weaker than the previous closing level of 83.21. During the day, the domestic unit depreciated to 83.27 per dollar, just shy of the record intraday low of 83.29.

Dealers estimate that state-run banks sold \$500 million on behalf of the RBI.

In the US, benchmark 10-year Treasury yield reached 4.884 per cent and 30-year yield hit 5.011 per cent — their highest levels since 2007 — before falling back to 4.754 per cent and 4.877 per cent, respectively. The 10-year yield has jumped 20 basis points this week alone, and is up almost 100 basis points this year.

Despite this, a robust domestic economic outlook has kept the Indian bond market afloat. The yield on the benchmark 10-year domestic government bond settled at 7.24 per cent on Wednesday, flat against Tuesday.

But the benchmark indices — Sensex and Nifty50 — fell to a more than one-month low amid broad-based selling. The elevated bond yields in the US, according to analysts, could spur further foreign selling and trigger consolidation in the

UNDER PRESSURE

Major Asian currencies vs \$

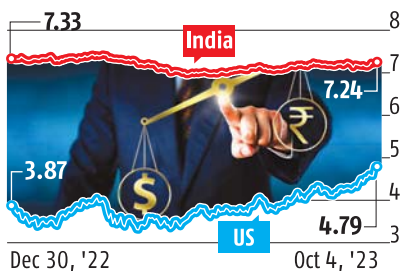
	Oct 3	Oct 4	% chg
Indonesian rupiah	15,580	15,632	-0.33
Indian rupee	83.21	83.24	-0.04
Japanese yen	149.02	148.97	0.03
China offshore spot	7.32	7.32	0.10
Singapore dollar	1.37	1.37	0.17

Compiled by BS Research Bureau

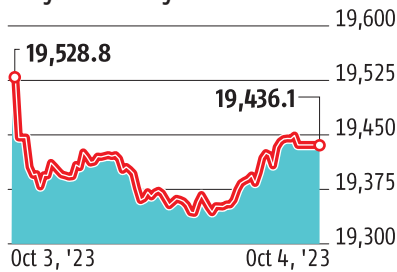
Source: Bloomberg

10-year G-sec yield

(In %)



Nifty50 intraday



Indian markets. The Sensex slid by 286.06 points, or 0.44 per cent, to settle at 65,226.04; the Nifty50 declined 92.65 points, or 0.47 per cent, to end at 19,436.10.

In Asia, on Wednesday, the rupee performed better than peers like the Indonesian rupiah, Malaysian ringgit, and Thai bhat, but lagged the Japanese Yen, Taiwanese dollar, the Chinese offshore yuan, and a few others.

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▶ U.S. BOND YIELD SURGE THREATENS INDIAN EQUITY VALUATIONS

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RBI...

“The RBI has been intervening and managing the volatility in the rupee. The central bank might have done a buy/sell swap, so that it could stop the depreciation; there would be no impact on rupee liquidity by doing the same,” said Amit Pabari, managing director at CR Forex. RBI maintains that it intervenes in the foreign exchange market to curb volatility and does not target any particular level of the currency.

Hitesh Jain, strategist, institutional equities research, YES Securities India, on the other hand, said: “When we look at the US dollar rising against other currencies, the rupee is still relatively resilient. India’s macros are positive. The growth outlook is good, which is a long-term positive.”

Market participants expect the rupee to trade in the range of 83.05-83.30 a dollar for now.

Amid the spike in the US bond yields, domestic bond market participants are currently looking at domestic cues, dealers said. Traders have refrained from placing large bets on caution ahead of the MPC policy decision on Friday. The rate-setting panel is expected to keep the repo rate unchanged until the second quarter of the next financial year. “The US yields are rising because of supply pressure. The 90 per cent selling in the US market is due to the supply pressure, and 10 per cent is because of their macro. But, in

our front, the macros are good. So, we are not tracking US yields right now,” a dealer at a state-owned bank said. The US Federal Reserve is expected to raise funds rates by another 25 basis points in 2023.

Go First...

“This is a big boost to the business of aircraft lessors, which are being wooed to set shop in India. But for Indian aviation companies, which are struggling with financial issues, this may compound their worries as lessors may pull out their assets,” said Anshul Jain, partner, PwC India.

In September, the Aviation Working Group (AWG), a global aviation leasing body comprising major planemakers and lessors, downgraded India after lessors could not repossess their planes from Go First more than four months after the carrier filed for insolvency.

Legal opinion, however, appears to be divided on what may follow next. “With this notification, lessors should be able to claim their assets from Go First but they would have to go to court,” said Nitin Sarin, managing partner, Sarin & Co.

According to some legal experts, the move may not provide relief to the Go First lessors because the notification is not applicable retrospectively; the NCLT will now have to take a call. “The lessors will definitely claim that the moratorium relief that Go First had been enjoying will not be applicable going forward. Whether the notification will apply retrospectively to cas-