

Rupee falls 7 paise to close at 84.74, an all-time low

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THE RUPEE LOGGED its weakest closing level on record on Wednesday, hurt by a lingering depreciation bias and broad-based dollar bids, while dollar-rupee forward premiums extended their decline.

The rupee closed at 84.74 against the US dollar, its lifetime closing low, down from 84.6850 in the previous session. The rupee was unable to benefit from gains in most of its Asian peers, including the offshore Chinese yuan which rose 0.2% to 7.28 after hitting a one-year low on Tuesday.

At this point, "USD/INR is a buy on any dips," a trader at a large private bank said. "There is only one direction of travel right now, but the speed depends on how stiffly the Reserve Bank of India will act," the trader said.

The one-year dollar-rupee implied yield fell to a four-month low of 1.95%, having declined nearly 30 basis points over three sessions. The dollar index was up 0.1% at 106.5 as attention turned to the potential of a rate cut by the US Federal Reserve this month.

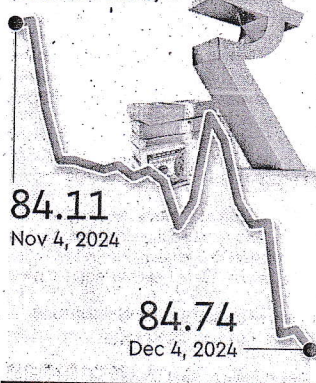
RBI-spurred drop in premiums not helping rupee's cause: Analysts

A plunge in rupee premiums, triggered by the Reserve Bank of India selling dollars in the onshore forward market, has added to the central bank's challenges in curbing further weakness in the currency, analysts said on Wednesday.

The implied yield on the three-month, six-month and one-year dollar/rupee forward premiums dropped between 16 and 22 basis points this week. The one-year yield declined below 2% for the first time

FREE FALL

Rupee vs dollar
(Inverted scale)



in four months.

Selling dollars in the forward market allows the RBI to deliver dollars at a future date. This helps the central bank not deplete forex reserves or hurt the rupee's liquidity.

On the flip side, a large decline in premiums makes it cheaper for importers to hedge their future foreign obligations, increasing demand for the dollar. Also, it is a disincentive for exporters and carry traders to hedge, especially when the rupee's outlook is shaky.

"There is always a fallout to any form of intervention and the same is with forwards. The drop in premiums due to forwards intervention means, to an extent, the RBI will need them to work more (in keeping the rupee from falling further)," Sakshi Gupta, principal economist at HDFC Bank, said.

"The RBI is managing its other objectives of managing reserves and liquidity. Apart from that, it wants to shore up the rupee," Madan Sabnavis, chief economist at Bank of Baroda, said.