Rupee ends at all-time low as G-Secs see mild rally

THE LOW DOWN. Currency ended 10 paise weaker against last Friday's low of 83.75

Our Bureau
Mumbai

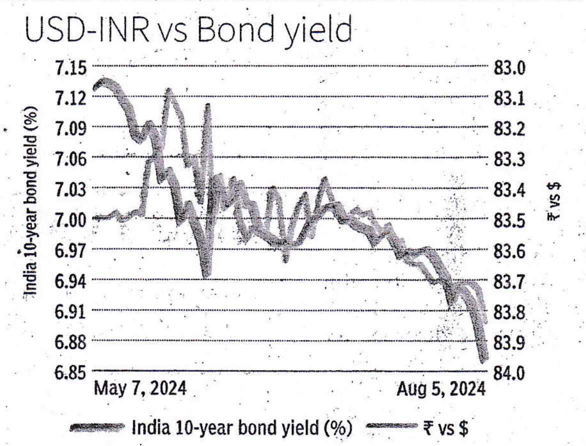
The rupee ended at an all time closing low of 83.85 against the dollar on Monday as FPIs sold in the Indian equity markets amid global sell-off, which was triggered by unwinding of carry trades, weak US economic data raising the spectre of a slowdown and the Federal Reserve going in for deeper rate cuts.

However, the Government Securities (G-Sec) saw a mild rally, tracking softening US treasury yields.

Yield of the benchmark 10-year G-Sec declined about 4 basis points even as its price was up about 27 paise.

The rupee unit closed 10 paise weaker on Monday against last Friday's all-time closing low of 83.75. After market hours (3.30 pm), the rupee pierced the 84 to the dollar level.

"The factors that affected the rupee decline include the Japanese Yen gaining strength due to hike in policy rate by the Bank of Japan and weak US ISM manufacturing and jobs data indicating a gloomy outlook for the US economy, which in turn may prompt the Fed to go for a 50 basis points rate cut either off-cycle or in September. So, carry trade unwinding is underway.



FPI OUTFLOW

FPI outflows too weakened the Indian unit.

"Given these factors, risk aversion has set in, prompting investment in safe haven assets such as gold and treasuries; ₹84 to the dollar is on the horizon if the risk aversion continues," said V Rama Chandra Reddy, Head-Treasury, Karur Vysya Bank.

Government securities (G-Secs) rallied, tracking the thaw in US yields, which softened on expectations of the Fed kicking off a rate cut cycle either in September or earlier. Yield of the 10-year benchmark G-Sec closed down about 4 basis points at 6.856 per cent against the previous close at 6.8945 per cent, with its price going up about 27 paise to close at ₹101.691 against the previous close of ₹101.42.

JOBS DATA

Sandeep Bagla, CEO, TRUST Mutual Fund, said: "Weak employment data is leading to a significant risk off trade. Market participants are now expecting the US Fed to cut more than 100 bps in next five months, with a high chance of 50 bps cut, on or before the next policy date in September.

"The slowdown in the US is likely to lead to weakening in global (commodity) prices which should lower inflationary expectations in India as well. RBI/MPC, in its policy meeting later this week, could take the global developments into account and signal a change in stance, indicating easier monetary conditions in the near future."