

Rupee gives up firm gains as yuan takes a beating and banks purchase dollars

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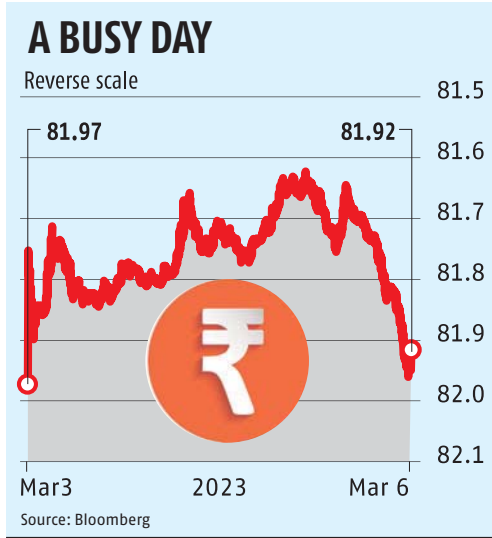
After strengthening sharply in early trade on Monday, the rupee surrendered most gains and closed steady against the US dollar as the Chinese yuan took a beating and some banks purchased the greenback likely on behalf of the Reserve Bank of India (RBI), dealers said.

The rupee closed at 81.92 per US dollar on Monday as against 81.97 per dollar at previous close. On Friday, the rupee surged 62 paise versus the dollar and strengthened to a one-month high due to firm overseas investment flows.

In early trade on Monday, the rupee gained sharply, rising to a fresh one-month high of 81.73 against US dollar as yields on US government bonds fell sharply, reflecting better investor risk appetite.

A decline in US bond yields improves the appeal of fixed-income assets in emerging markets such as India, in turn helping the local currency.

Apart from weakness in the Chinese currency, which was brought on by a soft growth target for 2023, the rupee also gave up gains as traders squared off certain positions ahead of a market holiday on



Tuesday, dealers said.

Moreover, with Fed Chair Jerome Powell scheduled to deliver a Congressional testimony on

Tuesday and Wednesday, traders preferred to exercise caution before the key event.

“Gains on Chinese Yuan dipped which pushed the USD/INR pair higher initially. Technically, 81.60 remains an important support from where we were able to witness a sharp bounce,” Kunal Sodhani, Shinhan Bank vice-president (Global Trading Centre) said.

“Additionally, due to INR holiday tomorrow (Tuesday), several large corporates and traders were seen closing their short positions, pushing the USD/INR pair higher, along with state banks heard being on the buying side (buying dollars) as well as Fed Powell’s testimony may pose an event risk,” he said. Sodhani sees the level of 82.36 per US dollar as a key technical level for the dollar/rupee pair going ahead. “The rupee opened today higher... speculative inflows ensured that the rupee appreciated with nationalised banks protecting the dollar possibly at the behest of the RBI,” Anil Kumar Bhansali, head of treasury at Finrex Treasury Advisors said.

“Rupee is expected to be in the range of 81.20 to 82 after the holiday tomorrow with expectation of the RBI buying the inflows at lower levels of the dollar,” he said.