

● RBI QUASHES VOLATILITY

Indian ₹ among top Asian carry trade contenders

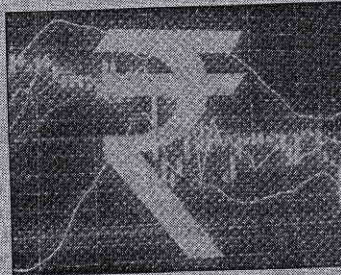
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THE INDIAN RUPEE is among Asia's top contenders for carry trades, even though the currency is trading near its record low, according to currency strategists. The Reserve Bank of India's stranglehold on the currency has kept volatility low, while short-term rates have stayed high due to tight liquidity -- ingredients that make the rupee a good carry currency choice.

A carry trade involves exploiting interest rate differentials by borrowing a low-yielding currency and investing in a higher-yielding one. The absolute rate differentials and volatility expectations are key considerations in such trades.

"The RBI, by a large margin, has reduced the exchange rate risk, making the rupee attractive compared to other Asian

WHAT MAKES RUPEE A GOOD BET



■ The rupee on Wednesday appreciated 7 paise to settle at 83.18 against the US dollar

■ It is still among Asia's top contenders for carry trades

■ RBI has managed to keep the rupee's volatility low, while short-term rates stayed high due to tight liquidity

currencies in the sense of carry trades," said Dhiraj Nim, FX strategist and economist at ANZ. "Add to this the bias that RBI is showing for keeping short-end rates higher, which we are not seeing in other Asian central banks."

The rupee on Wednesday appreciated 7 paise to settle at

83.18 against the US dollar amid robust buying in domestic equities and a weak American currency overseas. Though the currency recently witnessed volatility, the RBI's likely persistent intervention has kept such expectations fairly muted, relative to historical levels.

The gauges of such expected

volatility over the next three months and one year are at their lowest in more than a decade. These expectations rose around mid-August, when the rupee weakened past 83 for the first time this year, but soon eased. With the RBI adopting a stance of leaning against the wind -- buying dollars when the rupee appreciates and selling when it depreciates -- it improves conditions for players looking to profit via carry, said Singapore-based Saktiandi Supaat, regional head of forex and strategy at Maybank.

He highlighted that the rupee is the best-performing Asian currency, in terms of total returns, this year and said carry trades involving the yen and the baht were viable. However, ANZ's Nim pointed out that the high US yields made carry trades in any Asian currency less appealing.

— REUTERS