

# ₹ gives up early gains to close slightly weaker vs \$

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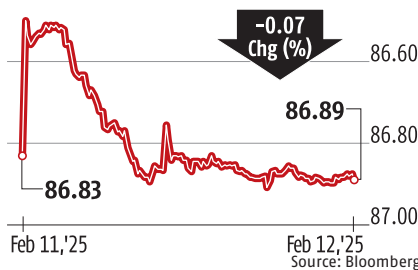
The rupee reversed its early gains to settle 6 paise weaker at 86.89 per dollar against the previous close of 86.83. The local currency appreciated up to 86.45 per dollar during the day. The early gains were largely driven by short covering, but renewed weakness quickly erased momentum, capping further appreciation, said dealers.

The rupee appreciated in the last three trading sessions. On Monday, the Indian unit went close to touch 88/\$ but intervention by the RBI pulled it back. On Tuesday, the rupee recorded its biggest gain – 0.74 per cent – in nearly two years. “Rupee traded highly volatile as an initial strong opening was met with selling pressure, pushing it back towards trading flat,” said Jateen Trivedi, VP Research Analyst – Commodity and Currency, LKP Securities.

Meanwhile, the RBI received bids worth ₹1.93 trillion in the Variable Rate Repo (VRR) auction conducted on Wednesday, falling short of the notified amount of ₹2.5 trillion. According to the latest RBI data, the liquidity deficit in the banking system stood at ₹1.9 trillion as of

₹ SPOT VS \$

(inverted scale) 86.40



Tuesday, reflecting continued tightness in liquidity conditions.

Given the prevailing liquidity tightness in the banking system, market participants expect that the RBI may conduct additional OMO to address the liquidity crunch and stabilise short-term rates. “While no fresh measures on liquidity were announced at last week’s rate review, this week’s action reinforces that the RBI will tweak its response mechanism in tune with evolving conditions, especially in a bid to sterilise intervention moves,” said Radhika Rao, Executive Director and Senior Economist, DBS Bank.