

₹, bonds gain on US inflation data

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Government bonds and the rupee reported sharp gains on Thursday due to lower than expected US inflation, leading to speculations that the US Federal Reserve may have reached the end of its rate-hike cycle.

The dollar experienced its most severe depreciation in five months, dropping by over 1 per cent overnight against the Euro. Traders expect the US rate-setting panel might hike the funds rate by 25 basis points in July.

The rupee appreciated 18 paise on Thursday, and settled at 82.07 per dollar amidst choppy trade.

The rupee started the day with a gain of 28 paise against the greenback, opening at 81.96 against the dollar, tracking an overnight fall in dollar index. The dollar index fell to 100.44 overnight.

The dollar index measures the strength of the US dollar against the basket of six major currencies.

However, the Indian unit gave up some early gains as importers bought dollars for oil companies, dealers said.

Accordingly, the price of Brent crude oil breached the crucial \$80 per barrel level on Thursday, and was trading at \$81 per bbl at 3:30 pm. "Dollar index has been sharply lower on one side which is assisting rupee while on the other end Brent crude prices may act as a silent killer for inflation and current account deficit, moving above \$80/bbl," Kunal Sodhani, Shinhan Bank vice-president said.

"For USDINR, 81.58 acts as a very crucial support to watch out for while 82.45

per dollar is a resistance," he said. The rupee touched the day's high of 81.95 per dollar during the day, where the Reserve Bank of India (RBI) was speculated to have intervened in order to replenish its

reserves. Latest data shows India's foreign exchange reserves were at \$595 billion, as on June 30. "As the dollar index fell, rupee opened higher at 81.97 per dollar and at 81.95 per dollar was bought by RBI as after selling at 82.75 per dollar, RBI has got a chance to buy dollar back to replenish its kitty," Anil Kumar Bhansali, head of treasury at Finrex Treasury Advisors said.

"It seems a good level for importers to hedge, though the dollar index is in a free fall. One year forward premiums rose by 15 bps as RBI paid after buying dollars," Bhansali said.

The government bonds surged tracking the fall in US Treasury yields after the release of the data.

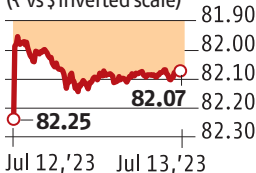
Traders have been keenly assessing global cues, therefore, the higher than expected domestic CPI inflation data couldn't hamper positive sentiment of the market, dealers said.

The domestic headline inflation for June came in at 4.81 per cent, a three-month high, on the back of a rise in vegetable prices.

The market participants expected the inflation to be around 4.60 per cent.

RUPEE SPOT

(₹ vs \$ inverted scale)



Source: Bloomberg
Compiled by BS Research Bureau