Rupee gains 11 paise on strong FPI inflows

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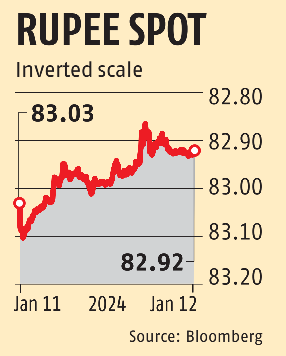
The rupee appreciated by 11 paise against the US dollar on Friday, buoyed by foreign portfolio investor (FPI) inflows into both debt and equity markets.

The currency strengthened for the eighth consecutive trading session on Friday; it touched an intraday high of 82.86 per dollar before settling at 82.92, compared to 83.03 on Thursday.

The rupee's positive trajectory continued despite higher-than-expected US CPI data, which, however, did not override expectations of interest rate reduction by the Federal Reserve from March this year, noted Jateen Trivedi, V-P research analyst at LKP Securities.

"The Fed can be expected to be moving towards no hike in upcoming policy and projection of cuts can be seen in the statement, provided CPI inflation data does not go higher in coming months in the US. The RBI still seems to be in much control of the rupee as 83.30-83.40 levels have been held; intervention is visible at lower levels," he further said.



The dollar remained steady against its peers on Friday as investors weighed the implications of the higher-than-expected US CPI-based inflation data, amid speculation of a potential rate cut by the Fed as early as March. In December, US consumer prices experienced a 0.3 per cent rise month-on-month, driven by a continued upward trend in rents, resulting in an annual increase of 3.4 per cent. According to CME Fedwatch Tool, 73.2 per cent of traders expect a 25 basis point rate cut by the Fed in March.

"The rupee appreciated because of inflows. The higher-than-expected US CPI led to some weakening of the rupee in the early session, but then inflows started which led to appreciation," a dealer at a state-owned bank said.

Market participants speculated that state-owned banks, likely acting on behalf of the RBI, bought dollars, limiting the rupee's gains. Aditya Vyas, chief economist at STCI Primary Dealer Ltd, said that the rupee's positive trend should continue unless the RBI intervenes, with inflows expected on the back of bond index inclusion. "The RBI has been there to control volatility on either side," he added.