₹ slides past 96/$ again as oil climbs

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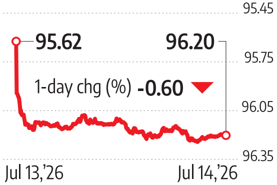
The rupee weakened past the 96 per dollar mark for the first time in nearly two months on Tuesday as a surge in crude oil prices and persistent importer demand outweighed dollar sales by state-run banks on behalf of the Reserve Bank of India (RBI).

Moreover, the benchmark 10-year government bond yield rose 6 basis points (bps) to 6.79 per cent from 6.73 per cent on Monday as rising oil prices stoke inflation fears.

Under pressure

₹ vs $ (in inverted scale)



Source: Bloomberg

The domestic currency settled at 96.20 per US dollar, down 0.6 per cent from Monday's close of 95.62, extending its two-day decline to 0.91 per cent. The rupee was the worst-performing Asian currency for a second consecutive session, tracking a sharp rise in crude oil prices amid escalating tensions in West Asia.

"The rupee has continued to weaken because RBI's interventions have been at a slower pace than expected, given its existing positions, while overall flows have remained negative. The hurdle at 95.80 was broken, triggering further short covering," said Dilip Parmar, senior research analyst, HDFC Securities. "The FCNR (B) inflows have been lower than market expectations. Around $7 billion came in during the first fortnight after FAQ, taking total inflows to about $10 billion so far, but the pace has since slowed. The market was expecting $30-50 billion of inflows, but renewed geopolitical uncertainty has kept the flows on the lower side, causing the rupee to give up the strength seen earlier."

Brent crude climbed above $85 a barrel after renewed attacks in West Asia heightened concerns over supply disruptions, boosting demand for the safe-haven US dollar. Higher oil prices are expected to widen India's import bill.