

Snapping 5-day streak of new lows, ₹ posts best day vs \$ in over 7 mths

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After hitting fresh lows for five consecutive sessions, the rupee staged a recovery on Wednesday, recording its best single-day gain versus the dollar in more than seven months. The domestic currency's rise was underpinned by a weaker dollar ahead of US inflation data and a decline in

forward premia.






A narrowing trade deficit in December, down to \$21.94 billion down from a record \$31.86 billion in November, further bolstered market sentiment.

The rupee appreciated by 0.3 per cent to close at 86.36 per dollar, after hitting an intraday high of 86.30. On Tuesday, it had closed at 86.64 per dollar.

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SIGH OF RELIEF

Steepest single-day gains for ₹ against \$ in FY25

Date	₹ vs \$ spot	1-day chg (%)
Jun 03	83.15 0.38	
Jan 15	86.36 0.32	
May 24	83.10 0.22	
Nov 25	84.29 0.20	
May 17	83.33 0.19	

Source: Bloomberg

Compiled by BS Research Bureau

RBI actively intervening in NDF market

“Adding to the rupee’s momentum was a decline in forward premia, with the one-year forward yield slipping below 2.50 per cent. This made holding the rupee more attractive relative to other currencies, further supporting its appreciation,” said Amit Pabari, managing director at CR Forex.

The dollar index, which measures the greenback against a basket of six major currencies, dropped to 109.10 on Wednesday from 109.27 the previous day, following a strong two-week rally that had pushed it up from 107. The fall in the dollar index also lifted most Asian currencies.

“The dollar index has been softening, and there were some inflows from the foreign bank side. Trade deficit data was also taken positively,” said a dealer at a state-owned bank. “The dollar index has come down, but it is still elevated, and the volatility will remain until Donald Trump takes over as US president,” the dealer added.

The decline in India’s trade deficit was a key factor in the rupee’s gains, said Anil Bhansali, head of treasury and executive

director at Finrex Treasury Advisors. “Additionally, there were flows from a major public sector bank, which pushed the rupee to an intraday high of 86.30 versus the dollar before it closed at 86.36.”

The Reserve Bank of India (RBI) has been actively intervening in the non-deliverable forwards (NDF) market through buy-sell swaps, resulting in a sharp decline in forward premia. One-month premium fell from a high of 3.80 per cent to around 3 per cent, while one-year premium dropped from 2.75 per cent to 2.50 per cent.

The RBI has stepped up these operations recently, signalling a shift toward active liquidity infusion to stabilise monetary conditions. The banking system’s liquidity deficit narrowed to ₹2.09 trillion on Tuesday, compared to ₹2.5 trillion on Monday.

Despite Wednesday’s rally, the rupee has depreciated by 1.18 per cent so far in January and has declined by 3.73 per cent in the current financial year, underscoring continued headwinds for the currency.