

₹ extends gains, settles at 1-mth high

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Mumbai, 16 October

The rupee extended its gains on Thursday to settle at around a one-month high of 87.83 per dollar due to a decline in the dollar index, and improved investor sentiment after heavy dollar sales by the Reserve Bank of India (RBI).

The local currency had settled at 88.07 per dollar on Wednesday after witnessing the sharpest single-day rise in almost four months. Dealers said the RBI might have sold \$4 billion in both onshore and offshore markets in the last two sessions, lifting sentiment. The Indian unit came under pressure in recent months following high tariffs imposed by the US.

“The rupee strengthened mainly because of the RBI’s strong intervention in both onshore and offshore markets, along with improving foreign inflows,” said the treasury head at a private bank. “Besides the RBI’s intervention, sentiment around the rupee has improved as the currency had

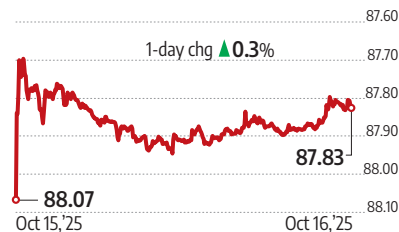


already depreciated sharply in the past few months, creating room for a rebound,” he added. The rupee was the best-performing Asian currency, with a 1.11 per cent appreciation seen in the last two trading sessions. South Korean won was the second-best, with a 0.8 per cent appreciation.

The dollar index was down 0.2 per cent at

Strong showing

₹ vs \$ (inverted scale)



Source: Bloomberg

Compiled by BS Research Bureau

98.59. It measures the strength of the greenback against a basket of six major currencies.

“The RBI could have sold around \$4 billion in total, which led to the shift in sentiment,” said a market participant. “The rally continued on Thursday also because the market is thinking the trade negotiations are a done deal,” the person added.

RBI’s aggressive dollar sales through state-run banks on Wednesday triggered a wave of short-covering, quickly reversing the bearish sentiment that had built up in recent days. The rupee has depreciated by 2.52 per cent in the current calendar year, and has witnessed 2.68 per cent depreciation in the current financial year so far.

RBI Governor Sanjay Malhotra said on Wednesday that the central bank does not target any specific level for the rupee, and the currency value is guided by market forces, and macroeconomic fundamentals. While speaking at the International Monetary Fund’s (IMF’s) Governor Talks session in Washington DC, Malhotra said the RBI’s role was limited to ensuring orderly movements, and preventing volatility rather than defending any particular price band.

The RBI has the ammunition to protect any undue volatility in the foreign exchange market with almost \$700 billion of foreign exchange reserves — India is among the top five countries globally.