Rupee ends at record low as US Treasury yields hit 15-year high

Local currency settles at 83.15 vs dollar; India 10-year bond yields rise to 4-month high

ANJALI KUMARI
Mumbai, 17 August

The rupee hit an all-time closing low and the yield on the benchmark 10-year Indian government bond rose to a four-month high on Thursday amid a surge in the dollar index and US Treasury yields, prompting the Reserve Bank of India (RBI) to intervene in the foreign exchange market to curb volatility.

The local currency slumped 20 paise, or 0.24 per cent, to settle at 83.15 against the US dollar after hitting the day's low of 83.16. This was the rupee's sharpest fall since July 7. The rupee had logged its previous record closing low of 83.03 on October 19 last year, and its life-time low of 83.29 on October 20 during intra-day trade.

US Treasury yields rose after minutes of the Federal Reserve meeting stated that most policymakers felt that inflation risks could require further interest rate hikes. The yield on the 10-year US Treasury note surged to a 15-year high of 4.31 per cent on Thursday. The Fed's hawkish tone also led to a rise in the dollar index to 103.53.

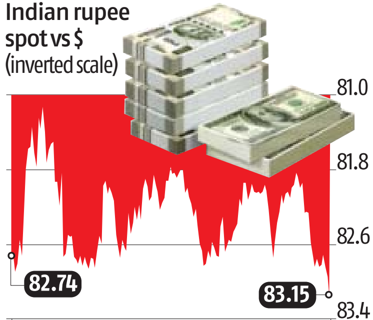
Similarly, the yield on the 10-year Indian government bond inched up 4 basis points to settle at 7.25 per cent.

"The rise in US bond yields and the weakness of the Chinese currency were the major driving factors," said Anindya Banerjee, vice-president, currency derivatives and interest rate derivatives, Kotak Securities.

Turn to Page 6

FEELING THE HEAT

Indian rupee spot vs $ (inverted scale)



Source: Bloomberg

TIGHTENING INDIA-US BOND YIELD SPREAD PUTS ₹ UNDER PRESSURE P6

Markets slip on renewed rate hike fears

Concern about the rate-hike trajectory and China's ailing economy hit investor appetite for risky assets, pulling down domestic equity markets on Thursday. The S&P BSE Sensex fell 388 points, or 0.6 per cent, to 65,151, the lowest close since June 30. The broader National Stock Exchange Nifty dropped 100 points, or 0.5 per cent, closing at 19,365, the lowest close since July 10.

II, 1

FROM PAGE 1

Rupee...

"We could see a range of 82.70-83.50 by the end of this month. If the RBI had not intervened, the rupee would have depreciated more to breach the all-time low level of 83.29 a dollar. They [the RBI] could have sold $2-$3 billion," said Banerjee.

The Indian unit was the fourth worst -- after the Malaysian ringgit, Philippines peso, and South Korean won -- among Asian currencies on Thursday.

In the offshore market, the rupee touched 83.45 against the dollar as investors continued to bet on the greenback due to the rising US 10-year Treasury yield. "The rupee should peak at ₹83.50 a dollar. The RBI will not allow any sharp depreciation. And if at all, the central bank will let the rupee depreciate way gradually and orderly," Naveen Singh, head of trading and executive vice president at ICICI Securities Primary Dealership, said.

Apart from the Fed minutes, the Chinese real estate crisis weighed on investor sentiment. China's real estate developer Country Garden has defaulted on two types of dollar bond payments, which rattled the financial markets.

The Chinese currency has depreciated sharply this week after the People's Bank of China cut interest rates by 15 basis points for a second time in a quarter, indicating that officials were intensifying monetary relaxation measures to revive the economy. While domestic fundamentals have stayed strong, external factors continue to pressure the Indian currency. The rupee has fallen 1.1 per cent in August so far, while it has depreciated by 1.2 per cent in the current financial year. It had declined 7.8 per cent in the previous financial year.

The Indian unit had appreciated almost 0.1 per cent in the first six months of the current calendar year on the back of strong foreign inflows.

"In terms of government securities, the yield [on the benchmark 10-year bond] should not rise beyond 7.30 per cent by the end of this month. Hopefully, we are closer to the peak of rates. It is recent data which has moved the market. So, let's see how central banks take it. Overall supply will keep the yield a little bit elevated. So, we may see some more upside on the gills. But again, not expecting any sharp depreciation," Naveen Singh said.