Rupee ends at all-time closing low of 83.27

Increasing crude prices, US yields act as headwinds

ANJALI KUMARI
Mumbai, 18 September

The rupee hit a fresh closing low of ₹83.27 against the dollar on Monday due to a rise in US Treasury yields and high crude oil prices, dealers said. The previous all-time closing low was 83.21, which was on September 7.

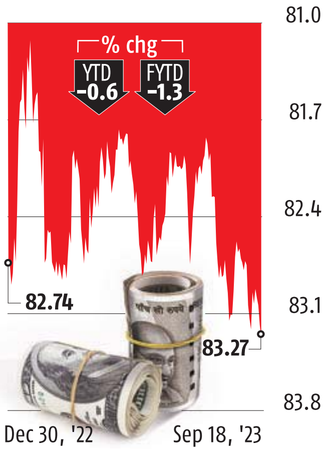
The Reserve Bank of India (RBI) appears to have acknowledged the stress on the rupee and has permitted its gradual, albeit consistent, depreciation against the dollar, dealers said.

"The rupee depreciated because of the rise in crude oil prices and increasing US yields," said Anindya Banerjee, vice-president, currency derivatives & interest rate derivatives, Kotak Securities.

"The RBI was there but it didn't intervene much. It could have sold

ON GLOBAL CUES

₹ vs $ (inverted scale)



$200-300 million. From here, there is a fear of the rupee falling to an all-time low," Banerjee said. The rupee had hit an all-time low of ₹83.29 on October 20 last year.

Achala Jethmalani, economist at RBL Bank, said: "A wider than anticipated trade deficit of $24 billion for August, coupled with dollar outflows from the Indian equity markets, which amounted to $700 million during September 1-14, weakened the rupee. The elevated crude oil prices are further seen to weigh on the USDINR (dollar-rupee) pair. However, the weakness is largely in sync with what is observed in the emerging markets basket. The central bank monetary policies this week and the crude price levels will influence market sentiment even as the RBI is seen intervening in foreign markets."

"The rupee has gained ground, helped by the peaking of the dollar index at around 105. It was helped also by expectations that the Fed is done with the rate hikes, with interest rate futures pricing 99 per cent probability of a pause at the September 20 meeting, while there is a 70 per cent probability that the Fed will not change interest rates at the November meeting as well ... we suspect some sort of intervention this week, helping the recovery in the rupee," said Hitesh Jain, strategist, institutional equities research, YES Securities India.

Market participants eye Fed meet outcome

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Domestic bond market participants are looking forward to the outcome of the US Federal Reserve's meet on Wednesday for positive cues. The government bond market remains volatile amid speculation of India's inclusion into bond indices and tight liquidity.

According to the CME FedWatch Tool, 98 per cent investors expect the Fed to keep the rates unchanged at 5.25-5.50 per cent in their next meeting.

On the domestic front, the RBI monetary policy committee (MPC) is expected to keep the repo rate unchanged for at least a year, dealers said. The repo rate currently stands at 6.50 per cent.

Market participants said that the rumours of bond inclusion were speculative in nature, aligning with previous reports that had consistently failed to deliver positive actions from index providers, disappointing the market.

The benchmark 10-year government bond yield traded between 7.12 per cent and 7.25 per cent last week. It fell below the psychologically crucial 7.15 per cent mark during the week due to optimism regarding including bonds in the international indices. However, the rise in US Treasury yields and crude oil prices dampened the sentiment.

The yield on the 10-year US Treasury note rose to 4.32 per cent by the end of the Indian market hours on Friday, against 4.26 per cent on Thursday.

"The 10-year government bond closed lower again with the concerns of US treasury yield volatility, increasing Brent crude oil prices, weakening of rupee, El nino monsoon impacts," Venkatakrishnan Srinivasan, founder and managing partner of Rockfort Fincap LLP, said.