HAWKISH FED DAMPENS SENTIMENT ACROSS MARKETS

₹ slides past 85 vs $

INDIA-US 10-YR BOND YIELD SPREAD NEAR 20-YR LOW

SENSEX SLIPS BELOW 80K AFTER 4 DAYS OF EQUITY SELLOFF

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Mumbai, 19 December

The rupee breached the psychologically significant 85-per-dollar mark, and government bond yields rose on Thursday following the US Federal Reserve's meeting, which signalled a more cautious pace of future interest rate cuts, unsettling financial markets, according to dealers. Several Asian currencies performed worse than the rupee.

Indian equities also declined for the fourth consecutive session as the Federal Reserve projected only one or two rate cuts in 2025, contrary to expectations of three to four reductions. On Wednesday, the Federal Open Market Committee lowered the policy rate by 25 basis points, bringing the Fed Funds rate to a range of 4.25–4.50 per cent.

The Sensex dropped 940 points, or 1.2 per cent, to close at 79,242.61, while the Nifty 50 slipped 247 points, or 1.02 per cent, to 23,952. Over the past four sessions, the Sensex has declined by 3.5 per cent, and the Nifty by 3.3 per cent; investors have seen their wealth erode by ₹9.65 trillion.

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UNDER PRESSURE

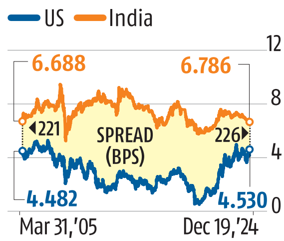
MIDDLING YEAR FOR ₹

Major Asian currencies vs $

	Dec 19, '24	1-yr	3-mth	1-mth	1-day
		Change in %			
SOUTH KOREAN WON	1,444.43	-9.5	-8.0	-3.6	-0.4
JAPANESE YEN	156.80	-8.3	-9.0	-1.4	-1.3
INDONESIAN RUPIAH	16,313.00	-4.9	-6.6	-2.9	-1.3
CHINA RENMINBI	7.30	-2.4	-3.2	-0.8	-0.1
INDIAN RUPEE	**85.07**	**-2.2**	**-1.6**	**-0.8**	**-0.1**
HONG KONG DOLLAR	7.77	0.4	0.3	0.2	0.0
MALAYSIAN RINGGIT	4.51	3.8	-6.6	-0.7	-0.8

NARROWING SPREAD, OF LATE

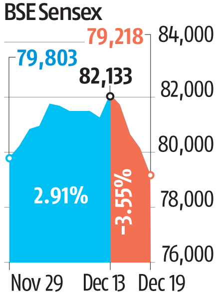
10-yr G-sec yield (%)



Source: Bloomberg; Compiled by BS Research Bureau

GIVING UP GAINS

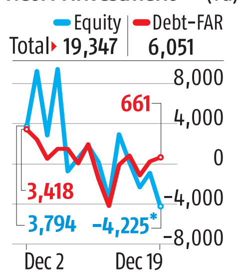
BSE Sensex



Source: Bloomberg

FPIs HEDGE BETS

Net FPI investment (₹cr)



*Provisional; Source: NSDL/exchange

Narrowing India, US yield spread may hit FPI flows

The narrowing spread in yields between US 10-year treasury bonds and Indian 10-year government securities is likely to have an impact on foreign portfolio investor inflows into India's government debt and could even lead to outflows, according to experts. 5

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EXPENSIVE VALUATIONS TO KEEP MKTS VOLATILE II, 1

Dealers expect ₹ stabilising around 85.50 by Mar

On Thursday, the rupee settled at an all-time low of 85.07 per dollar, compared with its previous close of 84.96. During the session, it touched 85.09 per dollar. Meanwhile, the yield on the 10-year benchmark government bond rose 4 basis points to 6.79 per cent and that on the US 10-year Treasury surged to 4.54 per cent -- the highest since May.

The narrowing spread between US 10-year Treasury yields and Indian 10-year government securities, now near two-decade lows, could impact foreign portfolio investor (FPI) flows into Indian debt markets and may even lead to outflows, according to economists and market experts. Despite a strong return of FPIs to Indian debt and equity markets in December, partly reversing two months of outflows, their investments have been volatile in recent days.

On Thursday, FPIs were net buyers of government securities worth over ₹600 crore under the Fully Accessible Route (FAR), but they offloaded equities worth ₹4,225 crore.

It took the rupee just over two months to breach the 85 per dollar mark from 84 per dollar, while it had taken 475 days to move from 83 to 84 levels.

Foreign exchange participants noted that with the dollar index hovering around 108, rupee weakness is likely to persist. The Indian unit is expected to trade in the 85–85.50 range for now, with dealers anticipating stabilisation around 85.50 by March.

"With the dollar index around 108, rupee weakness will continue," said the treasury head of a private bank, adding the RBI's intervention strategy will also be constrained by liquidity conditions. "The rupee has reached the 85 per dollar mark and the 85-85.50 is the band that we think it is going to be playing in for some time now. And any further move will depend on the dollar index and how it plays out."

Market participants highlighted that the rupee's trajectory by March will hinge on factors such as the RBI's import cover and its intervention tactics. While the RBI is expected to curb intraday volatility, its capacity for sustained support may be limited by sizable short positions across maturities. Other factors include after-hours shifts in non-deliverable forward (NDF) markets, and the central bank's internal adjustments amid leadership changes.

Speculation about a year-end slowdown in FPI activity suggests the rupee may temporarily stabilise before resuming its depreciation.