

FPI inflows help ₹ bounce back, buck May trend

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The rupee recovered from a two-day losing streak to gain ground against the dollar on Wednesday. This comes as banks sold the greenback on behalf of exporters and for more foreign fund inflows into domestic equities, dealers said.

The rupee settled at 82.04 a dollar on Wednesday as compared to the previous close of 82.12.

Robust foreign portfolio investments (FPIs) due to positive domestic growth outlook kept the rupee afloat for the major part of June. The currency depreciated more than 1 per cent in May.

India's GDP growth rose sharply to 6.1 per cent in January-March from 4.5 per cent in October-December.

Robust macroeconomic fundamen-

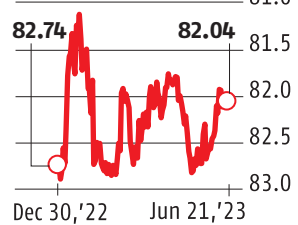


tals led to a slew of foreign portfolio inflows into Indian equities.

According to NSDL data on FPIs, the domestic market received net inflows of nearly ₹20,372 crore in June.

₹ VS \$ (rupee spot)

In inverted scale



Source: Bloomberg
Compiled by BS Research Bureau

Traders maintained caution ahead of US Federal Reserve Chair Jerome Powell's testimony on the central bank's semi-annual monetary policy report to the US Congress, scheduled for

Wednesday-Thursday.

The rupee has been favoured by an appreciation bias after the US Federal Open Market Committee kept the fund rates unchanged at 5-5.25 per cent, for the first time since March 2022.

The Indian currency neared its highest level in six weeks against the dollar on Friday at ₹81.86 a dollar.

However, the gains were limited as Fed officials signalled more rate hikes in the current calendar year, dealers said.

According to the median of projections by Fed officials, the funds rate is seen at 5.50-5.75 per cent at the end of 2023. This is 50 basis points (bps) higher than the previous projection in March.

Earlier, Fed officials saw the target rate at 5-5.25 per cent, which is the current range.

"On Wednesday, the rupee appreci-

ated mainly because of inflows," a dealer at a state-owned bank said. He added, "But I think the rupee will remain on the depreciating side only because of the recent rate hike by the European Central Bank (ECB), and the Fed is also hawkish."

According to the CME Fedwatch tool, 76.9 per cent traders expect the US Fed to hike rates by 25 bps in July, while the rest expect a pause.

Moreover, the ECB hiked interest rates by 25 bps to 3.5 per cent, the highest since May 2001. The central bank also raised its inflation projection for the current year to 5.1 per cent from the previous estimate of 4.6 per cent.

It aims to bring inflation to its medium-term target of 2 per cent, and is likely to tighten monetary policy further to achieve this.