Rupee closes at its lifetime low of 85.12

• Weak yuan, demand for dollar keep the currency under pressure

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Mumbai, December 23

THE RUPEE ENDED at another all-time low on Monday due to weakness in the Chinese yuan and and strong dollar bids from importers, likely related to month-end payments, said forex traders. However, dollar sales by the state-owned banks on behalf of the Reserve Bank of India (RBI) capped the decline.

The rupee ended at 85.12 against the dollar, compared with its Friday close at 85.10. The offshore Chinese yuan declined to 7.30, down 0.2%.

The dollar index, which gauges the greenback's strength against a basket of six currencies, was trading higher by 0.38% at 107.75. Traders are expecting the index to remain elevated for sometime because of a hawkish shift in the Federal Reserve's outlook for policy rates over 2025.

The slight uptick in crude oil prices also weighed on the investor sentiment. Brent crude rose 0.07% to $72.99 per barrel in futures trade.

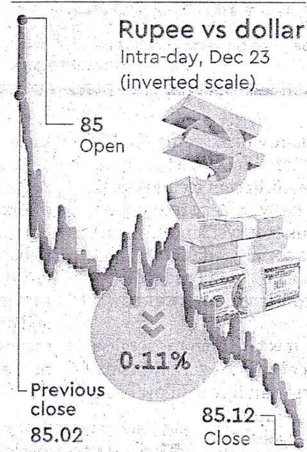
Forex traders said state-owned banks conducted mid-tenure dollar-rupee buy/sell swaps. The RBI has ramped up its forward dollar sales to limit the impact of spot market interventions on the banking system liquidity and foreign exchange reserves.

Meanwhile, dollar-rupee forward premiums rose on Monday with the one-year implied yield gaining 2 basis points to 2.24% and one-month forward premiums rising to 20 paise. Forward premiums were aided by a rise in the overnight swap rate which was lifted by likely cash dollar inflows related to ongoing IPOs.

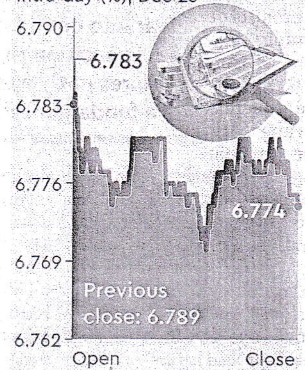
Asian currencies fell against dollar and the rupee cannot gain much with the real effective exchange rate being at its high, said traders.

"Importers are likely to continue with buying on dips. As the year-end approaches, some gain is expected before the rupee starts to getting weak again in January," said a trader with a foreign bank.

BEARISH OUTLOOK



10-year govt bond yield
Intra-day (%), Dec 23



Yields end lower as MPC minutes hint at rate cut in February

Government bond yields ended lower after the minutes of the central bank's latest meeting indicated that an interest rate cut in February was possible, while US yields cooled marginally, reports *Reuters*. The 10-year benchmark bond yield ended at 6.7739% on Monday, compared with its previous close of 6.7891%.

The rate-setting panel "will act in accordance with the neutrality of stance and remain data-dependent, tracking growth-inflation dynamics," said Aditya Vyas, chief economist at STCI Primary Dealer.