

Heavy FPI flows turn ₹ into outperformer versus peers

Fares better than 11 emerging market currencies amid jump in US dollar index

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Even as a sharp global strengthening of the US dollar this week impacted several emerging market currencies, the Indian rupee has taken a considerably milder hit, ranking as an outperformer amongst peers.

Currency traders and analysts cited a substantial increase in foreign portfolio investment and interventions by the Reserve Bank of India (RBI) as key factors have contributed to the rupee's resilience.

Over the past three days of trade, the US dollar Index jumped to levels last seen in mid-July, with the gauge moving up from 107.87 at the end of the previous week to 108.69 at 3:30 pm on Wednesday. The US dollar index measures the greenback against six major rival currencies.

So far this week, the rupee has depreciated just 0.04 per cent against the US dollar, performing better than 11 emerging market currencies.

The currencies, which have fared worse than the rupee, include the Russian ruble, the South Korean won, the Thai baht, the Taiwan dollar and the Chinese yuan, with these units losing 0.7-1.5 per cent against the US currency, Bloomberg data showed.

Only three emerging market currencies — the Hong Kong dollar, the Mexican peso and the Brazilian real — have performed better against the dollar than the rupee over the period.

The rupee, which settled at 79.82 per dollar on Wednesday, has weakened 6.9 per cent against the dollar so

TRACKING VALUE

Value against US\$

	Aug 19, '22	Aug 24, '22	% Change
Brazil real	5.17	5.11	1.28
Mexican peso	20.17	19.95	1.11
Japanese yen	136.97	136.59	0.28
Hong Kong dollar	7.85	7.85	-0.02
Indian rupee	79.78	79.82	-0.04
Indonesian rupiah	14838	14848	-0.07
Malaysian ringgit	4.48	4.49	-0.17
South African rand	17	17.04	-0.21
Singapore dollar	1.39	1.4	-0.22
Turkish lira	18.1	18.15	-0.25
Philippines peso	55.95	56.09	-0.26
British pound	0.85	0.8484	-0.35
Swedish krona	10.59	10.66	-0.58
China renminbi	6.82	6.87	-0.72
Taiwan dollar	30.03	30.28	-0.82
Euro	1	1.0064	-1.0
Thai baht	35.67	36.05	-1.03
South Korean won	1325.85	1342.2	-1.22
Russian ruble	59.4	60.27	-1.45

Compiled by BS research bureau

far in 2022.

The US dollar has gained ahead of the Jackson Hole Economic Symposium on August 26 in which Federal Reserve Chair Jerome Powell will speak on the future trajectory of interest rates in the world's largest economy.

With inflation around a 40-year highs in the US, speculation is rife that Powell may signal further steep hikes in interest rates. Recent comments by other officials of the Federal Reserve

have supported the case for more US rate hikes.

The Federal Reserve has raised benchmark interest rates by 225 basis points so far in 2022. Higher US interest rates typically lead to the global strengthening of the dollar and consequently, weakness in emerging market currencies.

What has turned the tables for the rupee is a sustained increase in overseas investment in Indian stocks and bonds this month.

"The most important factor here is FPI flows. If we look at the rupee's performance against a wide basket of currencies, there has been a dramatic change between the first half of this month and the second half of this month," Anindya Banerjee, VP, Currency Derivatives & Interest Rate Derivatives at Kotak Securities Ltd told *Business Standard*.

"The key reason for that is that since August 10, the FPI inflows increased dramatically. It's almost touching \$6 billion month-to-date. So that's the most important factor. That's made the RBI interventions, wherever they are intervening, more effective," he said.

Banerjee sees the rupee in a band of 79.5-80.20 per dollar over the near term.

After nine straight months of net sales, foreign portfolio investors finally turned net buyers of Indian equities in July, with purchases of \$618 million that month.

"Indian rupee has been one of the strongest currencies this week among Asian peers following foreign fund inflows and the central bank's intervention. Better high-frequency data and monsoon progress, positive carry trades and favourable risk-reward supported outperformance this week," Dilip Parmar, research analyst, HDFC Bank said.

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