

Rupee, bonds gain on hopes of Fed slowing rate hikes

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The rupee and government bonds strengthened on Thursday as weak economic data in the US sparked speculation of the Federal Reserve slowing the pace of its rate increases, dealers said.

The domestic currency settled at 82.50 per US dollar as against 82.73 per dollar on Tuesday. Yield on the 10-year benchmark government bond closed 3 basis points lower at 7.41 per cent.

Bond prices and yields move inversely. Bond and currency markets were shut on Wednesday.

Data released late Tuesday showed that US housing prices registered a greater-than-expected decline in August while another report showed deteriorating consumer confidence in the world's largest economy.

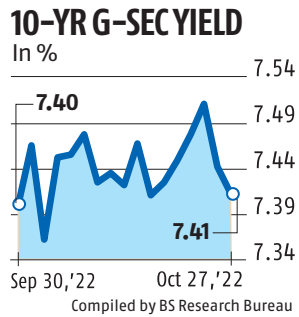
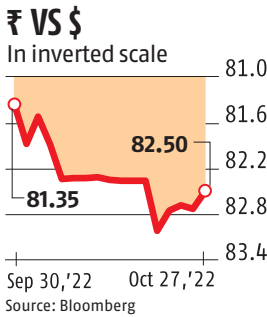
With the data sets making a case for the Fed to slow down the aggressive pace of monetary tightening it has displayed so far in 2022, yields on US bonds plunged while the dollar index weakened sharply.

At 3:30 pm IST on Thursday, the US dollar index was at 110.09 as against 112.02 at the same time on Tuesday.

So far in 2022, the Fed has raised interest rates by 300 bps in order to bring down US inflation, which has hovered around 40-year highs for many months.

The US rate hikes have led to sweeping strength in the dollar, higher US bond yields and consequently reduced the appeal of assets in emerging markets such as India.

While the Fed is still expected to hike rates by 75



bps in its next meeting in November, traders in Fed Fund Futures now expect a much lower chance of a similar rate hike in December.

So far in 2022, the rupee has weakened 10 per cent versus the US dollar. Meanwhile the RBI's foreign exchange reserves have declined more than \$100 billion since the Ukraine war broke out in late February.

"Dollar/rupee is expected to remain bid on dips till Fed indicates a change in stance. For tomorrow, rupee is expected to be in a range of 82.00 to 82.60 with exporters and importers both getting a chance to hedge their receivables and payables," Finrex Treasury Advisors, head of treasury, Anil Kumar Bhansali, said.

In the course of trade on Thursday, the rupee strengthened to a high of 82.12 per dol-

lar before giving up some gains due to a typical month-end demand for dollars from importers, especially oil companies. "As the dollar sold off, the rupee rallied significantly after Wednesday's holiday. However, after a strong opening, month-end dollar demand and weaker domestic equities weighed on the local unit," HDFC Securities research analyst Dilip Parmar said.

"In the near term, spot USD/INR is having strong support at 82 and resistance at 82.70. The pair is expected to trade in a narrow range with a bullish bias. The trend reversal will be confirmed only below 81.90," he said.

Apart from the sharp decline in US bond yields, domestic government bonds benefited from the lack of fresh supply of central government debt this week, dealers said.