

# ₹ rises 51p to 79.46 vs \$ after MSCI rejig

Bond yields fall as HDFC's ₹10,000 crore debt sale plan propels custodian flows

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The rupee notched up hefty gains versus the dollar on Tuesday as the MSCI's quarterly index rebalancing resulted in a gush of inflows into Indian markets, dealers said.

The aggressive defence of the rupee by the Reserve Bank of India in the face of dollar strength on Monday also bolstered the currency on Tuesday, as those betting against it rushed to square off those bets, dealers said.

Government bonds also strengthened sharply as some banks involved in executing HDFC Ltd's planned debt sale worth a total of Rs 10,000 crore managed their exposure by purchasing sovereign debt, dealers said.

The rupee settled at 79.46 per dollar versus the previous close of 79.97. The yield on the 10-year benchmark government bond slid six basis points to close at 7.19 per cent on Tuesday. Bond prices and yields move inversely.

"The Indian rupee is the biggest gainer in Asia today on the back of inflows related to MSCI's quarterly index rebalancing. Bond inflows with custodian banks also seen to have helped the rupee. On the equities front for the



month of August, we have seen inflows of around \$6 billion, while overseas investors have also turned net buyers in debt segment after January 2022," Kunal Sodhani, Vice President, Global Trading Centre, Shinhan Bank said.

Sodhani sees the rupee in a band of 79.10-79.90 to the greenback in coming days.

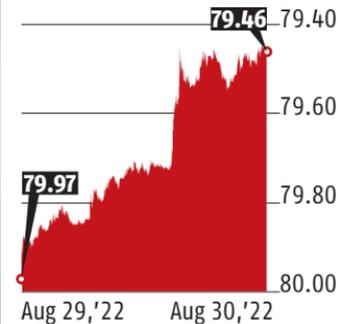
The combination of the unwavering defence put by the RBI for the rupee in the

face of a globally strengthening dollar and the large inflows that hit markets on Tuesday have resulted in the domestic currency sharply outperforming most of its emerging market currency peers over the last week.

On Monday, the rupee had weakened to a new of 80.13 to the greenback as the dollar index jumped to a 20-year high following Federal Reserve Chair Jerome Powell's reiteration of steep rate hikes.

## ON THE RISE

Rupee spot (inverted scale)



However, with the domestic central bank stepping into sell dollars from its huge arsenal of reserves – the RBI was estimated to have sold more than \$1 billion in the spot market on Monday – the rupee recouped most losses.

"The 80 per dollar level is a key psychological level – not only were shorts (positions against the rupee) built in at that point but fresh shorts were taken when that level was breached on Monday," a currency dealer with a state-owned bank said.

"But, RBI has made it very clear that it will not tolerate wild moves, it sold dollars heavily at 80.05 levels. Keeping that in mind, traders are wary of betting very strongly against the rupee at that level," he said.

According to dealers, HDFC's proposed bond sale of Rs 10,000 crore, which includes a green shoe option of Rs 5,000 crore, also led to a fall in overnight indexed swap rates.

In coming days, HDFC plans to issue 10-year bonds worth a total of Rs 10,000 crore at a cutoff rate of around 7.80 per cent, sources said. There are two large private banks involved in the execution of the HDFC deal. As part of that transaction they would be looking to enter TRS (total return swap) deals. That was one of the reasons they bought bonds today," a senior dealer with a foreign bank said.