Rupee at 11-month high, RBI intervention seen

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The victory of the Bharatiya Janata Party-led National Democratic Alliance (NDA) resulted in the rupee ending the day at an 11-month high, due to dollar flows into domestic markets.

Though state-run banks were buying dollars on behalf of the Reserve Bank of India (RBI), dollar sales by exporters and custodian banks helped the rupee. The earlier such high was on June 19 last year, when the rupee ended at 58.72.

The rupee ended at 58.78, compared with the previous close of 59.29 a dollar. It had opened at 58.96 and during intra-day trade, touched a high of 58.62. Experts had earlier said the rupee might not strengthen above 58.50, due to intervention by RBI to safeguard exporters' interest.

"A lot of custodian flows were coming in. RBI sees this as an opportunity to build reserves. If RBI was not present in the market, the rupee would have appreciated more," said Mohan Shenoi, president, group treasury and global markets, Kotak Mahindra Bank.

Since the start of 2014, the rupee has appreciated by nearly five per cent. Shenoi thinks the rupee might trade next week in the range of 58.75 to 59.25 a dollar.

RBI has often said it is not targeting any level for the rupee. However, Brijen Puri, executive director and head of markets, JPMorgan says, "It might not be very comfortable with a level materially lower than 58-58.50 to a dollar. It is also a good opportunity for them to add reserves, as that also bolsters confidence in case of any risk-off moves. The market (then) perceives RBI has an augmented war chest".

The latest data shows RBI's foreign exchange reserves rose $1.97 billion for the week ending May 9, to $313.83 bn, a level not seen since November 2011. The central bank has been intervening in the forex market in the past few months, which checked the rupee's appreciation against the dollar. According to RBI data, it purchased $8.75 bn in March. Market participants said in the wake of foreign fund inflows in the past few days, after exit polls predicted a victory for the NDA, intervention was in the range of $15 bn daily.

"Given the political strength and dilution in external headwinds, the medium and long-term outlook for the rupee is bullish. The concerns, however, in the near term are on possible removal of the import curbs on gold and the need to retain rupee stability at 59-60 (to a dollar) to support exports till current account deficit-related woes are out of the way," said Moses Harding, group chief executive officer (liability and treasury management), Srei Infrastructure Finance.

Government bond yields rose due to profit booking by traders. Besides, bond auctions by RBI worth Rs 20,000 crore dampened the sentiment. Earlier during the day the yield on the 10-year bond touched 8.68 per cent, its lowest since February 6. However, the gains were short-lived. The yield on the 10-year bond ended at 8.83 per cent, compared with the previous close of 8.78 per cent. "The bond market will be looking forward to the Budget. It will be difficult for the 10-year benchmark yield to break 8.65-8.70 per cent," said Puri.

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