

India Rupee Slumps to Record After RBI Steps; Bonds, Stocks Fall
2013-08-16 11:55:03.77 GMT

By Jeanette Rodrigues

Aug. 16 (Bloomberg) -- India's rupee sank to a record on concern recent steps to steady the currency will prompt foreigners to rethink investment plans amid speculation the U.S. will pare stimulus next month. Bonds and stocks plunged. The Reserve Bank of India on Aug. 14 announced measures to limit foreign-currency outflows from local companies and residents, and boosted efforts to lure investment. U.S. housing starts and consumer confidence data today may stoke speculation the Federal Reserve will trim its bond purchases next month, after jobless claims in the world's largest economy fell to a six-year low.

Economic Affairs Secretary Arvind Mayaram today said there is no intent to defend the rupee at a particular level. The government doesn't plan to curb commercial outflows or impose capital controls, he said. The rupee touched an unprecedented 62.0050 per dollar today before closing 0.3 percent weaker from Aug. 14 at 61.6550 in Mumbai, according to prices from local banks compiled by Bloomberg.

The RBI steps "might be perceived as being regressive and tantamount to quasi-capital controls," Radhika Rao, an economist at DBS Bank Ltd. in Singapore, wrote in a research report. "Despite being put forth as a temporary measure, uncertainty over more such action is likely to remain and possibly lead foreign investors to rethink plans to invest on fear of controls."

The currency fell 1.3 percent this week. India's financial markets were shut yesterday for the Independence Day holiday. One-month implied volatility, a measure of expected moves in the exchange rate used to price options, rose 20 basis points from Aug. 9, or 0.20 percentage point, and 23 basis points today to 12.71 percent, data compiled by Bloomberg show.

Limiting Outflows

The RBI cut the amount local companies can invest overseas without seeking approval to 100 percent of their net worth, from 400 percent, according to a statement on Aug. 14. Residents can remit \$75,000 a year versus the previous limit of \$200,000. The authority said banks accepting deposits after Aug. 24 from Indians living abroad need no longer keep 4 percent of the funds in cash and invest 23 percent in government-approved securities. India also boosted import duties on bullion on Aug. 13 and banned inward shipments of gold in the form of coins and

medallions to reduce the trade deficit. In a briefing in New Delhi on Aug. 14, Mayaram said imported gold must be stored in government-mandated warehouses.

Quasi-Sovereign

The government will seek to boost capital inflows with measures including allowing state-owned financial companies to issue “quasi-sovereign” bonds to finance long-term infrastructure investment, Finance Minister Palaniappan Chidambaram said Aug. 12.

The currency has weakened 26.5 percent in the past two years, the biggest tumble since the government pledged gold reserves in exchange for loans from the International Monetary Fund in 1991.

India’s benchmark stock index dropped the most in about two years on concern the measures will curb growth in an economy that is expanding at the slowest pace in a decade. The S&P BSE Sensex Index dropped 4 percent to 18,598.18 at the close in Mumbai, the steepest retreat among global equity indexes tracked by Bloomberg.

Cutting Holdings

State Bank of India fell 3.3 percent to the lowest level in four years, Bharat Heavy Electricals Ltd., India’s biggest power-equipment maker, plunged to the lowest level in eight years.

Global funds have cut holdings of Indian debt by \$10.1 billion since May 22 when Fed Chairman Ben S. Bernanke first signaled the U.S. may reduce bond purchases this year. Primary dealers had to buy 14.44 billion rupees of the 160 billion rupees of debt offered to local investors today, the fourth failure among five weekly auctions since July 19, RBI data show. The yield on the 7.16 percent government bonds due May 2023 rose 39 basis points today and 76 basis points this week to 8.88 percent, according to prices from the central bank’s trading system. That’s the highest rate on a 10-year bond since November 2011.

Wholesale prices rose 5.79 percent last month from a year earlier, compared with 4.86 percent in June, official data showed Aug. 14. A weaker currency stokes inflation as India imports about 80 percent of its oil.

Three-month onshore rupee forwards fell 0.7 percent today to 63.39 per dollar, data compiled by Bloomberg show. Offshore non-deliverable contracts declined 1.1 percent to 63.41. Forwards are agreements to buy or sell assets at a set price and date. Non-deliverable contracts are settled in dollars.

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--With assistance from Divya Patil in Mumbai. Editors: Amit Prakash, Andrew Janes

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