

India's Rupee Advances as RBI Steps Seen Boosting Dollar Supply 2013-09-06 12:00:22.700 GMT

By Jeanette Rodrigues

Sept. 6 (Bloomberg) -- India's rupee climbed to the strongest level in more than a week on optimism steps taken by the central bank to boost the supply of dollars will alleviate depreciation pressure on the currency.

In his first briefing since taking office as Reserve Bank of India governor on Sept. 4, Raghuram Rajan announced a plan to provide concessional swaps for banks' foreign-currency deposits, a move that will boost the central bank's reserves by \$10 billion, according to Bank of America Merrill Lynch. Indian exporters are also probably converting overseas earnings, according to FirstRand Ltd.

"The swap news was a positive for the rupee," said Paresh Nayar, head of currency and money markets at FirstRand in Mumbai. "There was demand for the dollar this morning, but it seems to have eased now."

The rupee advanced 1.3 percent to 65.2500 per dollar in Mumbai, according to prices from local banks compiled by Bloomberg. The currency, which touched an all-time low of 68.8450 on Aug. 28, rose earlier to 65.0100, the highest level since Aug. 27. It gained 0.7 percent since Aug. 30, snapping a three-week loss. Indian markets are shut on Sept. 9 for a local holiday.

Technical charts indicate the rupee may advance toward 63 per dollar if it closes stronger than 65.70, analysts at Edelweiss Financial Advisers Ltd., including Mumbai-based Sahil Kapoor, wrote in a research report today.

Stimulus Concern

Investors have factored in, "to an extent," a potential paring of U.S. stimulus as the world's largest economy recovers, Nayar said. Non-farm payrolls increased by 180,000 in August, a Bloomberg survey of economists shows before data due today, while the unemployment rate probably held at 7.4 percent, the lowest since December 2008. The Federal Reserve meets Sept. 17-18 to assess its bond-buying program that's spurred demand for emerging-market assets.

Global funds cut holdings of Indian debt by \$9 billion since the start of June, exchange data show. The nation's current-account deficit rose to a record 4.8 percent of gross domestic product in the year ended March 31 and external debt climbed to 22.2 percent of GDP, the highest since 2001.

"The recent phases of sharp and sustained currency

depreciation are a reflection of the combination of structural domestic problems and global policy expectations,” economists at Kotak Mahindra Bank in Mumbai, including Suvodeep Rakshit, wrote in a research report yesterday.

Volatility Surges

One-month implied volatility in the rupee, a measure of expected moves in the exchange rate used to price options, rose 93 basis points, or 0.93 percentage point, this week to 21.66 percent and dropped 38 basis points today.

“While the new RBI governor was given a warm welcome by the rupee, it would be prudent to remember that we are still not out of the woods,” the Kotak Mahindra economists wrote.

“Structural changes, ultimately, are the way forward to stabilize long-term currency dynamics.”

Three-month onshore rupee forwards rose 1.4 percent to 66.79 per dollar, data compiled by Bloomberg show. Offshore non-deliverable contracts climbed 1.3 percent to 67.35. 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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