

# Rupee & FII Movement - Weekly

Dec 26 – Dec 30, 2011



## The year ends on a disappointing note for the rupee

The rupee ended the year on a disappointing note, making losses in the last week of the year on account of weak macroeconomic fundamentals and strong dollar demand.

The week saw the rupee fall for a majority of the trading sessions. Volumes were weak as the holiday season kept traders on the sidelines the world over and as investors remained cautious ahead of account books closure.

Dollar demand was strong throughout the week as importers, especially oil refiners, picked up dollar purchases in order to make month-end payments. Oil is India's biggest import item and consequently, local oil refiners are the largest buyers of dollars in the domestic foreign exchange market.

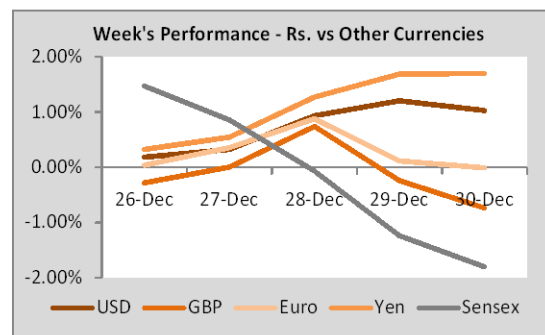
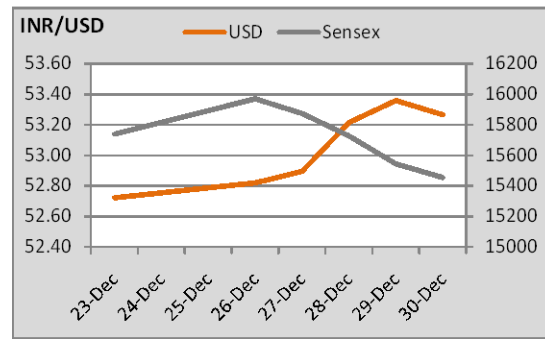
The negative sentiments in the markets dragged the local equities lower, and investors turned wary about building positions before the quarter ends, adding further pressure on the rupee. Additionally, a poor response from the recent Italian bond auction, led the euro to take a beating against the dollar. It broke below the crucial 1.30 levels and began moving towards 1.25 levels, adding to the dollar's strength in the overseas markets. The euro also hit a 10-year low against the yen, further aiding the rupees fall.

It is suspected that the RBI intervened in the markets in order to arrest the local currency's downfall and will continue to do so. The markets believe that the central bank sold dollars on Wednesday and Thursday to shore-up the rupee but global risk aversion overshadowed the RBI's actions. The rupee closed weaker despite a policy implemented by the central bank to increase dollar-swap facilities with Japan from \$3bn to \$15bn. Moreover, inflation continues to be major concern for the Indian economy, as it is expected to maintain above the 7.5% level over the next few quarters. Delays in implementing policy reforms have also discouraged foreign investors to park their money in local equities.

Overall, the rupee closed the week lower by 1.03% versus the dollar at 53.2660. After a strong close in 2010, the local currency has been the worst performer amongst

RBI Reference Rates

Date	USD	GBP	EURO	YEN
23-Dec-11	52.7220	82.7050	68.9048	67.5300
26-Dec-11	52.8205	82.4739	68.9345	67.7500
27-Dec-11	52.8945	82.7111	69.1508	67.9000
28-Dec-11	53.2145	83.3179	69.5113	68.3900
29-Dec-11	53.3585	82.5082	68.9881	68.6700
30-Dec-11	53.2660	82.0989	68.9005	68.6800
Change (%)	1.03	(0.73)	(0.01)	1.70



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Asian currencies with a total loss of ~19% in 2011. Meanwhile, the Sensex has also been one of the world's worst performing major equity market with a total loss of 24.6% for the year. The 30-share index closed weaker by 1.80% for the last week of the year at 15454.92. Going forward, the rupee is expected to target 54 levels in the medium term.

## FII Investments

The year 2011 has been a disappointment in terms of portfolio inflows from foreign investors. While last week saw a total inflow, the flow remained subdued at Rs. 342cr (\$66mn). The inflow for December totaled only Rs. 98cr (\$31mn). On an annual basis, 2011 saw a net outflow of Rs. 2,714cr (\$358mn) against a whopping inflow of Rs. 133,266cr (\$29bn) in 2010.

FII Cash Investment in Equity (Rs. Cr.)

Date	Gross Purchase	Gross Sale	Net Flow	(in \$mn)	Sensex
26-Dec-11	1261.8	989.7	272.1	51.6	15970.75
27-Dec-11	540.0	386.3	153.7	29.1	15,874.0
28-Dec-11	1,046.6	682.9	363.7	68.8	15,727.9
29-Dec-11	1,238.1	1,068.4	169.7	31.9	15,543.9
30-Dec-11	1,497.9	2,114.8	(616.9)	(115.6)	15454.92
Weeks Total	5,584.4	5,242.1	342.3	65.7	
Dec Total	44,075.8	43,977.8	98.0	31.5	
Nov Total	39,612.4	43,810.3	(4,197.9)	(787.1)	
Oct Total	46,906.2	45,229.2	1,677.0	346.5	
2011 Total	611,055.3	613,769.5	(2,714.2)	(357.8)	
2010 Total	766,281.4	633,015.3	133,266.1	29,362	
2009 Total	624,237.8	540,813.7	83,424.1	17,458	

