Rupee & FII Movement - Weekly

Nov 28 – Dec 2, 2011

Sensex logged best week since July 2009; Rupee ends higher

The rupee made a much required bounce back last week tracking solid gains from Indian equity markets which logged in its best week since July 2009 on prospects of revival in foreign fund inflows and expectations of a pickup in the domestic economic growth.

The week started on an optimistic note on hopes of fresh action on the eurozone crisis which would likely give the domestic stock markets some respite. Global equities rallied following news of the possibility of the IMF providing help to Italy financially, which triggered short covering across the board. The Turin daily called the La Stampa stated that the IMF could provide financial assistance to the tune of 400-600bn euros to Italy to bolster the economy. However, it was later learnt that the report was untrue causing equities to pull back. Also, Moody's Investor Services warned that the rapid escalation of the European crisis could threaten the credit standing of all European government bond ratings. The result was a beaten down euro which was followed by the rupee which mirrored the 17-nation unit's fall.

Persistent dollar demand for defence related payments and by importers caused the rupee to pull back but relief came in the form of a successful Italian bond sale to the markets even though Italy was forced to pay record high auction yields.

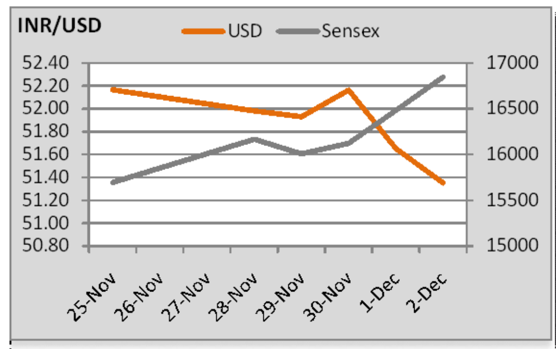
Mid-week the local currency made its biggest fall in 16 years by touching a record low as risk aversion pounded stocks on account of a widening current account deficit and slowing growth. The Indian economy grew at its weakest pace in more than two years at 6.9% in the September quarter.

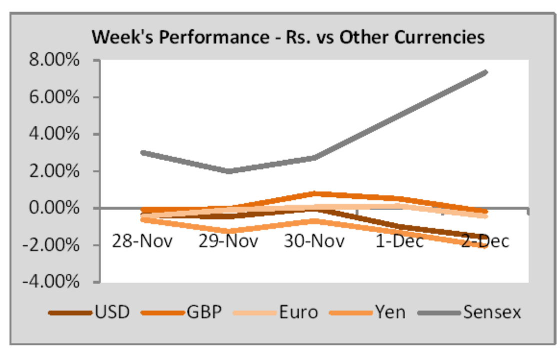
The local currency, however, made a major recovery following news that the world's major central banks came up with a new strategy of coordinated liquidity action to keep Europe's debt crisis at bay. Five major banks said that they would lower the cost of existing dollar swap lines by 50bps from December 5, and arrange bilateral swaps to provide liquidity for other currencies. The news was followed by a rally in equities across the globe which was further helped by reports that China cuts its reserve requirements by 50bps.

Adding to the elation in domestic markets was the RBI's decision to auction off limits to foreign institutional investors to buy up to $5bn in government bonds and corporate debt, a move which invited bids worth $14bn. Overseas, the European Central Bank hinted that it was ready to take stronger action to fight Europe's debt crisis if political leaders agree on much tighter budget controls in the Euro zone.

RBI Reference Rates

Date	USD	GBP	EURO	YEN
25-Nov-11	52.1665	80.6442	69.4263	67.3900
28-Nov-11	51.9830	80.5892	69.1243	66.9800
29-Nov-11	51.9308	80.6226	69.3658	66.5500
30-Nov-11	52.1650	81.2887	69.4735	66.9300
1-Dec-11	51.6520	81.0575	69.5086	66.5000
2-Dec-11	51.3523	80.5050	69.1380	66.0200
Change (%)	(1.56)	(0.17)	(0.42)	(2.03)





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Unwinding of long dollar positions by traders in anticipation of a pickup in foreign inflows towards debt, headway made in the European crisis and due to a sharp rally in local equities buoyed the rupee higher.

The local unit closed at 51.3523 for the week, higher by 1.56% against the dollar. However, so far this year the rupee is still down by 15%. Local equities fared well during the week, with the Sensex making gains of 7.34%, the best weekly performance since July 2009. The 30-share index closed the week higher by over a thousand points at 16,846.83 after closing at 15,695 the previous week.

Despite the strong performance by the rupee this week, the outlook for the local currency does not appear to be very strong. Flows from Europe have completely dried up, providing a serious blow to the country which depends heavily on the region for trade credit and rollovers. The rupee is expected to face correction in the near term with expectation of reaching 58 levels in the next few months. The unmanageable deficit, high inflationary levels, rising interest rate costs and delay in policy reforms will facilitate further depreciation. Adding to fears, external debt worth 43.5% of total forex reserves is due for repayment in the 12 months to June '12. It was 28.5% in June '08. Indian authorities will be gathering this week to discuss the imposition of restrictions on overseas investments by local companies and curbing pre-payments of foreign loans to conserve dollars if the recent trend of rupee weakening continues. This move might serve to provide some relief to the heavily beaten rupee.

FII Investments

Foreign investors continue to be net sellers during the week. However some trend reversal towards the end of the week provided some respite. Despite this, FIIs sold Rs. 114cr ($20mn) worth of shares in the Indian cash market, taking November's tally to a net sale of Rs. 4,198cr ($787mn). The total outflows for the year to date has added up to Rs. 1,768cr ($187mn) versus an inflow of Rs. 133,266cr ($29bn) in 2010. A revival in foreign fund inflows next year would be key for the market's growth. Finance minister Pranab Mukherjee said foreign direct investments had risen this year, but there were concerns about outflow of portfolio investments.

FII Cash Investment in Equity (Rs. Cr.)

Date	Gross Purchase	Gross Sale	Net Flow	(in $mn)	Sensex
28-Nov-11	1393.4	2,149.3	(755.9)	(144.9)	16,167.1
29-Nov-11	1,729.0	1,949.7	(220.7)	(42.5)	16,008.3
30-Nov-11	1,930.3	2,112.0	(181.7)	(35.0)	16,123.5
1-Dec-11	6,189.0	6,049.2	139.8	26.8	16,483.5
2-Dec-11	2,435.7	1,531.0	904.7	175.2	16846.83
Weeks Total	13,677.4	13,791.2	(113.8)	(20.4)	
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	
Sept Total	47,722.0	47,880.5	(158.5)	7.0	
2011 Total	575,604.3	577,372.1	(1,767.8)	(187.3)	
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