

Rupee & FII Movement - Weekly

Jan 2– Jan 6, 2012



The year starts on a positive note for the rupee

After ending the year on a negative note, the rupee bounced back in the first week of the new year due to a strong performance by local equities and the RBIs resolve to support growth of the economy.

The first day of the year saw some muted trade, as markets world over were shut for the new year holidays. Volumes were weak as traders awaited normal trading to resume in order to initiate fresh positions. The government started the year with a decision to allow foreign investors to directly invest in local equities. The news, however, was overshadowed by prolonged dollar demand from oil importers and foreign fund withdrawal due to ongoing concerns of a worsening fiscal deficit.

However, the local currency soon took a u-turn and started climbing higher after being helped by a sudden upswing in domestic stock markets and increasing risk appetite among investors. The Sensex, on Tuesday, jumped a whopping 421 points on speculation that the RBI would cut rates in its next monetary policy review meet. A sharp rise in manufacturing activity also boosted sentiments along with a surprise fall in German unemployment which carried global stocks higher as well.

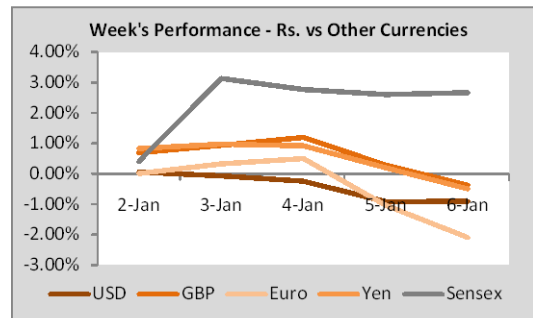
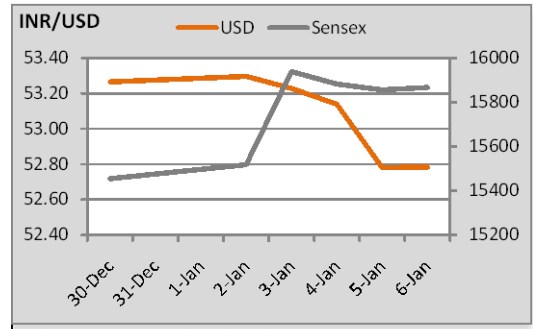
The rupee maintained its uptick for most of the week, on dollar sales by foreign banks and improved global risk sentiment which strengthened capital inflows. The RBI's move to curb speculative foreign exchange trade and allow banks to set interest rates on non-resident Indian savings and fixed deposits added to the positive sentiment. Additionally, foreign investors invested in Indian debt, as FIIs' limits for investing in government bonds will expire in mid-January. The sudden demand for the local currency boosted the Indian rupee and enabled it close higher.

During the week, the rupee gained 0.91% against the dollar to close at 52.7838. The local currency ended 2011 with a total loss of 19% and proved to be one of the worst performing Asian currencies. Due to Tuesday's sharp rise, the Sensex gained 2.67% or 413 points during the week, ending at 15,867.73. The 30-share index lost nearly 25% of its value last year.

The rupee has touched over 53.4 several times only to be brought back to reasonable

RBI Reference Rates

Date	USD	GBP	EURO	YEN
30-Dec-11	53.2660	82.0989	68.9005	68.6800
2-Jan-12	53.2975	82.6644	68.9095	69.2500
3-Jan-12	53.2288	82.8666	69.1265	69.3500
4-Jan-12	53.1400	83.0844	69.2485	69.3100
5-Jan-12	52.7810	82.3331	68.1905	68.8200
6-Jan-12	52.7838	81.7885	67.4618	68.3400
Change (%)	(0.91)	(0.38)	(2.09)	(0.50)



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levels by the intervention of the RBI. Going forward, the key events that will affect market sentiments and consequently, the rupee, are the release of December quarter results, starting with Infosys, as well as the RBI's monetary policy meet on 24 January. The RBI is widely expected to put an end to its monetary tightening, but the debate over status quo or a rate cut continues. Most economists are of the opinion that it would be too early for the central bank to begin cutting rates and it is more likely to do so in March. However, the pressure on the rupee is probably going to persist as balance of payment risks are unlikely to recede until global and local fundamentals improve.

FII Investments

The year 2012 has started with positive flows into the Indian equities market, unlike the last week of 2011. The first week of the year saw total inflows of Rs. 1006cr (\$190mn) giving the year a much needed boost. Positive global cues and lower food inflation numbers helped enhance investor confidence in the market. 2011 saw outflows totaling 2,714cr (\$358mn) as against a total inflow of \$29bn in 2010.

FII Cash Investment in Equity (Rs. Cr.)

Date	Gross Purchase	Gross Sale	Net Flow	(in \$mn)	Sensex
2-Jan-12	979.0	1,065.7	(86.7)	(16.3)	15517.92
3-Jan-12	472.3	511.4	(39.1)	(7.3)	15,939.4
4-Jan-12	1,356.5	1,030.9	325.6	61.2	15882.64
5-Jan-12	1,840.3	1,583.1	257.2	48.4	15,857.1
6-Jan-12	2,248.4	1,699.2	549.2	104.1	15867.73
Weeks Total	6,896.5	5,890.3	1,006.2	190.0	
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	

