

Rupee & FII Movement - Weekly

Dec 5 – Dec 9, 2011



Disappointing European summit drags the rupee lower

The rupee continued its downward trend last week, closing lower against the dollar, as slowing growth, political deadlock, stagnant foreign inflows, the European debt crisis and a widening fiscal deficit remain key concerns for the domestic economy.

The rupee opened the week lower as heavy demand for the US dollar from importers persisted, and as markets slipped lower on cautiousness ahead of the important European summit prevailed. However, heavy inflows on the first day of the week restricted any sharp fall in the value of the local currency. Additionally, the RBI vowed that it would check the rupees slide, but this did little to help the glum mood of the markets. Providing some support to the market was news that Italy had unveiled austerity measures and hopes that European leaders would come up with a concrete solution to the regions debt crisis in the much awaited European summit which took place later in the week.

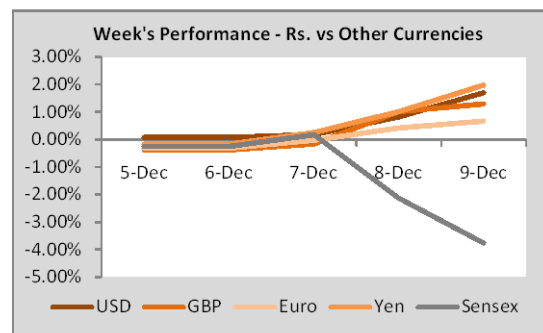
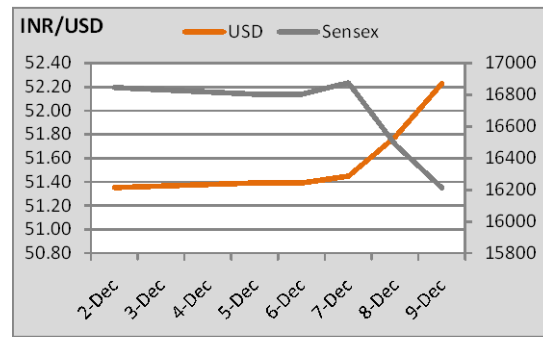
However, hopes were soon dashed after S&P warned that 15 euro nations may have their credit ratings lowered on account of the ongoing disagreement among European policy makers on how to tackle the debt crisis. Investors hoped that at least the threat of a mass downgrade would pressurize leaders of the region to put the search for a solution into fifth gear. However, the end of the week saw the European summit to be less than satisfactory as leaders left much of the onus on central banks to address investor concerns that Italy and Spain can keep paying their bills. The European leaders, however, did reach a deal on a tighter euro zone budget.

On the bright side, the European Central Bank cut interest rates, as per expectations, by 25bps to a record low of 1% in order to counter the twin threats of recession and deflation in the eurozone. Additionally, the regions central bank announced that it would unveil fresh measures to help banks hurt by the bloc's debt crisis. The euro also rebounded on news from the East that China's central bank was creating a \$300bn investment fund that could provide much needed funding to the heavily indebted euro zone countries. On the domestic front, the RBI bought bonds worth Rs. 9,092.9 crores under its open market operations (OMO) in order to ease the liquidity crunch. The news allowed the rupee to find some support despite the negative impact of a disappointing European summit.

Weakness in local stocks and sustained dollar demand from importers dragged the rupee lower by 1.71% against the dollar to close at 52.2285. Local financial markets were shut Tuesday for a public holiday. The Sensex didn't fare too well either, losing 3.76% or a total of 633 points during the week to end at 16,213.46. The thirty share

RBI Reference Rates

Date	USD	GBP	EURO	YEN
2-Dec-11	51.3523	80.5050	69.1380	66.0200
5-Dec-11	51.3925	80.2031	68.9227	65.9100
6-Dec-11	51.3925	80.2031	68.9227	65.9100
7-Dec-11	51.4490	80.3788	69.1235	66.1900
8-Dec-11	51.7780	81.3225	69.4246	66.6900
9-Dec-11	52.2285	81.5496	69.6008	67.3300
Change (%)	1.71	1.30	0.67	1.98



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index has been one of the worst performing indices in Asia, trailing last year's close by 21%.

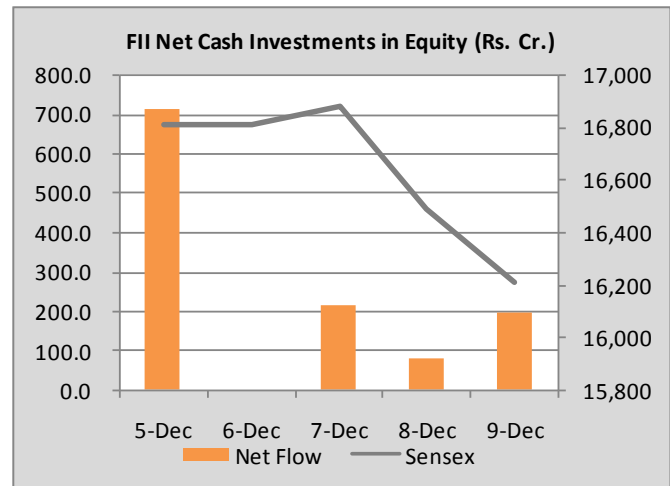
Going forward, the outlook for the rupee doesn't seem too bright. The local currency is expected to trade in the range of 50.30-53.6 per dollar. The rising cost of crude oil is expected to further deteriorate the current account deficit, which will trigger a sell off from local equities, pushing the rupee lower. The current week is expected to host several important events and data point releases. The RBI will hold its policy meet on Friday wherein it is widely expected that it will put a stop to its interest rate tightening regime, especially after today's news that October's IIP numbers shrank by over 5%. Some economists are of the opinion that the central bank will cut the cash reserve ratio to ease money supply pressures. Additionally, inflation data will be released on Wednesday and Advance Tax figures will also begin rolling in this week, all of which will have significant impact on the local markets.

FII Investments

Despite the pessimistic mood of the markets, foreign investors proved to be net buyers of Indian equities in the cash market. FIIs aggressively bought on the first day of the week only to resist thereafter letting inflows taper off. A local market holiday further helped in the subdued flow of funds. FIIs purchased Rs. 1,199cr (\$233mn) worth of shares in the Indian cash market, taking December's tally to a net purchase of Rs. 2,243cr (\$435mn) versus a net outflow of Rs. 4,198cr (\$787mn) in November. The total outflows for the year to date has added up to Rs. 569cr (\$46mn) versus an 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
5-Dec-11	2573.9	1,861.9	712.0	138.7	16805.33
6-Dec-11	0.0	0.0	0.0	0.0	16,805.3
7-Dec-11	1,512.9	1,301.0	211.9	41.2	16,877.1
8-Dec-11	2,841.9	2,762.5	79.4	15.4	16,488.2
9-Dec-11	2,209.6	2,014.0	195.6	37.8	16213.46
Weeks Total	9,138.3	7,939.4	1,198.9	233.1	
Dec Total	17,763.0	15,519.6	2,243.4	435.1	
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	584,742.7	585,311.4	(568.7)	(45.8)	
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	



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