

Rupee & FII Movement - Weekly

Dec 12 – Dec 16, 2011



Weak domestic data points batter the Indian rupee

Last week the rupee prolonged its downward trend, touching record lows on almost a daily basis. But after a long time, the weakness in the rupee was more a result of domestic inefficiencies and weak economic data than the consequence of negative news flow from the rest of the world, especially from the euro region.

While the rupee did track the euro downward to some extent, due to threats of eurozone downgrades which dampened investor sentiments globally, the fall was caused more due to a slew of data points that were released, which did not meet expectations and disappointed local and foreign investors alike.

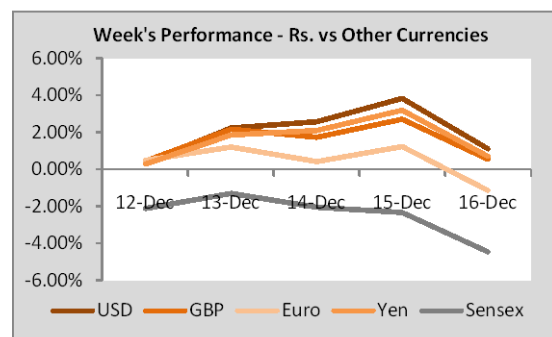
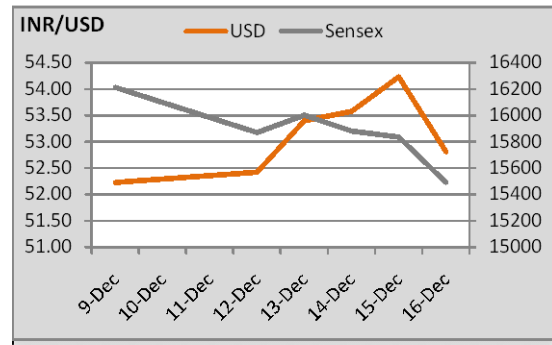
The week started with the less than pleasant surprise which came in the form of October's IIP data. The index of industrial production (IIP) contracted by more than 5%, versus expectations of a 0.5% growth, which was made worse by a higher than expected trade deficit. Additionally, the government admitted that there had been an error whilst calculating export figures. Double counting inflated export numbers by \$9bn, which, after rectification, further widened the trade gap. Thereafter, India sharply cut its economic growth forecast for the fiscal to 7.25-7.75% from an original estimate of 9%.

The local currency continued to hit new lows to the shock of corporates and importers, while the RBI maintained its policy of not targeting a level for the rupee. Worries over the European debt crisis added fuel to the fire, leading foreign investors to flee from the local equity markets. The local currency also hit a historic low of over 54.2 during the week, following news that the US Fed had decided to hold back any new stimulus steps and that India's November inflation continued to be above the 9% mark. November's inflation despite easing from a month earlier came above the street's expectation, at 9.11% against 9.73% in October. The disappointing inflation data dragged the stock markets lower as investors gave up hopes for a rate cut in the RBI monetary policy meet.

After the rupee touched above-54 levels, the RBI finally made a move to intervene in the markets by unleashing a slew of measures to end speculation on the rupee, without using up any of its forex reserves. In order to arrest a slide in the local currency, the central bank joined the likes of Switzerland and Japan by introducing measures to protect the economy from currency volatility. In a move, the likes of which was last seen in 1997, the RBI reduced speculative element from markets by reducing the notional amount on which corporates could hedge currency risks. The eligibility of a corporate to cover currency risk was reduced to 25% for average of

RBI Reference Rates

Date	USD	GBP	EURO	YEN
9-Dec-11	52.2285	81.5496	69.6008	67.3300
12-Dec-11	52.4238	81.9227	69.9405	67.5200
13-Dec-11	53.4030	83.3247	70.4435	68.5800
14-Dec-11	53.5770	82.9747	69.8925	68.7500
15-Dec-11	54.2355	83.7667	70.4602	69.4900
16-Dec-11	52.8140	82.0043	68.8091	67.8000
Change (%)	1.12	0.56	(1.14)	0.70



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import/export turnover in the past three years. Also, corporates will not be allowed to rebook a contract, falling due within one year, after canceling it. Banks will also not be able to front-run imports' demand for dollars as the RBI has reduced the net overnight open positions limits (NOOPL) across the board, while intra-day open positions will not exceed NOOPL. Net open position is the outstanding positions taken by dealers, which have not been squared off. The rules were implemented with the intention of removing the speculative froth in the markets and restricting currency trade to a demand and supply basis only.

While the RBI's attempt to reduce volatility in the currency market helped the rupee surge by over 2% in the last trading session of the week, the rise was restricted by RBI's monetary policy announcement which left hopeful investors disappointed. The RBI in its mid-quarterly review, left the CRR unchanged at 6%. Investors expected the RBI to infuse liquidity by slashing this rate by at least 25bps. Moreover, the current repo and reverse repo rates of 8.50% and 7.50% respectively were also retained by the central bank.

The week culminated in severe losses for the Indian markets. The rupee closed lower by 1.12% against the dollar at 52.8140, despite a sharp rally in the latter half of the week. The local currency has continues to be Asia's worst performer with a loss of ~18% in the year-to-date. The Sensex lost a total of 4.45% or 722 points during the week to end at 15,491, taking total loss for the year to 24.5%.

FII Investments

Overseas fund flows are rapidly drying up as foreign investors sell off from Indian equities on account of weak fundamentals. A visible slowdown in the economy along with policy paralysis has resulted in FIIs drawing out their funds with last week seeing a pull out of Rs. 1,383cr (\$261mn). Year-to-date net outflows add up to Rs. 1,952cr (\$215mn) with very little help from December's inflow of Rs. 860cr (\$174mn).

FII Cash Investment in Equity (Rs. Cr.)

Date	Gross Purchase	Gross Sale	Net Flow	(in \$mn)	Sensex
12-Dec-11	1769.5	2,061.7	(292.2)	(55.9)	15870.35
13-Dec-11	1,518.3	1,837.4	(319.1)	(60.9)	16,002.5
14-Dec-11	1,598.2	2,087.7	(489.5)	(91.7)	15,881.1
15-Dec-11	2,302.5	2,358.3	(55.8)	(10.4)	15,836.5
16-Dec-11	3,000.6	3,227.2	(226.6)	(41.8)	15491.35
Weeks Total	10,189.1	11,572.3	(1,383.2)	(260.6)	
Dec Total	27,952.1	27,091.9	860.2	174.4	
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	
2011 Total	594,931.8	596,883.6	(1,951.8)	(214.9)	
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	

