

# Rupee & FII Movement - Weekly

Jan 16– Jan 20, 2012



## Positive economic data and increased bullion import duties boost rupee

It was another spectacular week for the rupee as the local unit once again, for the second consecutive week, clocked in over 2% gains against the dollar. The rupee's sharp uptick was a result of encouraging data points for the economy as well as a sharp uptick in dollar inflows.

The week saw a bout of positive data from the domestic markets. Earlier in the week, news came out that headline inflation for the month of December came in at 7.47% due to lower food prices, as compared to 9.11% in November. Inflation numbers have been well above the RBI's 9% comfort level for a year. The news was cheered on by market-men, encouraged that the central bank will now shift its focus to economic growth instead of inflation. Additionally, India's exports rose for the first time in five months, giving the government hope that it will achieve its \$300bn target for the year. News that Standard and Poor's had downgraded nine European nations, including France, did little to dampen spirits in the domestic markets.

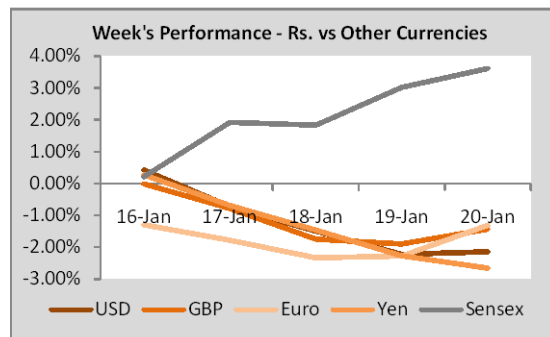
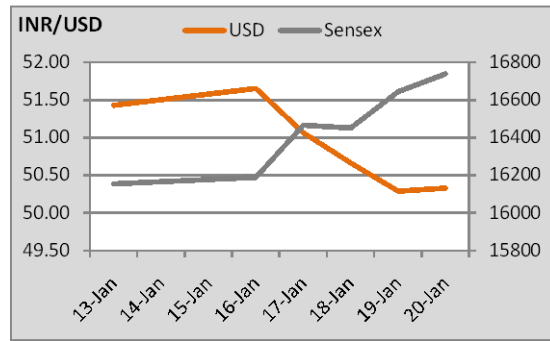
The overall risk-on sentiment, together with an announcement of increase in gold and silver import duties, also assisted in the rupee's rise. Gold accounts for a large part of the trade deficit. With higher import duties, comes a fall in demand for bullions and consequently less purchase of dollars. The world's largest consumer of bullions, India, during the week, changed the import duty on gold to 2% of value from the earlier flat Rs 300 per 10 grams and that of silver to 6% of value from Rs 1,500 per kilogram. The changes will nearly double the duties on both metals, which will hurt demand on import side in India.

Risk sentiment in the region was also boosted following news that China's economy grew at a pace of 8.9% in the fourth quarter, higher than expected. Strong dollar inflows into the local markets ensued as global funds looked to seek higher returns in emerging markets. Foreign investors were buying into debt in a big way and equity in a small way and large ticket NRE (non-resident external) funds are pouring in giving strength to the rupee. Meanwhile government's measures to raise the ceiling on foreign investment in debt and higher interest rates on deposits by non-resident Indians also helped the local unit.

Finally, risk appetite improved as the International Monetary Fund announced that it would step up its role in tackling the euro zone debt crisis. This, along with the successful auction of French and Spanish bonds, gave the euro a much needed boost, and the rupee followed suit.

### RBI Reference Rates

Date	USD	GBP	EURO	YEN
13-Jan-12	51.4310	79.1009	66.1743	67.0500
16-Jan-12	51.6545	79.0985	65.3173	67.2400
17-Jan-12	51.0650	78.4818	64.9998	66.5900
18-Jan-12	50.6655	77.7209	64.6314	66.0700
19-Jan-12	50.2890	77.6010	64.6664	65.5300
20-Jan-12	50.3288	77.9694	65.3070	65.2700
Change (%)	(2.14)	(1.43)	(1.31)	(2.65)



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The Indian rupee has performed outstandingly well over the last few weeks, moving from nearly 54 to 50 in just one month. The currency which was one of Asia's worst performing currencies last year is now on the opposite side of the spectrum. The local currency gained 2.14% last week to close at 50.3288 against the dollar. Total gains for the month stand at 5.5%. Meanwhile, the Sensex also put up a good show. It rallied 3.62% last week to close at 16,739, taking the month's total gain to 8.3%.

The rupee has strengthened from its all-time low due to steps taken by the central government and due to strong inflows from foreign investors whose sentiments for the local currency have improved. Going forward, the direction of the dollar-rupee pair is going to be dictated by the RBI's monetary policy meeting, to take place tomorrow, macro-indicators, the budget and upcoming elections. In the short term, the rupee is expected to trade in the range of 50.00-51.25.

## FII Investments

Encouraged by strong macro-economic data, foreign investors have pumped in money into the local equity markets. Overseas investors poured in Rs. 3,535cr (\$694mn) into the cash market, nearly tripling last week's contribution. Total for January stands at an inflow of Rs. 6,007cr (\$1.2bn). FIIs, however, continue to maintain a cautious view in the short term with state elections around the corner followed by the Union Budget.

### FII Cash Investment in Equity (Rs. Cr.)

Date	Gross Purchase	Gross Sale	Net Flow	(in \$mn)	Sensex
16-Jan-12	2526.3	2,161.7	364.6	70.9	16189.36
17-Jan-12	1,990.5	1,543.2	447.3	86.6	16,466.1
18-Jan-12	2,975.9	1,911.4	1,064.5	208.5	16451.47
19-Jan-12	3,002.4	2,041.1	961.3	189.7	16,643.7
20-Jan-12	2,822.6	2,125.0	697.6	138.7	16739.01
<b>Weeks Total</b>	<b>13,317.7</b>	<b>9,782.4</b>	<b>3,535.3</b>	<b>694.4</b>	
Jan Total	31,793.8	25,786.7	6,007.1	1,166.7	
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)	
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	

