

More wiggle room left for Rupee to strengthen

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Anup Roy | Mumbai March 17, 2017 Last Updated at 00:26 IST



The Indian rupee scaled back from its day's high amidst heavy intervention by the Reserve Bank of India (RBI) but still closed higher than its previous close.

The rupee has been appreciating since the market opened on Tuesday, reflecting the Uttar Pradesh election victory by the

Bharatiya Janata Party.

The rupee closed at 65.41 a dollar, strengthening as much as 65.22 a dollar in the intraday. Rupee's closure is strongest since October 2015.

But rupee is not alone in strengthening against the dollar in the past few days. All Asian currencies have strengthened, even as rupee's 3.5 per cent movement is the strongest in the past three trading session.

However, on a five trading session basis, the rupee has appreciated two per cent, whereas South Korean won has strengthened 2.3 per cent, highest in Asia. Year-to-date won has strengthened 6.516 per cent, whereas rupee has strengthened 3.847 per cent, largely in line with its Asian peers.

The dollar index, which measures dollar's strength against major global currencies, fell 0.27 per cent after the Fed rate hike to 100.47 per cent, pushing all Asian currencies up.

Back home, foreign banks are cutting down their long dollar positions aggressively as the rupee strengthens rapidly. Stop losses are getting triggered as rupee breaches key technical level. However, the RBI has entered the market with heavy buying of dollars through nationalised banks, said currency dealers.

The RBI's intervention ensured that rupee scaled back from its day's high position to close about 20 paise weaker. A sharp rise in rupee is bad for the export sector and economists say the central bank would unlikely want to let the rupee appreciate in a huff.

“The rupee appreciation, we feel is not sustainable and would revert to the range of 66-66.5 range, to begin with as the fundamentals do not warrant such unbridled enthusiasm. The outcome of the Elections has been the main driving force. A strong rupee may not be good for our exports and the RBI is cognizant of the same,” CARE Ratings said in a report.

Currency market participants largely concur with the view.

“There is still some upside left for the rupee, but it should settle at around 64.5-65 level in the short-term,” said Aman Mahna, a currency dealer at First Rand Bank. According to Mahna, March end profit booking would ensure that rupee goes through some correction in its value.

However, some expect rupee's strength to continue beyond March. Satyajit Kanjilal, head of Forexserve expects the rupee to strengthen as much as 63 a dollar by June.