Ongoing rupee appreciation short-lived, RBI intervention required: Care Ratings

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MUMBAI: Rating agency Care Ratings today said the ongoing rupee appreciation is short-lived and the Reserve Bank will soon have a role to play in correcting the sentiment.

The rupee traded in the range of 66.70 and 65.41 between March 1 and March 16, but has appreciated by nearly Rs 1.23 against the US dollar since March 1 making it the best performing unit in the whole of Asia this year. "We do believe that the current trend of rupee appreciation will get corrected in the next few trading sessions. The fundamentals do not signal any sustained strengthening of the rupee and the RBI will have a role to play in correcting the sentiment," Care said in a report.

The rupee has started appreciating quite sharply following the BJP win in the recent state elections, especially in the key state of UP. Analysts and market expect that the huge victory margin will help the government accelerate reforms. "The election outcome has caused a rally in the forex market with the rupee strengthening sharply," the report said.

FPI onflows have been stronger at USD 2.289 billion this month with equity flows being very strong.

The February data showed exports jumped 17.5 per cent- an all-time high since Sept 2011. Though this is a one-off case, the markets today have perceived it positive. The agency said the ongoing rupee appreciation is not sustainable unless the fundamentals alter sharply to justify this rally. "The range of 66-66.50 looks more likely to prevail once the noise factor in the market diminishes," it said.

Quoting market sources, the report said RBI is talking to banks to tone down the level of enthusiasm. Forex assets continue to remain stable at USD 364 billion which does not warrant a sharp appreciation on a continuous basis.

The Federal Reserve yesterday raised interest rates on expected lines but hinted at gradual increases during the year. The Fed move follows a strong pick up in the US economy and strong jobs creation.

As monetary policy has to be forward looking the Fed may be expected to raise rates two more times this year by 25 basis points each. It said in the current scenario, RBI will view these developments more from the forex angle rather than interest rate consideration as monetary policy will be determined by CPI inflation and hence be data-driven.

TAGS Rupee appreciation RBI India forex Care Ratings