

Weak rupee puts pressure on Indian monetary policy

Biggest ever fall, RBI to tighten liquidity

BOMBAY, Aug 2: The Reserve Bank of India (RBI) is likely to tighten liquidity to relieve the immediate pressure on the rupee and the upward trend in interest rates is likely to be maintained, analysts said yesterday, reports **RBI**.

The **RBI** hiked interest rates and tightened liquidity on July 21 when the rupee weakened through 45 per dollar but the respite for the currency was brief and it closed Tuesday at an all-time low of 45.15/16.

Rising commercial credit demand and a heavy government borrowing programme are pushing rates higher, while fears the US may raise rates again is also exerting pressure.

The government has raised 40 per cent of its 1.17 trillion rupees borrowing for 2000/01 (April-March), and inflation, based on wholesale prices, has crept up to six per cent.

Ten-year bond yields have risen 110 basis points since

April and are expected to jump another 40 basis points by September, analysts said.

For now, the **RBI**'s best option to contain the rupee's fall is to either spend reserves, which it appears reluctant to do, or keep liquidity on a slow drip through aggressive government bond auctions and through its daily auctions of securities repurchase agreements (repo) and reverse repo.

It was hoped the move would restore India's interest rate premium, which had been eroded by rising US rates.

But since then fresh fears of another US interest rate rise have hit markets.

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Add another three to four per cent of swap premium gained by selling dollars forward and the returns are better than most local banks' deposit rates of 8-10 per cent for the same maturity.

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only convertible on the current account, and the interest rate rise would persuade exporters to remit their earnings faster.

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Credit growth has been robust. Year-on-year growth so far has averaged 23-24 per cent against last year's 17 per cent.

The rupee's weakness reflects a general deterioration in its balance of payments position, which showed a \$6.4 billion surplus last year, due to high global oil prices and the import demands of a faster growing manufacturing sector.

The **RBI** has shown a reluctance to run down its foreign exchange reserves to defend the currency. The long term answer to the rupee's weakness must be to find ways of inducing more foreign capital inflows through economic reforms.

The pressure on the rupee on Wednesday stemmed from dollar buying by several state-owned firms, and foreign funds exiting the stock market, while several exporters cancelled earlier dollar sales, betting on the rupee weakening further.



Officials of GrameenPhone and British American Tobacco Bangladesh (BATB) are seen signing the agreement to provide BATB with mobile telephone services recently.

— GP photo

US, Jordan close in on free trade pact

WASHINGTON, Aug 2: The

United States and Jordan are close to completing a market-opening agreement that would slash trade barriers between the two countries, allies in the Middle East peace process. President Bill Clinton's top negotiator said yesterday, reports **USA Today**.

US Trade Representative Charlene Barshefsky said "substantial progress" was made in negotiations this week in Amman on the proposed trade pact, which would give Jordanian goods duty free access to the US market and similar benefits for US exporters.

"We won't be initiating or

signing anything here, but the progress certainly is sufficiently strong that I don't believe it will require substantial new negotiations," Barshefsky told reporters in Washington in a video conference call after meeting with Jordan's King Abdullah and other top officials.

A free trade accord with the United States could give the aid-reliant Jordanian economy a much-needed boost, by helping the country attract foreign investment.

Barshefsky said a wide range

of sectors and companies would

benefit, from agriculture to

high-tech firms, but played

down the immediate impact given the relatively small size of the Jordanian economy. Two-way trade between Jordan and the United States totalled just \$287 million in 1999; \$276 million in US exports to Jordan and \$11 million in US imports from Jordan.

Barshefsky said a few sticking points remained, particularly over the services sector and the protection of intellectual property rights. But US officials were increasingly confident the pact would be signed by October.

Barshefsky said the agreement would eventually phase out tariffs and non-tariff barriers, and was expected to include a moratorium on duties on internet commerce. As part of the pact, US quotas on textile and apparel imports would be eliminated.

The agreement would also give Washington and Amman leeway in setting their own environmental and labour standards. This provision, Barshefsky said, should give Americans and Jordanians "greater confidence that trade liberalisation won't lead to environmental degradation and won't lead to a lessening of the rights of workers."

Exchange Rates

American Express Bank Ltd. foreign exchange rates (indicative) against Taka to clients					
Currency	Selling TT & OD	Selling BC	Buying TT	Buying OD	Buying OD Transfer
US Dollar	51.2500	51.2800	50.8500	50.870	50.8250
Pound Stg	76.7674	76.8123	75.6241	75.3966	75.2865
Deuts Mark	24.4114	24.4257	23.4279	23.3574	23.3242
Swiss Franc	30.5970	30.6149	29.9823	29.9221	29.8496
Japanese Yen	0.4735	0.4738	0.4653	0.4639	0.4633
Dutch Guilder	21.6655	21.6792	20.7595	20.7301	20.7006
Danish Krona	6.3365	6.3403	6.2090	6.1994	6.1906
Australian \$	30.2939	30.3116	29.0150	28.9277	28.8666
Belgian Franc	1.1836	1.184	1.1359	1.1325	1.1308
Canadian \$	34.8071	34.8275	33.8233	33.7215	33.6787
French Franc	7.2786	7.2829	6.9654	6.9543	6.9544
Hong Kong \$	6.5648	6.5696	6.5075	6.4879	6.4787
Italian Lira	0.0247	0.0247	0.0237	0.0236	0.0236
Singapore \$	28.9778	29.9963	29.0472	28.9598	28.9187
Euro	47.7445	47.7724	45.8209	45.8201	45.8182
Saudi Rial	13.7010	13.7090	13.5207	13.4800	13.4609

Bill buying rates

TT Doc	30 Days	60 Days	90 Days	120 Days	180 Days
50.7512	50.4263	50.0025	49.5798	49.1550	48.3075

London Interbank Offered Rate (LIBOR)

Buying (\$)	Selling (\$)	Currency	1 Month	3 Months	6 Months	9 Months	12 Months
50.6250	51.2500	USD	6.62063	6.72188	6.88975	6.96000	7.08000
76.7674	75.2865	GBP	6.08625	6.22825	6.34344	6.43656	6.53047
Cash/ T.C.	Cash/ T.C.		4.41438	4.63750	4.91750	5.06063	5.177988

Exchange rates of some Asian currencies against US dollars

Indian Rupee	Pak Rupee	Thai Baht	Malaysian Ringgit	Indonesian Rupiah	Korean Won
45.28/45.31	53.300/53.35	40.83/40.88	3.7997/3.8002	8880/8880	1115.8/1115.8

Amex notes on Wednesday's market

The USD/BDT market was active on Wednesday and it remained at previous day's level of 51.1600-51.1700. The call money market was also active and the call rates ranged between 5.75-6.00 per cent.

Yen rose to two-week highs against dollar and the euro on Wednesday as the frustration over the market's failure to drive the Japanese currency lower in recent days overshadowed bearish fundamentals. Traders unwound long dollar and euro positions after the US currency was repeatedly rebuffed by a combination of Japanese exporter offers and Asian and US banks defending option positions around 110.00 yen this week.

The dollar fell about a yen during Asian trade to hit troughs around 108.36 yen, its lowest level since July 21. It was hovering around 108.70 yen in Europe by 0833 GMT. The euro was hovering around the day's highs around 80.9180 half a cent above Tuesday's 10-week lows around 80.9130.

At around 0907 GMT, the exchange rates of major currencies against USD were GBP/USD 1.4923/1.4928, USD/CHF 1.6822/1.6832, USD/JPY 108.65/108.75, EUR/USD 0.9170/0.9172.

Shipping Intelligence

Chittagong Port

Berth position and performance of vessels as on 2.8.2000							
Berth	Name of Vessels	Cargo	L Port	Local Agent	Date of Arrival	Leaving	
J/2	Isaac Light	Wheat (P)	Geel	Angelic	11/7	7/8	
J/3	Chettinad Glory	Wheat (P)	Sing	SBS	19/6	10/8	
J/4	Xiang Cheng	GI	S Hai	BDShip	26/7	5/8	
J/5	Dawei	Rice (P)	Yang	MTA	21/7	4/8	
J/6	Marquis	GI (Y Pe)	Sing	Seaglory	5/7	13/8	
J/7	Ever Cheer	GI (Cr C)	Mong	RML	20/7	4/8	
J/8	Ocean Breeze	GI	Sing	Prog	21/7	10/8	
J/9	Apex	Rice (P)	Saig	Cindy	10/6	2/8	
J/10	Kota Berjaya	Cont	Sing	Pil (BD)	25/7	2/8	
J/11	Bangler Robi	Cont	Sing	BS	1/8	4/8	
J/12	An Da	GI (St RL)	Lanj	Lutful	3/7	4/8	
J/13	Kota Cahaya	Cont	Sing	Pil (BD)	29/7	4/8	
CCT/1	Banga Bijoy	Cont	P Kel	BDShip	30/7	4/8	
RM/14	Al Bauraq	Cement	Haka	Seacom	23/6	6/8	
RM/15	Cendekianwan	C Link	Pada	PSAL	27/7	8/8	
CCJ	Al Shams	C Link	Pada	RML	28/7	6/8	
GJ	Al Muztuba	Idle	Okha	CLA			