

Indian Rupee Posts Biggest Weekly Gain in 2 Months

- * Rupee gains 2.3 percent this week; inflows aid
- * Net inflows in Indian debt so far in Jan at \$2.61 bln
- * Rupee seen in 50.20-52.20/dlr range next week - trader (Adds details, quotes, updates to close)

By Shamik Paul

MUMBAI, Jan 13 (Reuters) - The Indian rupee posted its biggest weekly gain in over two months, aided by robust inflows and positive local shares, with dollar demand from oil importers keeping a lid on the rise.

On Friday, the partially convertible rupee closed at 51.5350/5450 to the dollar after hitting 51.28, a level last seen on Dec. 5. It closed at 51.60/61 on Thursday.

The rupee strengthened by 2.29 percent this week, its second successive week of gains, after adding 0.7 percent last week.

"The market is cutting long positions in dollar because of the RBI restrictions in place," said Anil Kumar Bhansali, vice-president, Mecklai Financials.

The Reserve Bank of India recently reduced the net overnight open position limit (NOOPL) of authorised dealers in the foreign exchange market, potentially reducing capacity of market participants for taking trading positions.

The central bank has also been intervening more actively in the foreign exchange market in recent months to curb the rupee's losses. RBI sold a net \$2.92 billion in November, its highest dollar sales in over two-and-half years.

The rupee's recent recovery has also largely been aided by continued investment into Indian debt by foreign funds, who must invest by mid-January, to utilise previously won limits.

Net inflows into Indian debt so far in January stood at about \$2.61 billion, substantially more than \$488.5 million invested in equities, latest data from the Securities and Exchange Board of India showed.

The rupee is seen in a 50.20 to 52.20 range next week, Mecklai's Bhansali said.

Indian shares rose to their highest weekly close in five weeks, on expectations renewed policy reforms by the government and easing inflation will give a much needed boost to the country's slowing economy.

Industrial output rose 5.9 percent in November, a sign that Asia's third largest economy was gathering momentum, raising hopes of more inflows.

The euro fell to the day's low on Friday after an Italian debt sale could not reach the heights of a stellar Spanish auction the previous day, a reminder that Europe's debt crisis is unresolved and the currency's downtrend is entrenched.

Economists remain cautious about the rupee on global and domestic worries.

"In the near term, we continue to see risks of further rupee weakness, notwithstanding central bank policy moves, due to concerns from Europe and a weak balance of payments situation," Tushar Poddar, an economist at Goldman Sachs said in a note.

Data released by the RBI on Dec. 30 showed that while the current account deficit remained unchanged at \$16.9 billion in the September quarter from a year earlier, the trade gap widened to \$43.9 billion.

One-month offshore non-deliverable forward contracts were quoted at 51.92, indicating some weakness in the short-term in the onshore spot rate.

In the currency futures market, the most-traded near-month dollar-rupee contracts on the National Stock Exchange, the MCX-SX and the United Stock Exchange were all around 51.7 on total volume of \$4.4 billion. (Editing by Subhadip Sircar)

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