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Reeling under US tariffs, rupee hits 5-month low

NO CLARITY NOW. Weakening bias to persist, say traders

Our Bureau
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The rupee continued to reel under the steep tariffs imposed by the US on Indian imports, with the rupee weakening to an over five-month low on Thursday. The rupee, which dropped 61 paise on Wednesday, closed weaker at 87.5950 per US dollar against the previous close of 87.4250, down 17 paise.

The rupee has slumped about 107 paise between last Friday's (July 25) closing of 86.52 and July 31.

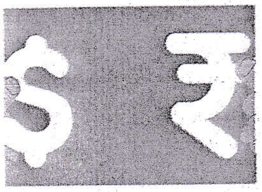
Market expectations are that the weakening bias of the Indian unit will continue until clarity emerges on the US lowering tariffs on Indian imports.

US President Donald Trump announced 25 per cent tariffs plus a penalty on India's imports (with effect from August 1) after trading hours on Wednesday.

The penalty (the quantum is not yet known) is because India is importing energy and military equipment from Russia.

RBI MAY INTERVENE

Market players opine that just like the US is protecting its national interests, India will too and may not yield to



pressure tactics adopted by the US President on trade.

So, the RBI's work is cut out when it comes to intervening in the market to prevent volatility in the rupee.

Moreover, the Indian central bank had a huge reserve pile of $695 billion at the last count, giving it enough firepower to defend the rupee.

Amit Pabari, MD, CR Forex Advisors, observed that the rupee came under pressure, reacting sharply to Trump's sudden 25 per cent tariff on all Indian imports, along with penalties linked to India's ties with Russia.

"With foreign investors already trimming Indian exposure, the announcement may accelerate capital outflows. Export-dependent sectors, including IT, pharmaceuticals, textiles, auto components and gems are particularly vulnerable. Exports make up about 20 per cent of India's GDP, with the US contributing around 2.2 per cent. Though the impact on GDP may be marginal, a drop in exports could widen the current account deficit, adding to rupee stress," per Pabari's assessment.

Further denting sentiment, the US sanctioned six Indian firms over petrochemical imports from Iran—sending a strong geopolitical message, despite limited direct trade impact.

"But this isn't just about trade—it's a power play. As the US turns to tariffs amid mounting debt and shrinking foreign appetite for Treasuries, most allies have complied.

MULTIPLE PRESSURES

"India, with its domestic-driven economy and deep strategic autonomy, isn't buckling under. It is choosing to protect national interest, even if it means short-term currency pain," he said.

Pavan Kavad, Managing Director, Prithvi Exchange, noted the volatility in the rupee is largely due to new US tariffs on Indian imports, which have spooked investors and triggered heavy foreign fund outflows.

Further, a strong dollar globally, rising crude oil prices and India's trade deficit are pressuring the rupee.

"If the rupee edges closer to ₹88, we can likely expect the RBI to step in to calm the volatility," Kavad said.