₹ outshines most EM peers amid $ jump to 20-yr high

RBI interventions ward off bets against ₹; reserves seen comfortable for 2-3 yrs

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If there was one event that made the month of August stand out, it was a strengthening of the dollar index to levels last seen only 20 years ago, as the Federal Reserve dispelled all doubts about its intention to continue raising interest rates.

Predictably, most currencies suffered against the US unit, with the bulk of the losers belonging to the emerging markets pack. Amid the volatility, the rupee, however, has displayed significant resilience and fared much better than most of its peer currencies.

During the month gone by, the rupee depreciated a mere 0.2 per cent against the greenback even as the dollar index has gained a massive three per cent. The index, which closed at 109.09 on Tuesday, rose to levels last seen in 2002 at the end of the last week. It has stayed at those levels since.

The Indian currency has fared better than eight emerging market currencies–the Malaysian ringgit, the Singapore dollar, the Turkish lira, the Taiwan dollar, the Philippine peso, the Chinese yuan, the South African rand and the South Korean won. These currencies have declined 0.6-2.9 per cent to the dollar over the period.

The rupee has also fared better than the Japanese yen, the British pound and the Swedish krona, which have shed 4-5 per cent against the greenback. The currencies that have fared better than the rupee are the Indonesian rupiah, the UAE dirham, the Hong Kong dollar, the Mexican peso, the Thai baht, the Brazilian real and the Russian ruble.

The primary factor that has lent support to the rupee is an unrelenting defence of the currency by the Reserve Bank of India in the form of dollar sales from its reserves.

When the rupee did weaken to a new low of 80.13 per dollar on Monday, the central bank showed remarkable alacrity with its market interventions, with dealers pegging its dollar sales at more than $1 billion on that day alone.

The RBI has, in fact, stepped up interventions on the three occasions that the rupee has breached the 80-per-dollar level, ensuring that the currency does not close at, or weaker than, that level.

"The INR has shown remarkable stability and the 80 mark has become a hard resistance to break even on days when risk-off sentiments grip the markets," Gaura Sengupta of IDFC First Bank Economics Research wrote.

Given the manner in which the RBI's interventions have successfully warded off those speculating against the rupee, currency experts feel that the local unit could strengthen further in coming days, especially as overseas investors have shown renewed appetite for Indian stocks after a nine-month hiatus.

"Over the near term, we could see more downside, possibly towards 79.25/30 levels on spot, on account of long liquidations but once the positioning becomes light, we could see USD/INR rebound due to a strong dollar index. We expect a range of 79.25 and 79.85 on spot," Anindya Banerjee, VP, Currency Derivatives & Interest Rate Derivatives at Kotak Securities said.

The rupee closed at 79.46 to the dollar on Tuesday.

While the broad theme of higher US interest rates and a widening domestic current account deficit is seen exerting downward pressure on the rupee in the coming months, the decline is likely to be orderly, experts said.

This marks a stark departure from previous instances of immense global turbulence, such as the 'taper tantrum' of 2013, when the rupee plunged 20 per cent in a matter of four months.

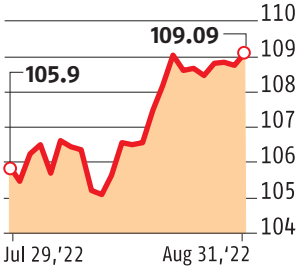
The sharp drawdown in RBI's reserves since Russia's invasion of Ukraine in late February notwithstanding, analysts believe the central bank has sufficient ammunition for the next few years at least when it comes to shielding the rupee.

"I think they still have adequate buffers across the spot reserves that they have and the forward purchases. I think we have reserves to last us two or three years," said Ananth Narayan, associate professor at SP Jain Institute of Management and Research.

"After all, if you're looking at a current account deficit of three per cent of GDP, then you're looking at something like $60-70 billion of outflow in a year. You can manage that for one, two or three years," he said.

The RBI's headline foreign exchange reserves stood at $564.05 billion on August 19, as against $631.53 billion on February 25, which was when Russia invaded Ukraine. So far in August, the reserves are down $9.8 billion.

US DOLLAR INDEX



CURRENCY WATCH

Currency versus US dollar	Jul 31, '22	Aug 31,'22	% Change
Swedish krona	10.2	10.7	-5.2
British pound	0.8	0.9	-4.5
Japanese yen	133.3	138.8	-4
South Korean won	1,299.3	1338.1	-2.9
South African rand	16.6	17.1	-2.6
Euro	1	1	-2.4
China renminbi	6.7	6.9	-2.2
Philippines peso	55.2	56.2	-1.8
Taiwan dollar	29.9	30.4	-1.6
Turkish lira	17.9	18.2	-1.5
Singapore dollar	1.4	1.4	-1.3
Malaysian ringgit	4.5	4.5	-0.6
Indian rupee	79.3	79.5	-0.2

Source: BS Research Bureau