

Rupee marks biggest monthly losing streak since 1985, braces for Fed move

BHASKAR DUTTA
Mumbai, 31 October

The rupee weakened sharply versus the US dollar on Monday as the greenback strengthened globally ahead of a likely rate hike by the Federal Reserve later this week. A flurry of dollar purchases by oil importers also dragged the rupee lower, dealers said.

The domestic currency settled at 82.78 per US dollar on Monday against 82.47 per dollar at close on Friday. So far in 2022, the rupee has depreciated 10.2 per cent against the greenback.

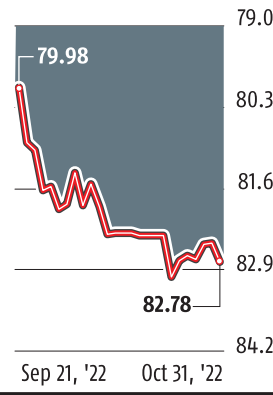
Accounting for Monday's closing level, the rupee has registered the 10th monthly decline against the US dollar, the longest weakening streak since 1985, *Reuters* reported.

The US dollar index, a gauge of the greenback against six major rival currencies, was at 111.04 at 3:30 pm IST. The index, which rose to a high of 111.23 during the day, was at 110.92 at 3:30 pm on Friday. The US Federal Open Market Committee will detail its next policy statement on November 2. With inflation in the US remaining well above the Fed's target, the American central bank is widely expected to raise interest rates



by 75 basis points (bps). Such a step would take the total tally of rate hikes in 2022 to 375 bps, marking the most aggressive policy tightening cycle in close to two decades.

Higher US interest rates lead to a rise in the country's bond yields and a stronger dollar, thereby reducing the appeal of assets in emerging markets such as India. "The rupee clocked the 10th monthly decline against the US dollar. The near-term focus will remain on the Federal Reserve's interest rate decision on Wednesday, the Bank of



England's rate announcement on Thursday and the US payrolls number on Friday," HDFC Securities research analyst Dilip Parmar said. "Spot USD/INR is expected to trade in the range of 83 to 82.10 with a bullish bias (for the dollar) and the trend reversal can be seen only below 81.90," he said.

Most Asian currencies weakened ahead of the crucial rate decision by the Fed, with the Chinese yuan taking the biggest beating. A weaker yuan tends to drag down peer currencies in emerging markets. With the RBI not seen

intervening much in the currency market on Monday, traders suffered losses on positions once the rupee weakened past the technically significant 82.50 per dollar level.

"Rupee fell sharply as oil companies rushed to buy dollars and stop losses of USD/INR sellers were hit at 82.50. The Asian currencies were all down as CNH (yuan) crossed 7.31," Finrex Treasury Advisors head of treasury Anil Bhansali said. "Rupee is expected to move in a range of 82.50 to 83.00 tomorrow (Tuesday) after remaining above 82.50 for the entire last week," he said.

Dealers said the RBI had likely refrained from intervening much and spending its foreign exchange reserves as global strength in the US dollar was to be expected ahead of the Fed's policy statement.

The RBI's foreign exchange reserves, which have declined a little more than \$100 billion since the Ukraine war began, are at their lowest levels since July 2020. The reserves have declined due to revaluation in the face of a stronger dollar and because of the RBI's sales of the greenback in order to prevent excessive volatility in the rupee's exchange rate.