BUSINESS STANDARD POLL

Under pressure, ₹ seen trading around 86 vs $ by March end

ANJALI KUMARI
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The rupee, which weakened almost 3 per cent last calendar year, is expected to stay under pressure, with a *Business Standard* poll of 10 respondents showing the median of the survey to be around 86 a dollar by the end of March.

A median is the central figure of a distribution.

The United States (US) Federal Reserve doing fewer rate cuts, something that can strengthen the dollar, is one of the key reasons cited for the rupee's trajectory.

Some participants expect the local currency to trade at around 87 per dollar during the same period.

The currency hit a new closing low of 85.65 in the first trading session of 2025. The rupee, which has been under pressure for the past three months, hit all-time closing lows in 14 of the 22 trading sessions in December.

"The dollar is expected to strengthen, now that the Fed has signalled fewer cuts in 2025," said Abhishek Goenka, chief executive officer, IFA Global. Turn to Page 5

CURRENCY CHECK

Where respondents see the rupee trading against the dollar by end-FY25 (₹/$)

Karur Vysya Bank	86.25
IDFC First Bank	86
RBL Bank	86.5
Shinhan Bank	85.05-86.2
IFA Global	86
Mecklai Financial Services	85.8-86.2
Bank of Baroda	86.5
HDFC Bank	85.5-87
Emkay Global	86.25
Finrex Treasury Advisors	86
Median	**86**
Mode	**86**

Source: *Business Standard* poll

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RBI interventions led to ₹ liquidity depletion: Experts

"The Reserve Bank of India (RBI) seems to be more willing now to let the rupee adjust as it would help support growth. The second-quarter gross domestic product numbers were disappointing. To revive growth, export and manufacturing need to do well and for that to happen, it is imperative that the rupee remains competitive relative to other Asian peers, especially the yuan," Goenka said.

The RBI has been intervening heavily in the foreign-exchange markets while trying to ensure a gradual depreciation. However, a heavy-handed approach can be counterproductive if other central banks let their currencies weaken in response to the imposition of tariffs by the US on imports under the impending Donald Trump regime.

"It will result in rupee overvaluation and tightening of domestic monetary conditions, jeopardising growth in the process," he added.

Major central banks such as the European Central Bank (ECB), Bank of England (BoE), and People's Bank of China (PBoC) are likely to adopt a more dovish stance as their economies face significant growth challenges. This divergence in monetary policy between the US Fed and other central banks is expected to sustain the dollar's appreciation trajectory, said respondents.

The dollar index, which measures the strength of the greenback, against a basket of six major currencies has been trading above the 108 mark.

The Federal Open Market Committee, the US rate-setting panel, has projected a 50 basis point rate cut in 2025, followed by another in 2026. With a 100 basis point cut in 2024, the Fed is likely to pause rate adjustment until mid-2026, with future decisions contingent on conditions after Donald Trump takes office as US President on January 20.

Along with the strengthening dollar, an expected sharp deterioration in India's balance of payments (BoP) during the third quarter this financial year is likely to further weigh on the rupee.

The RBI's interventions have resulted in a significant depletion of rupee liquidity in the domestic market. This tightening of liquidity has pushed overnight rates closer to the marginal standing facility (MSF) rate, indicating stress in short-term funding conditions.

The respondents said allowing the rupee to adjust at a faster pace would help alleviate overvaluation pressure, realign the real effective exchange rate closer to its equilibrium level, and reduce the strain on both foreign-exchange reserves and domestic interbank liquidity.

"The depreciation pressure on the rupee reflects dollar strength and India's balance of payments turning deep negative in Q3FY25," said Gaura Sen Gupta, chief economist, IDFC FIRST Bank.

"Based on the forex-reserves data, the balance of payments in 2024 (till December 20) is tracking $25 billion, reflecting a widening a trade deficit and slowdown in capital inflows (both foreign portfolio investment and foreign direct investment). Looking ahead, allowing the rupee to depreciate at a faster pace will reduce overvaluation as well as the drain on FX reserves and domestic interbank liquidity," she said.

India's foreign-exchange reserves fell almost $60 billion in the last three months as the RBI intervened in the foreign-exchange market to curb undue volatility.

Reserves touched $705 billion at the end of September to reach an all-time high. On December 20, 2024, foreign-exchange reserves of $644.4 billion were the fourth-largest in the world. They covered 99 per cent of the country's external debt or nearly one year of merchandise imports as at end-September 2024.