

Rupee traders unperturbed by tariff concerns

JASPREET KALRA
& NIMESH VORA
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THE RUPEE IS not expected to see sharp swings following US President Donald Trump's expected reciprocal tariff announcement on countries, including India, multiple market indicators showed.

The dollar/rupee spot rate, hedging costs, and option volatility suggest that rupee traders are relatively sanguine about risks from the upcoming US tariff announcement, which investors fear could intensify a global trade war.

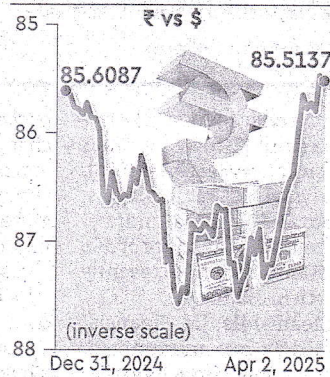
While the rupee would be vulnerable to the headline risk around the tariffs, BofA Global Research expects limited impact over the medium-term.

India will be more resilient to Trump's tariffs than other emerging markets, driven by constructive domestic factors, according to J.P. Morgan Private Bank. "We see a bottoming of economic momentum in sight," said Alex Wolf, head of Asia investment strategy at J.P. Morgan Private Bank. A sharp slowdown in economic growth had weighed on Indian stocks and prompted foreign investors to pull out, hurting the rupee.

Rupee near YTD high

The rupee has rallied about 2% against the US dollar over the last two weeks, wiping off its year-to-date accumulated losses and significantly outperforming its Asian peers. The currency hit a year-to-date high of 85.40 last Fri-

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day. It closed down 2 paise to 85.52 on Wednesday.

Hedging costs fall

The cost of hedging the rupee - reflected in one-month forward points in both the non-deliverable forward and onshore markets - has been subdued in the lead up to Trump's announcements. If rupee traders were concerned about the impact of the tariff plans, increased hedging activity would have driven forward points higher.

Options market

Options market data indicate that the cost of placing bearish bets against the rupee, relative to bullish wagers, has decreased to a multi-month low, while short-term volatility expectations are relatively low. The notional value of over-the-counter dollar-rupee options traded in the US was also muted heading into Trump's announcement. —REUTERS