

Despite choppy Q2, ₹ shines bright in Asia

Though down 1.04% versus USD, it lags only the Hong Kong dollar; challenges to mount in Q3

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Mumbai, 29 September

The rupee outshone most of its Asian peers in the first half of the current financial year (H1FY24), ranking second only to the Hong Kong dollar for the least depreciation against the greenback. The Indian currency depreciated by 1.04 per cent between April and September, closing at 83.04 per US dollar on Friday.

After a relatively stable Q1, the rupee faced pressure in the second quarter of FY24 due to rising US yields and crude oil prices, depreciating by 1.2 per cent between July and September. It hit an all-time closing low of 83.27 against the dollar on September 19.

Conversely, it had appreciated by 0.2 per cent in Q1FY24 and by 0.16 per cent in the first half of the calendar year, buoyed by robust foreign inflows. According to market participants, timely intervention by the Reserve Bank of India (RBI) in the foreign exchange market kept the Indian unit afloat in Q2 vis à vis the dollar. The RBI has repeatedly stated that it uses forex reserves to manage volatility in the foreign exchange market.

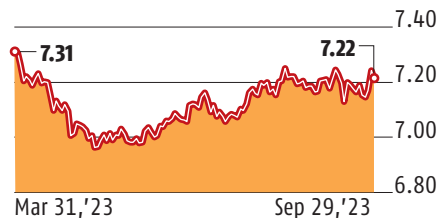
"The interest rate differential between the US Treasury and the Indian bonds is narrowing down. The dollar index itself is rising. But our currency's depreciation is not as sharp as other currencies," said Arun Bansal, executive director head of treasury at IDBI Bank.

He further said India's ability to reduce forex reserves compared to other regions, and secure crude oil from Russia at lower rates than the global \$80-\$85 per barrel range helped ease pressure on the rupee. "Also, we witnessed a lot of foreign flows into equity until last month.

CURRENCY CRISIS

Currencies against US\$	H1FY24 (% change)
Japanese yen	-10.95
Thai baht	-6.49
Malaysian ringgit	-5.96
China renminbi	-5.81
Indian rupee	-1.04

INDIA 10-YEAR G-SEC YIELD



Only this month, equities have witnessed foreign outflows," he noted.

The central bank has been selling dollars to prevent sharp depreciation of the rupee, while accumulating the dollar during periods of inflow. The Indian currency depreciated by 7.8 per cent in the previous financial year and over 10 per cent in the calendar year 2022. Market participants anticipate further depreciation in Q3FY24 due to rising international crude oil prices and increasing US Treasury yields.

The yield on the benchmark 10-year US Treasury bond rose by 73 basis points in the July-September period, which weighed on the domestic government bond market.

The benchmark yield on domestic government bonds went up by 10 basis points in the first half of the current financial year, tracking the rise in US Treasury yields. Global factors were unresponsive during the second quarter of FY24, as central banks across the globe hiked rates because of persisting inflationary pressure and data not meeting expectations.