

Rupee likely to face near-term pressure

● Besides rate-cut probability, global headwinds to keep investors on their toes

CHRISTINA TITUS
Mumbai, June 3

THE RUPEE MAY continue to remain under pressure in the near term due to anticipations of a rate cut in the monetary policy review, scheduled for Friday, said experts. The rupee closed at 85.59 on Tuesday, down 20 paise. In May, the rupee fell 1.3% after appreciating during the previous two months.

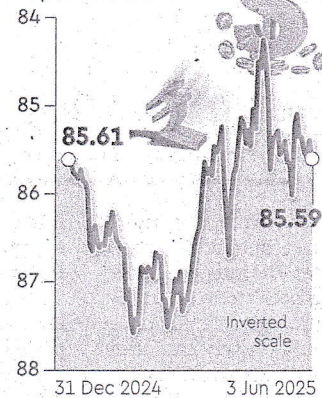
Abheek Barua, former chief economist, HDFC Bank, and Sonal Bandhan, economist at Bank of Baroda, believe that the rupee will be under some pressure in the near-term as Reserve Bank of India's rate cut is expected to weigh on the currency.

Bandhan said global headwinds such as trade tensions between the US and China have resurfaced, leading to safe-haven demand for the dollar and Japanese yen. The rupee is likely to trade in the 85-86/\$ range with a depreciation bias, the BoB economist said, adding that lower oil prices and foreign portfolio inflows of \$3.64 billion in May have cushioned the rupee.

"The key data lined up this week, heightened dollar volatility and the RBI policy on Friday where expectations of a rate cut are high will keep the rupee under pressure. The expected trading range is seen between 85.25 and 85.85," Jateen

BIAS NEGATIVE

Rupee vs dollar



■ RBI's MPC to begin deliberations on its bi-monthly policy today, with outcome scheduled for June 6

■ Most analysts believe that a rate cut of 25 basis points has already been priced in

■ Rupee is likely to trade in the 85-86/dollar range with a depreciation bias

■ Brent crude, the global oil benchmark, rose 1.56% to \$65.64 per barrel in futures trade

■ US dollar index lost some ground after ISM manufacturing PMI fell more than expected

Trivedi, research analyst – commodity and currency at LKP Securities, said in a note.

Most believe that a rate cut of 25 bps has already been priced in. However, some believe that the cut could be deeper. "We expect a 50-bps rate cut in June policy as a jumbo rate cut could act as a counterbalance to uncertainty," said an SBI report. Cumulatively, it expects 100-bps cut in the current financial year.

The regulator's focus on growth as inflation eases was quite clear from its annual report last week. "The relatively benign inflation environment, combined with moderate but steady growth, justifies a monetary policy stance that is supportive of economic expansion," the report noted. The consumer price inflation has slowed to 3.16% in April from 3.34% a month ago. The country's GDP grew

7.4%, up from 6.4% in previous quarter, the latest data showed.

"The recent geopolitical escalation in Russia and the West Asia also weakened the rupee. In fact, the Chinese zone also has pushed the rupee on the weaker side. So, some more weakness can be expected, but I think the RBI will be there. It is likely to intervene in the forex market and may not allow the rupee to depreciate too much," said Sriram Iyer, senior research analyst at Reliance Securities.

He added that the uncertainty regarding escalation in geopolitical tensions and foreign outflows will weigh on the domestic currency. Currency dealers expect the rupee to trade in the range of 85-86 in the near term. So far in the current financial year, the rupee has fallen 0.9%. In the calendar year 2025, the currency has risen 0.06%.