

Rupee to trade in narrowest range in 30 years: Poll

ANANT CHANDAK
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THE INDIAN RUPEE will trade within the narrowest range in nearly three decades over the coming year as the RBI continues to maintain its tight grip on the currency's movements, according to a Reuters poll.

While most emerging market currencies fared badly against the dollar in the past two years, the rupee has stayed remarkably stable due to the RBI's nearly \$650 billion forex reserves which it has deployed regularly to curb volatility. The currency's implied volatility, hovering at its lowest level in nearly two decades, is expected to hold ground at least until the year-end, the July 1-3 Reuters poll of 40 foreign exchange strategists found.

Median forecasts showed the rupee would trade at 83.41 per dollar by end-September, and by end-2024, the currency would touch 83.20, around the level it was trading on Wednesday.

The rupee was forecast to gain 0.6% to 83.00 per dollar in a year.

"The rupee continues to be dominated by the RBI's steadfast focus on curbing volatility, limiting any impact of portfolio flows or changes in fundamental outlook," said Abhay Gupta,

emerging Asia fixed income and forex strategist at BofA Securities. "Despite the short-term benefits, too much of a good thing can have its side-effects. The RBI may have gone overboard in containing volatility by driving it to levels that are well-below the historical ranges for rupee and are comparable with a pegged currency."

Analysis showed the standard deviation of forecasts for the six-month outlook was around the lowest in at least two years, suggesting the RBI will only allow the rupee to trade in a tight range. Still, a handful of FX strategists expected the currency to reach a lifetime low by this time next year.

"With the Fed being a late entrant in the global monetary easing cycle, the dollar could likely remain supported. Against this backdrop, we expect the rupee to post a modest weakness in 2024-25," said Vivek Kumar, economist at QuantEco Research. Federal Reserve Chair Jerome Powell said on Tuesday the US was back on a 'disinflationary path', but cautioned that inflation may not reach the 2% target until late next year or even 2026.

"Although the rupee might continue to weaken, the magnitude is not going to be concerning," QuantEco's Kumar said.

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