

# ₹ tumbles 45p as US-China tensions deepen over Taiwan

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The rupee weakened sharply against the dollar on Wednesday as concerns of tension between US and China sparked by US Speaker Nancy Pelosi's visit to Taiwan eroded risk appetite. It sent investors rushing to the safety of the greenback, dealers said.

The domestic currency also suffered against the dollar as exporters made a dash to lock in purchases of the greenback, noting weakness in the rupee on Wednesday. This came after a phase of significant appreciation in the local unit, dealers said.

The rupee settled at 79.16 to a dollar against 78.71 on Tuesday. So far in 2022, the rupee has weakened 6 per cent against

the dollar. The dollar index, which measures the currency against six major rivals, was at 106.09 at 3:30 pm on Wednesday. This is against 105.55 at the same time on Tuesday.

A fresh record high monthly trade deficit in July also weighed on sentiment in the domestic currency market, traders said. Data released after trading hours on Tuesday showed that India's trade deficit was at \$31 billion in July against \$26.18 billion in June.

The trade deficit has witnessed considerable upward pressure in 2022 due to a sharp increase in global commodity prices since Russia's invasion of Ukraine in February.

"The rupee snapped a four-day rally and underperformed among Asian cur-



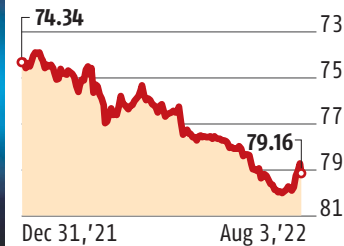
rencies. This came amid a record high trade deficit number and demand for the dollar as traders weigh risks associated with US-China tensions," HDFC Securities research analyst Dilip Parmar told *Business Standard*.

"Spot dollar/rupee is expected to trade

higher in the coming days with resistance in the range of 79.30-79.60. And, the recent bottom of 79.495 becomes the strong support," he said.

With China responding to Pelosi's visit by announcing military drills, worries deepened over tensions between the

**RUPEE SPOT**  
(inverted scale, vs \$)



world's two largest economies. This prompted large banks to purchase the dollar, likely for sale of Indian assets by overseas investors.

"Huge custodian buying (of dollars) was seen today. Any dip in rupee is an opportunity to sell. Panic depreciation era is over," said Abhishek Goenka, founder and chief executive officer (CEO) of IFA Global.

After weakening to a record low of 80.06 per dollar on July 19, the rupee has regained much ground. Concerns of a recession in the US prompted the Federal Reserve to slow down the pace of its rate hikes.

From July 26 — when the Fed's last policy meeting began — to August 2, the rupee gained 1.4 per cent against the dollar. The Indian currency outperformed nine other emerging market currencies.

The local currency was also helped by a sharp drop in crude oil prices on account of recessionary fears as well as foreign institutional investors' return to Indian stocks.

In the coming days, the outcome of a meeting between the Organisation of Petroleum Exporters and its allies, fresh developments on the US-China front and the RBI's policy statement on August 5 would lend direction to the rupee.

"Market could get another theme over the near term, called 'US-China clash'. That apart, the focus will be on the OPEC+ meeting, where most members will be hesitant to hike supply during an economic downturn," CR Forex Advisors wrote.

"Eventually, these add-ons could be the reason for increased volatility," the firm said.