RBI steers away from aggressive intervention as ₹ touches new lows

ANJALI KUMARI
Mumbai, 4 December

As the rupee remains under pressure due to several headwinds and the uncertainty around the India-US trade deal, the Reserve Bank of India (RBI) has been stepping in only to calm volatility, not to stop the fall.

After selling dollars aggressively until last month, the RBI has now let the rupee slip over the last week to a new low of 90.42 per dollar, after it went past 88.80 levels. Going ahead, the central bank is expected to act mainly when there are sharp movements or signs of speculation, rather than defend any specific level.

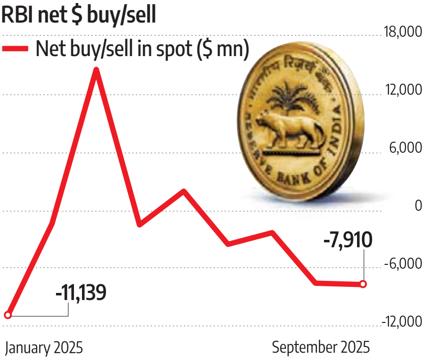
"RBI's management of FX (foreign exchange) volatility is again being relied upon to keep a lid on rupee weakness," a recent report from BoFA Securities said.

"The central bank's reserves remain adequate to contain risks of a larger depreciation for now. However, continued portfolio outflows could make these operations unsustainable or build-up of short dollar positions on RBI's forward book may skew return expectations on rupee," the report said. India's foreign exchange reserves were at $688 billion as on November 21, adequate for 11 months of imports.

Market participants said that the RBI's ability to steer the currency remains constrained by its sizeable short forward position. They said that this overhang needs to be unwound before the central bank can fully reassert control over the rupee's trajectory.

"It's more light touch these days than heavy-handed 'line in the sand' kind of approach... this is because the RBI is considerably short in forwards and wants to use its intervention power judiciously," said Abhishek Goenka, founder and chief executive officer (CEO) of IFA Global. "If we do not get a trade deal, rupee will most likely have to be used as release valve to offset the impact of tariff differential with peers, and to ensure competitiveness of our exports," he added.

Managing volatility



Source: RBI

The RBI's short dollar forward position started to increase again from September, reaching $63 billion by October end. At the end of September, it was $59 billion.

"The current (RBI) governor believes in allowing market forces of demand and supply to largely determine the exchange rate, intervening only in cases of excessive volatility or unforeseen risks," said Kunal Sodhani, vice president at Shinhan Bank.

Traders now eye the upcoming monetary policy committee (MPC) meeting decision on Friday for further cues.

A treasury official at a large corporate house said if the domestic rate-setting panel delivers a 25 basis points (bps) rate cut on Friday, the rupee might see more pressure and might slip to 92 per dollar by the end of the current financial year.

"This is just the beginning of the pressure on the rupee; we will not be surprised if the rupee touches 92 per dollar by March end," the treasury official said.