

Rupee plunges to new low on rate cut hopes

EVEN THE NEAR-term premiums have fallen 22 bps for 1 month and 10 bps for 1 year. The latter improved with easing of liquidity conditions.

"It is highly possible that the RBI may announce another \$5 billion buy/sell swap. The market has discounted a rate cut, and therefore, it has reacted accordingly," said a forex trader with a state-owned bank.

"This volatility is going to remain in the market for considerably longer period of time. It's difficult to predict the trajectory as nobody knows what is going to happen on the global front.

"For example, today (on Wednesday), the focus is suddenly shifted to domestic factors from international ones. The only sure thing is continuing volatility in the market," said Madan Sabnavis, chief economist at Bank of Baroda.

The local currency came under pressure first with the US Federal Reserve cutting the interest rate and secondly



with the return of Donald Trump as the US president. Earlier, to curb the volatility in the market, the RBI intervened aggressively, wiping the rupee liquidity from the banking system.

Post the severe liquidity deficit, the regulator has taken measures such as open market operations, buy/sell swap, and variable rate repo auction (VRR), to improve the liquidity conditions.