

RBI starts cutting short dollar book after 7 mths

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The Reserve Bank of India (RBI) has started winding down its short position in the dollar forward book, after a gap of seven months, on the back of a softening dollar, while infusing funds via open market operations (OMOs) to counter the resulting liquidity drain.

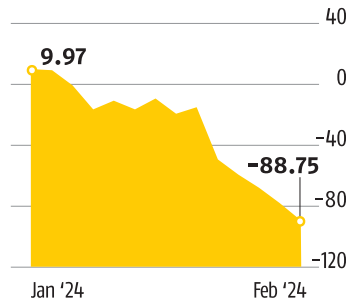
According to RBI data, the net short dollar position in the forward book (up to one year) stood at \$64.2 billion at the end of March. Including the swaps over one-year maturity, the book stood at \$84.3 billion, from \$88.75 billion in February.

Market participants said the RBI was likely allowing the short positions to mature while sterilising the resulting liquidity impact through OMOs. This, they suggested, explained why the central bank continued to conduct OMOs despite surplus liquidity — ensuring consistency with its accommodative stance aimed at maintaining ample liquidity in the banking system.

“The majority of the positions were in short-term tenors. When these positions mature, they need to either be rolled over or squared off. Since these

INDIA'S SHORT DOLLAR POSITION

Net outstanding forward position at month end (in \$ billion)



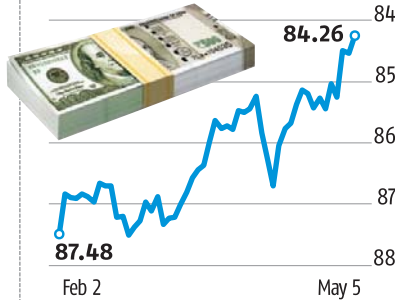
Source: RBI

are short dollar positions, they effectively drain liquidity from the system, so in order to counteract this the RBI has been consistently conducting OMOs,” said Hitesh Jain, strategist, Institutional Equities Research at Yes Securities India.

The RBI is likely allowing the book to mature while simultaneously sterilising the liquidity impact through OMOs. This is why — even when liquidity is in surplus — the RBI is still con-

BOUNCING BACK

Rupee has strengthened 4.38% since Feb 10, when it hit record low of 87.95 per dollar (₹ vs \$ in inverted scale)



Source: Bloomberg

ducting OMOs, ensuring that they align with its accommodative stance in terms of maintaining the banking system, liquidity in surplus,” Jain added.

Instead of rolling over its short positions, according to market participants, the RBI has allowed the swaps to mature while continuing to buy dollars in the spot market. This approach is seen as a way to manage short positions and build reserves simultaneously.

India's total foreign exchange

reserves stood at \$688 billion as of the week ended April 25, \$17 billion short of the \$705 billion peak recorded in the last week of September 2024.

With the overall dollar index in decline, downward pressure on the rupee has eased, according to market sources. Given the rupee's relative stability, the focus has shifted to strengthening reserves. “The dollar index is on a decline, the rupee is quite stable at this point with appreciation bias, so the RBI has been buying dollars on the spot, which is being reflected in the reserves,” said the treasury head at a private bank.

The rupee appreciated by 2.35 per cent in March. By the end of March, the RBI had conducted OMO auctions worth ₹2.5 trillion in the current calendar year.

Additionally, the local currency continues to strengthen against the greenback, with a 4.38 per cent appreciation since hitting a record low of 87.95 per dollar on February 10.

On Monday, the rupee appreciated by 29 paise against the dollar to settle at 84.26. On Friday, it had closed at 84.55 against the dollar. Amid expectations of further declines in crude oil prices and strengthening of its Asian peers, the rupee briefly touched 84.13 during the day.

“The crude is seen falling further and the dollar is declining, which is leading to strengthening of all the emerging market currencies,” said Anshul Chandak, head of treasury at RBL Bank. The rupee has appreciated by 1.44 per cent in the current financial year so far, and by 1.61 per cent in the current calendar year.