

# ₹ hits new low as crude remains elevated

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The Indian rupee fell to a fresh intraday low of 95.44 against the dollar on Tuesday, as a fragile ceasefire in West Asia appeared on the verge of breaking down. Rising tensions involving Iran and the United States over control of the Strait of Hormuz — a critical route for global crude oil transportation — resulted in a spike in oil prices.

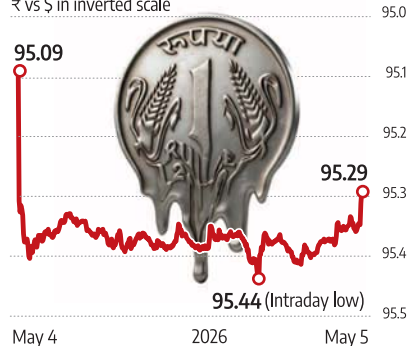
The local currency eventually settled at a new closing low of 95.29, compared with its previous close of 95.09.

Brent crude prices surged to \$114 per barrel before easing slightly to \$111. The spike has raised concerns over India's import bill and inflation outlook. A weakening rupee is also expected to widen the current account deficit and put additional pressure on external balances.

"The rupee's fresh low against the dollar, with onshore spot currently at 95.34, is a direct reflection of the unrelenting pressure from West Asia. Hormuz remains the single

## On slippery ground

₹ vs \$ in inverted scale



Source: Bloomberg Compiled by BS Research Bureau

biggest factor governing oil and gas prices, and elevated crude is exerting a dual squeeze on the rupee," said Anindya Banerjee, head of commodity and currency research at Kotak Securities.

India's monthly energy import bill,

which averaged \$10-11 billion before the conflict, has risen by 70-80 per cent. At the same time, foreign portfolio investor (FPI) outflows have reached around \$21 billion since tensions escalated.

The rupee has depreciated 5.68 per cent so far this calendar year, while it has weakened by 0.5 per cent in the current financial year.

"The combination is forcing the Reserve Bank of India to defend the currency aggressively in both spot and forwards, and it remains the only meaningful force standing between the rupee and a sharper depreciation. Yet despite that defence, the rupee continues to underperform its emerging market peers, which is why it now appears fundamentally undervalued on most measures," Banerjee said.

The Real Effective Exchange Rate (REER) of the rupee declined further to 92.72 in March, down from 93.99 in February.

REER adjusts the Nominal Effective Exchange Rate (NEER) to account for inflation differentials between India and

its major trading partners. A REER above 100 indicates an appreciation relative to the base year, which can reduce export competitiveness.

Market participants said if capital flows remain constrained, Brent crude could climb to \$125-\$130 per barrel, which could push the rupee to 97-97.50 per dollar. The rupee is likely to recover only when crude falls below \$100 and capital flows turn supportive, they said.

Dilip Parmar, senior research analyst at HDFC Securities, said the rupee's fall reflects growing concerns over global inflation and external imbalances.

"The rupee tumbled to a record low as escalating tensions in West Asia and the ongoing Russia-Ukraine conflict fuelled concerns over a global inflation spike. This, along with rising crude oil prices, has increased fears of a widening balance of payments deficit," he said, adding that persistent capital outflows and a cautious approach by the central bank are adding to the pressure.