

Rupee fast heading towards 86

Our Bureau
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The rupee continued to be under pressure, closing at a new lifetime low of ₹85.8450 per US dollar amid a strong greenback, weak Asian currencies and demand for dollar from importers and custodial banks on behalf of their FPI clients.

The Indian unit, which had a gap down opening at ₹85.8225, closed at ₹85.74/dollar on Tuesday. In intraday trades, the rupee touched a low of 85.89.

IFA Global, in a report, noted that US economic data continues to come in stronger than expected, with US December ISM (Institute of Supply Management) services print coming in at ₹54.1 against expected ₹53.3.

DOLLAR SURGES

Forex market dealers say the dollar is strengthening due to rising US treasury yields and possibility of Trump imposing tariff measures on imports from China and other countries.

Radhika Rao, Senior Economist & Executive Director, DBS Bank, noted that rupee traders have been keen to assess the new RBI Governor's



view on the currency since he assumed office last month.

Recent rupee price action points to a higher tolerance for a weaker exchange rate, demonstrated in the 2.1 per cent fall in the rupee vs dollar in Q2 FY24 (October-December), compared to nearly flat Q1-Q3.

DOMESTIC LIQUIDITY

"The weakening bias continues into the new year, with overvaluation of the broad real effective exchange rate (REER) also weighing on exchange rate (November REER was at a record high). Strong intervention presence since Q4 FY24 has led to a drain in domestic liquidity, pushing the balance to a deficit (accentuated by seasonal drivers), notwith-

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standing the 50bp cut in the cash reserve ratio as well as bond purchases by the RBI," Rao said.

This position had also become unsustainable as a rapid appreciation in the dollar magnified the misalignment, increasing the need to ease grip on the rupee, she added.

In its annual outlook, DBS Bank had highlighted the risk that dollar-rupee could head towards ₹86.0 on account of dollar strength as well as pressure on capital and investment flows. Rao noted that the rupee's adjustment phase is likely to persist in light of a challenging outlook for flows, even as bond interests stand to benefit from inclusion into two more global fixed income benchmarks this year.