

Banks rush to unwind long dollar positions ahead of RBI's April 10 deadline

Our Bureau
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Banks seem to have more or less closed out their excessive speculative and arbitrage positions in the forex market ahead of the RBI's April 10 deadline to unwind long dollar positions, going by the gains the rupee has made so far, according to sources, who estimated that almost 90 per cent of these positions may have been unwound.

With the rupee last month breaching 95 per US dollar intra-day, surpassing its previous record lows amid concerns over the West Asia conflict, the RBI introduced a prudential measure on March 27 (post market hours) to ensure orderly conditions in the foreign exchange market.

PRUDENTIAL MEASURE

As per the prudential measure, authorised dealers/ADs (banks) have to limit their net open position in INR (NOP-INR) in the onshore deliverable market to within \$100 million at the end of each business day. This is to ensure orderly conditions in the foreign exchange market.

Following the aforementioned measures, the rupee has so far (up to April 9)



The move will ensure orderly conditions in the foreign exchange market GETTY IMAGES

gained about 200 paise against the dollar in six trading sessions, beginning March 27.

Amit Pabari, MD, CR Forex Advisors, said the RBI stepped in at a critical juncture through its March 27 circular, capping banks' Net Open Position (NOP-INR) at \$100 million, with compliance mandated by April 10. This move came when the rupee was under significant depreciation pressure.

"Market estimates suggested that banks were required to unwind positions worth \$18-30 billion. This unwinding effectively translated into sustained dollar selling and rupee buying, providing near-term support to the currency," Pabari said.

He assessed that with the bulk of NOP-related support now fading and global uncer-

tainties still elevated, the rupee's near-term strength appears limited. USD-INR is likely to find a base in the 92.20-92.50 zone, with a gradual move higher towards 93.50-94.

GEOPOLITICAL CRISIS

He said initially, expectations were that this regulatory intervention, coupled with any easing in geopolitical tensions, particularly the West Asia war, would help stabilise the rupee.

However, recent developments underscore the fragility of the ceasefire, with fresh escalation involving Israel and renewed disruptions around the Strait of Hormuz emerging within hours of the pause announcement, keeping global uncertainties elevated.

"This has reignited upside pressure on crude oil prices... Elevated crude prices directly widen India's import bill, thereby exerting renewed pressure on the rupee," he said.

Referring to losses incurred by some banks due to the prudential measures, a forex dealer said, "Instead of the knee-jerk reaction, which cut the position limits, RBI should have called up bank treasuries to unwind their long positions slowly."