Rupee breaches 82 level vs dollar to hit fresh low

RBI nudges banks to ease up on offshore FX positions

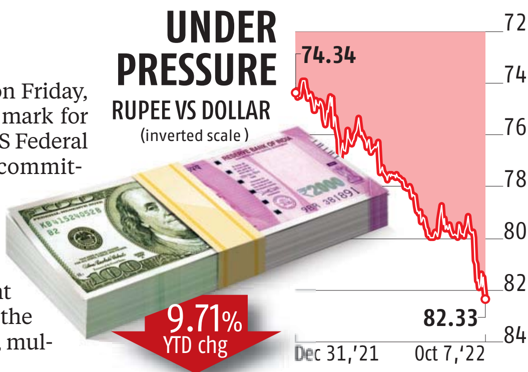
BHASKAR DUTTA
Mumbai, 7 October

The rupee hit a new low on Friday, crossing the 82-a-dollar mark for the first time amid the US Federal Reserve's unrelenting commitment to raise interest rates. The Reserve Bank of India (RBI) is said to have been nudging some banks to slow down on market positions in the offshore segment which have aggravated the fall in the local currency in the last two days, multiple sources said.

The rupee weakened 0.5 per cent to close the day at 82.33 a dollar. The domestic currency, which has depreciated 9.7 per cent versus the US dollar so far in 2022, took a beating on Friday as officials of the Federal Reserve reiterated an aggressive path of rate hikes.

The rupee has suffered an intense spell of weakness since September 21 after the Fed signalled a longer-than-expected US rate hike cycle. The local currency has depreciated 2.9 per cent since that day, breaching past successive psychologically crucial levels.

Multiple sources told *Business Standard* that over the past couple of days, the RBI has been nudging banks to ease up on certain positions in the offshore non-deliverable forwards market, which the central bank does not directly regulate. The bulk of offshore rupee activity is conducted in London, Singapore, and New York.



FOREX RESERVES DROP TO $532.66 BILLION

$5bn Fall

India's forex reserves dropped by $4.854 billion to $532.664 billion as on September 30, the Reserve Bank said on Friday. The reserves, which have been dipping as the RBI deploys the kitty to defend the rupee amid pressures caused majorly by global developments, had declined by over $8.134 billion to ₹537.518 billion in the previous reporting week. In October 2021, the nation's forex kitty had hit an all-time high of $645 billion. 4 ▶

An email sent to the central bank on the issue remained unanswered till the time of going to the press.

Turn to Page 6 ▶

"while account-based CBDC may be considered for CBDC-wholesale", the note said. As far as the choice of technology is concerned, the paper said the infrastructure of CBDCs can be on a conventional centrally controlled database or on distributed ledger technology. The two technologies differ in terms of efficiency and degree of protection from single-point failure, the paper said, adding the underlying consideration for technology should be cyber security, technical stability, and sound technological governance standards.

The concept note also discussed the need for incorporating all the features that physical currency represents, including anonymity and universality.

"Ensuring anonymity for a digital currency particularly represents a challenge, as all digital transactions would leave some trail. Clearly, the degree of anonymity would be a key design decision for any CBDC. In this regard, reasonable anonymity for small value transactions akin to anonymity associated with physical cash may be a desirable option for CBDC-retail," it said.

According to the concept note, the key motivations for exploring the issuance of CBDC in India include reduction in operational costs involved in physical cash management, efficiency, and innovation in the payments system, boosting innovation in cross-border payments space, and providing the public with uses that any private virtual currencies can provide, without the associated risks.

"The use of the offline feature in CBDC would also be beneficial in remote locations and offer availability and resilience benefits when electrical power or mobile network is not available," the note said, adding private virtual currencies sit at substantial odds to the historical concept of money as they do not have any intrinsic value.

Rupee...

With the Fed's aggressive rate hike stance and a recent jump in crude oil prices leading to the rupee depreciating at a faster pace in the offshore market, some banks have been purchasing the greenback at lower levels in the domestic spot market and then selling offshore, sources said.

This has quickened the pace of the rupee's depreciation and, to a certain extent, blunted the effectiveness of the RBI's dollar-selling interventions in the spot market – a point that the RBI was said to have made to banks.

"The RBI is saying that every time they come and intervene in the spot market, the on-shore prices (of the dollar) could fall more here than offshore, so Indian banks would buy here and then they would go and sell dollars in the offshore market. That creates a counter to what the RBI is doing," a source said.

Since 2020, the RBI has started to intervene in the offshore market through domestic banks, dealers said.

According to the Bank of International Settlement's last triennial survey held in 2019, the rupee's volumes in offshore markets surpassed that of the onshore market. The offshore turnover has risen by more than three times from 2016 to 2019, the BIS said, pointing out that the volumes were at $50 billion. In April 2019, the combined domestic spot and exchange-traded volume was around $48 billion, dealers said.

"In the offshore market, the RBI has no jurisdiction. In that market, any hedge fund can stand and absorb the entire flow. Hence, the RBI is asking banks to go slow. Not completely stop it, but go slow, and they are enquiring with banks about how much positions they are carrying every day," the source said.

"I personally don't think that the RBI will intervene too much now. Since the rupee has already broken 80, 81 and 82 levels, I don't think the RBI will intervene very aggressively. They will primarily come in when there is too much volatility," HDFC Bank's executive vice-president of overseas treasury Bhaskar Panda said.

"The next stop is 82.80 and if that breaks, then we can see 83.30 for the dollar/rupee. The main issue is oil prices. I am more concerned about the price of oil. I was confident when it was going down and it was below $90 per barrel. But above $90 and above $100 is very worrisome for us," he said.