

RBI intervention keeps rupee below 84

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Mumbai, September 11

OWING TO THE Reserve Bank of India's likely intervention in the foreign exchange market (forex), the rupee is holding at 83.98, just a tad below the psychologically crucial mark of 84, forex dealers said.

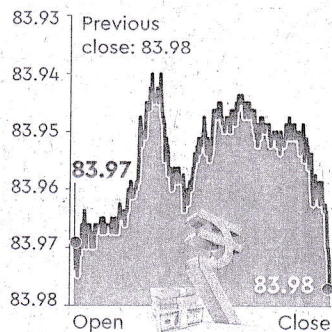
On Wednesday, the rupee closed at 83.97 against the dollar from 83.98 on Tuesday.

The central bank has been active in the onshore market and in the offshore non-deliverable forwards market, with the regulator being seen on the selling and buying dollars as part of their strategy.

While maintaining the Indian currency's export competitiveness amongst its Asian peers, the RBI may allow a gradual depreciation of the domestic currency, dealers said.

"The objective of RBI is to allow the depreciation in an orderly

Rupee vs Dollar
(Intra-day, Sept 11) Inverted scale



manner and duly ensuring the rupee's export competitiveness in the market," said VRC Reddy, deputy general manager, treasury, Karur Vysya Bank.

At times of spike in foreign inflows in the markets, the central

bank resorts to buying dollars, thereby preventing a sharp appreciation in the Indian currency, while when there is some outflow demand from oil companies, RBI usually sell dollars, limiting any sharp depreciation.

Hence, the market participants perceive this move has been directed towards smoothening of the rupee against the greenback.

In the last two months, the rupee has hit several fresh lows against the dollar on fears about slowing down of the US economy, weakening global investors appetite for emerging market currencies.

Going forward, the trajectory of the Indian currency is likely to be determined by the notions around the US economy.

If in the upcoming US Federal Open Market Committee, US Fed cuts the interest rate by 50 basis point, it would highlight a slowdown

in the world's largest economy.

Consequently, it would lead to a tendency of risk aversion amongst global investors, and could hurt emerging markets. Meanwhile, if the cut is just 25 basis points, it would indicate towards the resilient US economy, and may lead to lower interest rates and weakening of the dollar.

As of August 30, the RBI's foreign exchange reserves were at a record high of \$683.99 billion against \$667.39 billion on July 26, according to the RBI data.

"RBI has net sold dollars in the spot market worth \$2.4 billion in April-August, while in the FY24 April-August, the RBI had net bought \$19.2 billion in the spot market. This indicates that the balance of payments surplus has reduced in FY25, led by wider trade deficit and reduction in FPI inflows in equities," said Gaura Sengupta, chief economist at IDFC First Bank.