

# Crude shock for ₹, markets

₹ worst performer in Asia; logs sharpest single-day decline in 2 years against \$

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Mumbai, 13 January

**A** selloff in domestic equities on Monday sent the rupee tumbling past the psychologically crucial mark of 86 against the dollar to log its steepest single-day fall in nearly two years. Hardening crude oil prices and a strengthening dollar added to the pressure.

The rupee fell 0.7 per cent on Monday to close at a fresh low of 86.58 per dollar, compared to the previous close of

85.97 against the greenback, to become the worst-performing Asian currency for the day. There was minimal intervention by the Reserve Bank of India (RBI), said dealers.

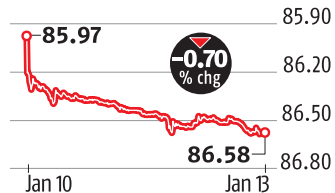
On February 6, 2023, the domestic currency had experienced 1.10 per cent depreciation.

The rupee weakened to 86 per dollar from 85 in just 16 trading sessions. In contrast, its movement from 84 to 85 took 46 working days, while the shift from 83 to 84 happened in 478 days.

Turn to Page 5 ▶

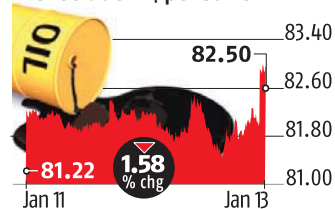
## FRESH LOW

(₹ vs \$ spot in inverted scale)



## OIL PRICES JUMP

Brent crude in \$ per barrel



## PACE OF RUPEE FALL



| ₹ level | Date        | Closing level vs \$ | Working days |
|---------|-------------|---------------------|--------------|
| 79-80   | Sep 22, '22 | 80.87               | 57           |
| 80-81   | Sep 26, '22 | 81.62               | 2            |
| 81-82   | Oct 7, '22  | 82.33               | 8            |
| 82-83   | Oct 19, '22 | 83.02               | 8            |
| 83-84   | Oct 11, '24 | 84.07               | 478          |
| 84-85   | Dec 19, '24 | 85.07               | 46           |
| 85-86   | Jan 13, '25 | 86.58               | 16           |

Note: Data for Brent crude as of 9:00 pm IST  
Source: Bloomberg; Compiled by BS Research Bureau

# ₹ falls 3.67% vs \$ in FY25 so far

In FY25 so far, the rupee has depreciated by 3.67 per cent. In January alone, it has weakened by 1.12 per cent. This depreciation complicates matters for the central bank, which is set to review monetary policy in February amid expectations of a rate cut following slowing growth.

The dollar index rose to 110.08 on Monday, up from 109.17 on Friday. It measures the greenback's strength against a basket of six major currencies.

Market participants said the rupee breached the 86 mark earlier than expected and now appears poised to approach 87 per dollar soon.

"We did expect 30-35 paise (fall), but this, of course, was a much sharper move. Earlier, the RBI was more aggressive in terms of trying to hold the range. Now that we have used so much reserves and given where the dollar is, I think this is finally getting in line with the emerging market currencies. Now, 87 is not far and could happen in the next two-four days," said Anshul Chandak, head of treasury at RBL Bank.

"The next four-five weeks will be very tricky. Given the current situation, more than a rate cut right now, measures around durable liquidity are important. The RBI will be mindful of the reserves and liquidity during intervention now," Chandak said.

India's foreign exchange reserves fell to \$634.6 billion in the week ended January 3, marking a 10-month low and a \$70 billion decline from their peak in late September.

"The RBI now seems to be less keen to step in to arrest rupee depreciation given that it has already burned significant reserves. The rupee is still considerably overvalued in REER terms (even after the latest bout of depreciation)," said Abhishek Goenka, chief executive officer, IFA Global. "We expect the pressure on the rupee to

continue in the near term due to overall dollar strength. The RBI's focus on correcting rupee overvaluation will ensure that Rupee at least moves in line with peers, especially the yuan," said Goenka.

Adding to global uncertainty, US President Joe Biden has announced additional sanctions on Russia, which has pushed Brent crude oil prices above \$81 per barrel. Higher oil prices are worsening India's trade deficit, increasing demand for foreign exchange, and further pressuring the rupee.

"I think the rate cut possibility for February is reducing with the rupee depreciating so quickly. The intervention also depends on the import cover they have. They are conducting buy/sell swaps in the non-deliverable forwards, but the strategy for the spot market is unclear," said the treasury head at a private bank.

Experts said India's forex reserves currently provide an import cover of 9.8 months as of the first week of January, down from 11 months as of December 13. While the RBI does not target specific import cover levels, it uses various adequacy metrics to guide its intervention strategy, experts said. The declining import cover reflects reduced reserves, necessitating a strategic approach to liquidity management.

"Liquidity conditions can get tighter if balance of payments flows don't pick up, which they haven't currently, as currency leakage tends to rise. We expect the RBI to do some significant durable liquidity infusion. Otherwise, monetary policy will effectively become tighter," said Gaura Sen Gupta, chief economist at IDFC FIRST Bank.

The banking system liquidity deficit stood at ₹2.2 trillion on Sunday, according to RBI data.

