BUSINESS STANDARD POLL

₹ to end FY23 stronger after recent volatility

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After displaying considerable strength versus the US dollar in the first three weeks of 2023, the rupee surrendered most gains due to uncertainty about how much further US interest rates may rise and the crisis in the Adani group.

Going ahead, however, analysts expect the rupee to recover ground and end the current financial year stronger than its prevailing levels.

According to the median of a *Business Standard* poll of 10 respondents, the rupee is seen at 82.25 per US dollar at the end of March, stronger than its close of 82.73 per dollar on Monday.

However, going into the first quarter of the next financial year, the rupee may weaken slightly from where it is now, as a continuing Fed rate hike cycle, narrower rate differentials with the US and risk aversion sparked by a possible global growth slowdown are seen keeping the dollar firm.

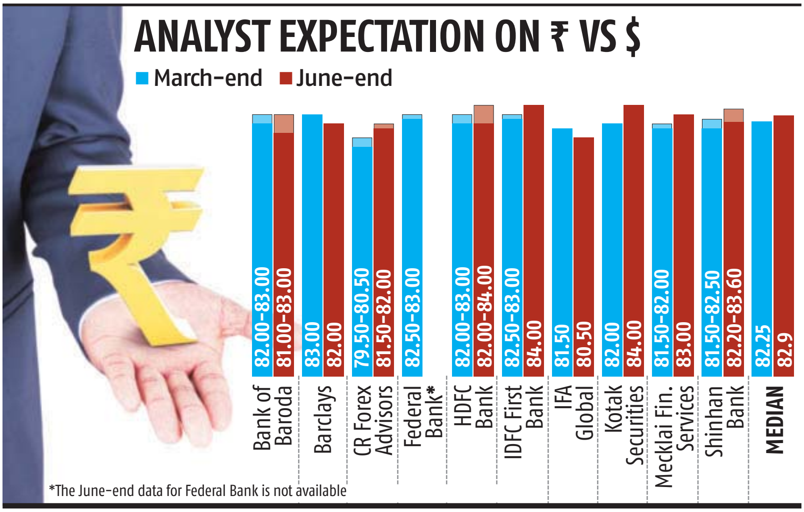
The domestic currency is seen at 82.90 per US dollar at the end of June, the poll showed. The rupee's record low versus the US currency is 83.29 per dollar.

The rupee had ended 2022 at 82.74 per US dollar, having depreciated 10 per cent against the greenback. In the first three weeks of 2023, the domestic currency gained considerably against the dollar as easing inflation in the US led to anticipation of the Fed nearing the end of its rate hike cycle.

The rupee gained as much as 2 per cent till January 20, closing at 81.13 per dollar on that day.

Subsequently, however, the domestic currency reversed course versus the dollar as an unexpectedly strong US jobs data set stoked fears that the country's central bank would keep maintaining higher rates for longer in the face of an overheated economy. The meltdown in Adani group stocks following Hindenburg Research's allegations of malpractice on January 24 also hurt the rupee as overseas investors sold Indian stocks.

In the next couple of months, however, the rupee is seen benefiting from a seasonal demand for the local currency that occurs at the end of the financial year as corporates close their accounts.



"We feel that the rupee has been underperforming and we are reaching towards a trajectory of interest rates topping up in the US. We did have a recent US jobs data set which was hawkish but broadly, the dollar is going to get weaker," IFA Global's founder Abhishek Goenka said.

"I don't think the rupee's view will get changed because of the Adani issue. Ultimately, it's a call on India. For the rupee, there has definitely been a knee-jerk reaction and we have seen an impact on equities but fundamentally there are factors in India's favour. The markets may not reach their previous highs and some people may cut weights but things will stabilise," he said.

Some analysts also cited a likely lower current account deficit in the next fiscal year and resilient domestic growth prospects amid global economic weakness as factors in favour of the rupee. The RBI has pegged India's GDP growth at 6.4 per cent for the next fiscal year, while the IMF estimates global growth at 2.9 per cent in 2023.

"I see the overall balance of payments improving because of a lower current account deficit, as global commodity prices remain stable. Secondly, I do expect to see an improvement in terms of software receipts. And three, there is the possibility of FPIs turning a bit more positive," Bank of Baroda's chief economist Madan Sabnavis said.

"It's essentially based on fundamentals plus the fact that the dollar index should remain more or less stable. That was something which dragged the rupee down last year. I feel the dollar would be more inclined towards depreciation than appreciation this year," he said.

While the stark contrast in the growth prospects in several parts of the world and India may work in the rupee's favour, a key headwind flagged by analysts was the shrinking interest rate differential with the US.

The differential has narrowed as the US Fed has hiked interest rates by a far greater quantum than the RBI. A narrower spread between US and Indian interest rates makes it less appealing for overseas investors to buy local assets.

"Depreciation pressure on INR will be maintained by policy rate differentials between India and US remaining near historical lows. Current account deficit is expected to narrow in FY24; however, the improvement will be limited by export weakness," IDFC First Bank's economist Gaura Sengupta said.