

# Worst of ₹ volatility seen over as Fed view softens

₹ likely at 81.68 by December-end, largely stable at 81.75 by March-end

**BHASKAR DUTTA**

Mumbai, 14 November

Following a month-and-a-half of intense volatility that saw the rupee descend to new lows, the domestic currency is finally seen stabilising as a softer US inflation print has taken the sheen off the dollar.

According to the median of a *Business Standard* poll comprising 10 respondents, the rupee is seen at 81.68 per US dollar at the end of December, around 0.5 per cent weaker than 81.26 per dollar at close on Monday.

The poll pegged the rupee at 81.75 per dollar at the end of March, close to the levels predicted for the end of December.

The mode of the poll pegged the rupee at 81 per dollar at the end of the calendar year, and 82 per dollar at the end of the financial year.

The rupee, which has depreciated 8.5 per cent against the dollar so far in 2022, has witnessed several swings this year. However, it was in the past two months that the domestic currency

experienced a heightened degree of volatility, shedding as much as 4 per cent between September 21 and October 20, when it touched a new intraday low of 83.29 per dollar.

The turbulence over the last couple of months was sparked by an unexpectedly aggressive monetary tightening plan outlined by the US Federal Reserve in September.

What has given the rupee some much-needed relief this month is a long-awaited decline in US inflation, which builds a case for the central bank of the world's largest economy to slow down on future rate hikes. This has caused the dollar index to weaken, improving the appeal of emerging market currencies like the rupee.

"Basically, the dollar index after touching a high of 114, has come down to around 106. And I'm expecting it to hover around 106 to

108 or 109. That is factor number one in support of the rupee," HDFC Bank's executive vice-president of overseas treasury, Bhaskar Panda told *Business Standard*.

"If oil drops a little lower than the current levels of around \$95-96 per barrel, then you can get ₹81.50/\$1. Moreover, the interest rate scenario will be a lot clearer by March-end, both for the Federal Reserve and the RBI," he said. While the outlook for the rupee has improved, analysts do not see the rupee strengthening past the 80 per dollar mark in coming months, as fundamental factors, such as a widening current account deficit, continue to pose headwinds.

"It's not all clear as far as uncertainties are concerned and therefore we are still maintaining our March 2023 INR forecast at 83," said Standard

Chartered Bank's Head of Economic Research (South Asia) Anubhuti Sahay.

"There is the wider CAD, limited portfolio investment, and of course, crude is still trading in the \$90-95 range. And obviously, the RBI cannot intervene at the same pace as they were doing earlier this year." A narrower interest rate differential with the US following 375 basis points of rate hikes by the Fed is also seen posing a hurdle for the rupee's appreciation beyond a point.

"Let's not forget that the interest rate differential has reduced materially. To that extent, any portfolio inflow is unlikely to materialise soon. For now, it is looking good but it needs to be supported by a fall in local inflation," ANZ Bank's head of trading Nitin Agarwal said.

With the dollar's overall strength and the RBI's interventions in the currency market leading to a sharp decline in foreign exchange reserves, some experts expect the central bank to purchase dollars around the ₹80/\$1 mark and replenish reserves.

## BS RUPEE POLL



Institution	December-end (\$1=₹)	March-end (\$1=₹)
Finrex Treasury Advisors	81.0	80.5
Shinhan Bank	81.6	79.8
Standard Chartered Bank	83.0	83.0
Bank of Baroda	80.00-82.00	80.00-82.00
CR Forex Advisors	81.5	79.0
Kotak Securities	81.0	82.0
IDFC First Bank	80.50-83.00	85.0
India Ratings & Research	82.0	81.5
Barclays	83.5	84.0
HDFC Bank	82.00-82.50	81.50-82.50
Median	81.68	81.75
Mode	81.0	82.0

"It (RBI) had sold good amounts at 80 and must have parked them forward. So they can start buying at

around 80 is what I am expecting," said Finrex Treasury Advisors' Head of Treasury Anil Kumar Bhansali.

**Analysts don't see ₹ strengthening past 80 per dollar in coming months, as fundamental factors, such as a widening CAD, continue to pose headwinds**