

Rupee Plunges Below 83.50 as West Asia, US Rate Worries Continue

The local unit closes at 83.54/\$1, a record low; RBI likely to step in to support it

Bhaskar Dutta
@timesgroup.com

Mumbai: The rupee sank to a new low against the dollar, weakening past 83.50/\$1, as fading hopes of US rate cuts and escalating tensions in the Middle East hurt emerging market currencies, with analysts saying Reserve Bank of India would deploy its large reserves to arrest any runaway move in the local unit.

The Indian currency ended trade at 83.54/\$1 on Tuesday, against Monday's closing of 84.45/\$1, which was also a record low. So far this calendar year, the rupee has lost 0.4% against the dollar.

Data released after Indian market hours on Monday showed US retail sales increased at a sharper-than-expected pace in March, giving further evidence of a resilient economy after robust job data and an elevated inflation print.

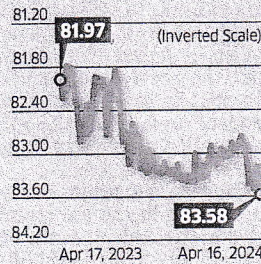
US bond yields jumped, and the dollar index strengthened sharply as the data further weakened the case for the US Fed to cut rates.

"Rupee can remain under pressure in the near-term due to two factors. Uncertainty on geopolitical tensions in the Middle East and secondly, strong data prints from the US is leading to dollar strength," said Anubhuti Sahay, head of South Asia Economic Research at Standard Chartered Bank.

"Whether 84/\$1 will be breached or not is difficult to say, but from the RBI's perspective, we expect them to smoothen the volatility. It has 11-12 months of import cover," she said.

As of April 5, RBI's headline foreign exchange reserves stood at

Rupee vs Dollar



\$648.56 billion, a record high. In 2022, following the start of US rate hikes and Ukraine war, the Indian central bank had utilised its reserves to rein in excessive volatility in the exchange rate.

"I would give a low probability of the rupee moving above 84/\$1, but there are a lot of risks. I'm basing this confidence based on what we've seen from the RBI in terms of their intent and their intervention in the market," said Sakshi Gupta, principal economist, HDFC Bank.

Going ahead, however, a key variable that would determine the rupee's course would be the trajectory of crude oil prices. While most traders said for now the rupee was unlikely to breach the 83.60/\$1 mark, an increase in Brent crude futures beyond the \$100 per barrel mark could bring the currency towards 84/\$1.

"Over the next one month, depreciation pressures on INR are likely to persist with markets pricing in delays in Fed rate cuts and geopolitical risks keeping upward pressure on crude oil prices. USD/INR is likely to trade between 83.30 to 84/\$1 range over the next one month," said Gaura Sengupta, economist, IDFC First Bank.



Analysts say going ahead a key variable that would determine the rupee's course would be oil prices

bring the currency towards 84/\$1.