Rupee dips to new low on rush to buy $, FPI exit

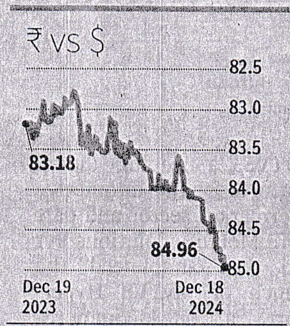
Our Bureau
Mumbai

The rupee (INR) seems to be gradually slipping down to the 85 per US dollar (USD) mark.

The domestic unit closed at yet another lifetime low on Wednesday, weighed down by a host of factors including importers' rush to buy dollars, foreign portfolio investors turning net sellers in domestic equity markets and the all-time high trade deficit in November.

The rupee closed at 84.9525 per USD, about 6 paise down from the previous close of 84.8950, even as forex market traders looked to a rate-cut by the US Fed.

Intra-day, the INR tested a high of 84.9550, with the RBI putting the brakes on further depreciation by intervening in the market through dollar sales.



Amit Pabari, MD, CR Forex Advisors, observed that the rupee remains under pressure as the US Federal Reserve is widely expected to deliver a rate cut.

However, market expectations for rate cuts in 2025 have declined, influenced by robust US economic data and potential policies linked to the Donald Trump 2.0 regime.

Thus the spotlight is now firmly on the US Fed economic growth projections and the Dot Plot.

"These projections... are set to provide critical insights into the Federal Reserve's outlook. Although not binding, it serves as a valuable indicator of future rate movements, helping investors gauge whether the Fed's stance aligns with current market expectations," he said.

Additionally, the Fed Chair's remarks during the post-policy announcement will be pivotal in shaping market sentiment.

Pabari sees the rupee trading within a range of 84.7 to 85.2 in the near term.

ASIAN CURRENCIES

V Rama Chandra Reddy, Head of Treasury, Karur Vysya Bank, emphasised that the RBI still has the firepower to intervene in the market, given the forex reserves it has built up.

So, the rupee has not depreciated as much as other Asian currencies, including the Chinese Yuan, have against the USD in the last one-and-a-half months or so.

Asian currencies depreciated after Trump's threat to raise tariffs on imports from BRICS countries if they float a common currency for trade.

Reddy noted that importers are rushing to buy dollars fearing further rupee depreciation while exporters are holding back realisation of export proceeds in the hope of getting more rupees for the dollars they bring back later.

Radhika Rao, Senior Economist and Executive Director, DBS Bank, said, "The prospect of further yuan/CNH weakness and high UST (US Treasury) yields have also kept the rupee under pressure. Allowing the currency to depreciate will help rein in the import bill, albeit the authorities might prefer to keep the resultant volatility in check."