

Rupee moves closer to 85/\$

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THE RUPEE HIT another fresh low of ₹84.96 to a dollar on Wednesday, as there was buying demand from foreign portfolio investors and importers ahead of the US Federal Reserve's policy announcement, wherein there are expectations of a 25 basis point (bps) rate cut.

Market participants expect the rupee to touch the psychologically crucial mark of 85 sooner than later, despite the intervention of the Reserve Bank of India, as the dollar has continued to gain momentum. Investors anticipate Jerome Powell, US Federal Reserve Chair, to be slightly hawkish in his commentary regarding going forward outlook. This would push the dollar index and yields on the US Treasury notes upwards.

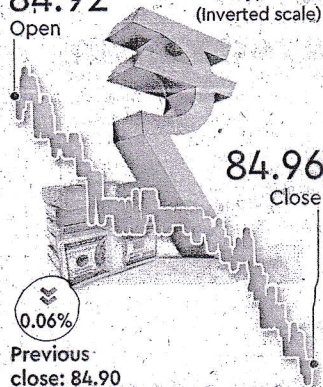
"85/\$ a dollar looks very close. But it depends on when Mint Road wants to take the rupee level to 85. Tomorrow (Thursday), RBI's positions in NDF will be watched carefully; if not protected, the rupee may fall sharply," said a forex trader with a state-owned bank.

According to market participants, state-owned banks sold dollars on behalf of the Reserve Bank of India, protecting the rupee at the crucial level of 84.95/\$.

ON A SLIPPERY TRACK

Rupee vs dollar

84.92 Intra-day, Dec 18
Open (Inverted scale)



Previous close: 84.90

■ The dollar index, which measures the greenback against six rivals, was up 0.05% at 106.98

■ A 25 bps rate cut by the US Fed seems to be priced in

Moreover, the apex bank conducted mid-tenor buy-sell swaps, thus parking it forward for around 6 months' tenure. It has asked state-owned banks to not take unhedged positions in the non-deliverable forwards (NDF) market. Forex

traders said the RBI was present both in the NDF and over-the-counter (OTC) markets at levels around 84.93-94 /\$.

The dollar index, which measures the greenback against six rivals, was up 0.05% at 106.98 after hitting its highest since November 26 at 107.18.

While the 25 bps rate cut by the US Fed seems to be priced in, the focus will be more on how much further Fed officials think they will reduce rates next year. The current dot plot, which is a pictorial representation of the US Fed's rate cut projections, shows the Fed to deliver four 25 bps cuts next year.

"Rupee may touch 85 tomorrow if Fed is hawkish in its commentary for the future, which would take the dollar index and 10-year yields of the US higher and Asian and other currencies lower," said Anil Kumar Bhansali, head of treasury at Finrex Treasury.

Traders are anticipating that the central bank will revise its inflation expectations upwards and lower its projections for rate cuts next year. Data on Tuesday showed a resilient US economy after retail sales beat expectations, but investors are also weighing the possible impact of promised tariffs and tax cuts by the incoming Trump administration.