

₹ REER declines in Dec after Nov peak

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The Real Effective Exchange Rate (REER) of the rupee moderated in December to 107.20 after hitting a peak of 108.14 in November, latest data released by the Reserve Bank of India (RBI) showed. The REER was 103.66 in January 2024.

The rupee depreciated around 3 per cent against the dollar in 2024. REER, which represents the inflation-adjusted, trade-weighted average value of a currency against its trading partners, is often used as an indicator of external competitiveness.

The rupee had depreciated by 1.31 per cent in December. The dollar index rose by 2.75 per cent to 108.48 during the month. It

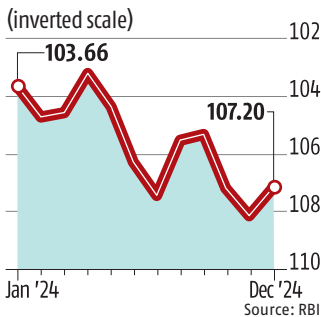
measures the strength of the greenback against a basket of six major currencies.

The rupee depreciated on the back of heavy foreign portfolio investor (FPI) outflows triggered by a surge in US Treasury yields.

The dollar also strengthened as the Federal Reserve (Fed) signalled fewer rate cuts than expected. The US central bank reduced rates by 25 basis points (bps) early December, against expectations of a 50 bps cut. Additionally, widening of India's merchandise trade deficit in November led to further depreciation of the rupee.

"The trade deficit data was not good and there were outflows. We saw the rupee devalue to 85.50 per dollar. That's why REER has come down. The January numbers

TRACKING THE FALL RBI's real effective exchange rate of INR (trade-weighted REER)



should be even lower with the kind of movement we are seeing," said Amit Pabari, MD, CR Forex.

In the 47 sessions since November 2024, the rupee has hit

record lows in around 30 sessions.

Notably, the pace of the rupee's decline has accelerated sharply in recent sessions, fuelling speculation about its future trajectory. Despite significant spot dollar sales and forward interventions by the RBI, the rupee continues to weaken.

"Under ceteris paribus conditions, where only the external conditions are considered, there is still room for depreciation of 20-30 paise in value of the rupee," said Madan Sabnavis, chief economist at Bank of Baroda. The RBI sold a record \$20.2 billion in November in the spot market to contain volatility in the foreign exchange market. The net short position in the forward market rose further to \$58.9 billion by the end of the month.