

Concerns of higher-than-expected rate hikes spooking global currency markets; Local unit slides to a new low of 83.02

Mighty Dollar Sinks All, Rupee Breaches 83



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Mumbai: The rupee breached the 83 mark on its way to hitting a new lifetime low against the US dollar amid concerns of a widening trade deficit, with an unabated surge in the world's reserve currency, sparing not even its traditional proxies and sinking the Japanese yen to its lowest in more than three decades.

The rupee Wednesday slid to a new low of 83.02 amid minimal intervention by the Reserve Bank of India (RBI). The local unit lost 0.80% against the US dollar, showed Bloomberg (data compiled by

ETIG.

"Global dollar strength weighed on the rupee, with the central bank letting it drift through normal course of trading," said Anindya Banerjee, currency analyst at Kotak Securities. "If the dollar index extends its gains, the rupee cannot remain immune to it although the local unit remains one of the best performing currencies."

The rupee remained Asia's fourth best performing currency this calendar with the unit losing 10.42% versus a 12.06% drop in the value of the Chinese renminbi.

The dollar index, which measures the unit against other major world currencies, gained over 3% in the past one month to 112.7. International investors sought the refuge of dollar-backed assets days after China gave a third term to its incumbent president Xi Jinping, paving the way for policy continuity at the world's second largest economy.

"Concerns of higher-than-expected rate hikes globally are spooking the currency market," said Sushanta Mohanty, general manager, Bank of Baroda. "The rupee fall has nothing to do with local macro parameters. With a higher current account deficit, the unit will likely mimic the dollar



strength."

Veteran fund manager Mark Mobius warned that interest rates would soar to 9% in the US assuming inflation at 8%. He does not expect prices to cool off anytime soon.

India's current account deficit, or excess of offshore payables over receivables, widened to \$23.9 billion in April-June from \$13.4 billion in the preceding quarter. The gauge is expected to widen further, triggering concerns that an undiminished demand for dollars will put further pressure on the rupee.

The RBI, according to top dealers, was earlier protecting a level of 82.40. This led to speculation in the currency market as a section of traders short-sold the dollar, anticipating central bank supplies of the US currency.

"The RBI sprang a surprise Wednesday prompting those traders to rush for dollars," said the chief dealer at a large Mumbai-based bank.

Central bank officials could not immediately be reached for comments.

Oil companies were seen buying dollars Friday as they were apprehensive of more market swings going ahead.

State-owned GAIL and MRPL (Mangalore Refinery and Petrochemicals) are said to have bought about \$1 billion, market sources told ET. Companies could not be contacted immediately for comments.

The one-month Bloomberg option volatility index surged 46 basis points to 6.85%.

"Irrespective of interim interventions, the rupee will find its natural path as it will also have to align itself to global factors," said Kunal Sodhani, vice president, Shinhan Bank.

The exchange rate between offshore yuan and US dollar plunged to the lowest level since 2008.