

Rupee slips to 2-mth low against dollar

Indian currency has weakened 1.2 % in FY24 so far

ANJALI KUMARI

Mumbai, 20 March

The rupee slumped against the US dollar for the second straight session ahead of the US Federal Reserve (Fed) meeting outcome on Wednesday.

The local currency fell by 15 paise to settle at 83.16 per dollar, the lowest since January 4.

“The rupee experienced a decline driven by the rise in the dollar index, which surged by 0.8 over the past two days to 103.78 before the US interest rate announcement scheduled for later in the evening. With significantly reduced expectations for interest rate cuts in the March policy, the dollar strengthened, leading to overall weakness in other currencies,” said Jateen Trivedi, vice-president-research, LKP Securities.

“Speculation suggests that rate cuts might be delayed until the June-July 2024 policy, further fuelling the dollar rally. The tone of the Fed policy review will be crucial, as a hawkish stance could trigger a sharp rally in the dollar index, potentially pushing the rupee lower towards the 83.25-83.3 per dollar range,” he added.

Market participants speculated that the Reserve Bank of India (RBI) has been intervening in the foreign exchange market via dollar buys to build the foreign exchange (forex) reserves up to \$650 billion by March-end, which further weighed on the rupee.

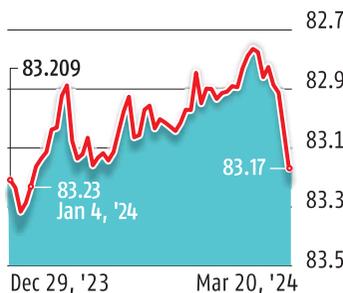
India's forex reserves were at \$636 billion as of March 8.

Premiums on one-year



FED EFFECT

₹ vs \$ (inverted scale)



Source: Bloomberg

dollar/rupee forward contracts also continue to fall after a slew of unfavourable data from the US. The premiums fell to near a month's low of 1.56 per cent on Tuesday.

They rose slightly on Wednesday to 1.62 per cent as traders received premiums and bought dollars to avoid dollar shortage in the system, dealers said.

“The two reasons for the fall in premiums are the RBI receiving the \$5 billion swap delivery leading to a dollar shortage in the system and

delay in rate cut expectations by the Fed,” said V R C Reddy, head of treasury, Karur Vysya Bank.

“Another reason is that the rupee is quite stable, and importers are waiting, and they are not hedging,” he added.

The RBI's \$5 billion dollar-rupee sell/buy swap matured on March 11.

The central bank opted not to renew the swap and instead took delivery, intending to fortify both forex reserves and rupee liquidity.

In March 2022, the central bank engaged in a \$5 billion sell/buy swap, selling dollars while agreeing to repurchase the same amount at the swap's end. This move aimed to extend the maturity profile of the forward book and streamline receivables tied to forward assets.

As the swap approaches maturity, the RBI faces a decision to either accept delivery of the forward dollars or initiate a new swap.

Some traders speculate that the RBI could opt to accept delivery of a portion of the forward dollars and roll over the remainder.

The rupee has depreciated by 0.3 per cent in March so far. In the current financial year (2023-24), it has depreciated by 1.2 per cent so far.

It fell 7.8 per cent in the previous financial year (2022-23). However, in the current calendar year, the local currency has appreciated by 0.5 per cent against the greenback.

In the calendar year 2023, the Indian currency experienced a marginal depreciation of 0.6 per cent against the greenback, marking the least volatility witnessed in nearly three decades.