

Citi, Barclays see rupee slumping to 85/dollar

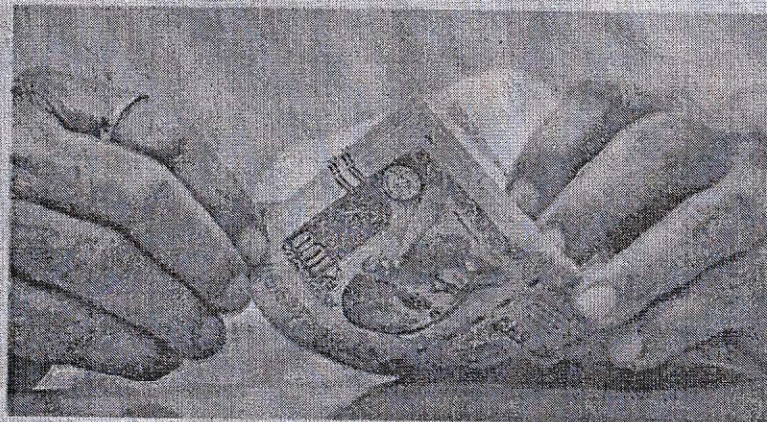
Bloomberg

The Reserve Bank of India is likely to loosen its recent grip over the rupee, said analysts at Citigroup and Barclays, leaving the local currency vulnerable to plumb fresh lows against the almighty dollar.

Citi expects the rupee to push to 85 to a dollar, while Barclays says that the risk of a short-term overshoot to 84-85 is high. Standard Chartered has also extended its long dollar/rupee trade target to 85 after the local currency breached 83.

The currency has been hitting a series of lows, pushing past 83 to a dollar on Wednesday, making it one of the worst performers in Asia over the past month. It fell to an all time low of 83.29 on Thursday, before recouping the day's losses on suspected central bank dollar sales.

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MATTER OF TIME? If the rupee hits 85 to a dollar by December, it would have lost 12.5 per cent this year

dollar by December, it would have lost 12.5 per cent this year – the steepest decline in a decade. While the RBI has stepped in regularly to smoothen the rupee's drop, analysts said the intervention is depleting the foreign exchange pile at a robust pace.

"RBI is likely to dampen the volatility of USD/INR still, but hurdle for drawing lines in the sand may get higher and higher, especially with valuation losses

taking a toll on reserves and optics of reserve coverage ratios deteriorating," wrote Citi analysts Gaurav Garg and Gordon Goh in a note.

FOREX STOCKPILE

India's forex stockpile is down over \$100 billion since it hit a peak of \$642.5 billion in September 2021. That drawdown has left reserves enough to cover about nine months of imports, down from around 12 months a year ago. RBI

Governor Shaktikanta Das has defended the monetary authority's intervention policy, pointing out that the recent erosion in India's foreign-exchange reserves was mainly due to a stronger dollar and the pile remains healthy.

The RBI sold around \$80 billion between April and September in spot and forwards, including the NDF and FX futures markets, as per Barclays estimates. For perspective, the RBI sold around \$50 billion the last time the rupee came under stress in fiscal 2019, after accumulating a similar amount, it said.

"The wide current account deficit and tighter global financial conditions should continue to exert pressure on the rupee and keep the currency from outperforming in a weak dollar environment," wrote Ashish Agrawal, a strategist at Barclays, in a note, adding that headwinds should ease from Q1 2023.