

# Rupee's expected volatility declines to multi-decade lows in June

**Our Bureau**  
Mumbai

The rupee stood as one of the better-performing currencies amongst emerging market peers, with its expected volatility also declining to multi-decade lows in June. Currency's volatility is an important consideration when investors look to profit off the interest rate differentials between two currencies.

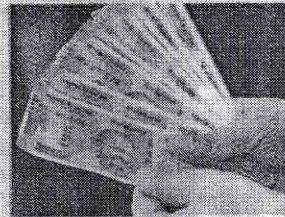
The rupee remained constricted within the 81-83 band on aggressive RBI intervention, irrespective of the dollar's performance

through the past month. "RBI's continued two-way intervention is also evident from the sharp decline in FX (foreign exchange) volatility," said Rajani Sinha, Chief Economist, and Senali Vahadane, Senior Economist, CARE Ratings.

## **GROWTH PROSPECTS**

The positive bias for the rupee can also be attributed to improved growth prospects, healthy capital inflows, and lower oil prices, they added.

Amit Pabari, Managing Director, CR Forex Advisors, observed that if the Chinese currency has weakened 5 per



cent and the rupee has weakened only by 2 per cent, relatively, the Indian currency becomes a better performing currency.

"We have got huge forex reserves. Our growth story is intact. Inflation is low. Because of these factors, our currency is not weakening.

The RBI is managing the currency well," Pabari said.

"Overall, we expect the rupee to remain in the 81-83 range by the end of FY24, with an improving current account deficit, capital inflows, lower oil prices and positive real rates contributing to a positive bias," CARE Ratings Economists said.

## **FPI FLOWS**

"Foreign portfolio investor (FPI) flows rose to \$5.8 billion in May, its highest level in 9 months, with the positive trend continuing in June," they said.

Sinha and Vahadane un-

derscored that the rupee has traded within a tight range of 81-83 since late 2022 on active RBI intervention.

The Indian currency was largely supported by overseas inflows, lower oil prices and positive real rates. FPI flows rose to \$5.8 billion in May, its highest level in 9 months, with the positive trend continuing in June.

## **RENMINBI DEPRECIATION**

The rating agency's economists said Chinese renminbi's depreciation following rate cuts by the People's Bank of China (PBoC) is likely to put pressure on rupee, to remain

competitive on the export pricing front. Moreover, a declining renminbi-rupee could make imports from China attractive, further straining India's trade deficit with the Asian giant.

Elara Securities, in a report said, the rupee's response to the US dollar's decline has been muted in the wake of RBI's intervention in spot and forwards.

Additionally, the expectation of a prolonged pause by the Monetary Policy Committee as against chances of another rate hike by the Fed is also driving movement in the pair.