

₹ seen weakening to 87 per \$ by July-end on Iran-Israel conflict

May regain its ground against the greenback by end of September

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After depreciating 1.29 per cent against the dollar this financial year, the rupee is expected to weaken more because of West Asian military conflicts, with the expectation that prices of crude oil will rise.

According to a *Business Standard* poll, the majority of the respondents expect the rupee to depreciate to 87 a dollar by the end of July.

However, the local currency is seen regaining ground against the greenback by the end of September.

The rupee settled at 86.59 on Friday. Crude oil prices remain a significant “idiosyncratic” risk for the rupee, said a market participant. A spike in prices, driven by escalating geopolitical tensions in West Asia, could put renewed pressure on the rupee and lead to its further underperformance among Asian peers.


The rupee has underperformed its emerging market peers amid the latest bout of dollar softness. “We expect the dollar to weaken against major currencies, especially the euro and yen. Against EM (emerging market) currencies we expect dollar weak-

Currency forecast

Where the respondents think the rupee will be by the end of July and September

₹ vs \$	July-end	September-end
RBL Bank	87.0	87.25
IDFC First Bank	86.5	85.5
Karur Vysya Bank	85.80-86.00	85.40- 85.60
Emkay	87.0	x
CR Forex	86.20-86.50	85.50-86
Mecklai Financial Services	86.0	85.5
Bank of Baroda	87.0	x
HDFC Bank	86.00-87.00	x
IFA Global	87.50	88.00
Finrex Treasury Advisors	86.25	85.5

Note: Few banks didn't provide estimate for September-end



ness to be much less pronounced. Among EM currencies, the rupee has underperformed considerably in the latest phase of dollar weakness. This has resulted in a significant correction of overvaluation in real effective exchange rate (REER) terms. We therefore expect the rupee to more closely track its Asian peers from here on, especially the yuan,” said Abhishek Goenka, chief executive

officer, IFA Global. “However, prices of crude oil remain a key idiosyncratic risk for the rupee. It could come under pressure and underperform further if Brent crude goes above \$90 per barrel owing to escalating tensions,” he added. Since June 13, Israel has carried airstrikes — supported by Mossad-led drone operations — targeting Iran’s nuclear and missile infra-

structure. In retaliation, Iran launched missile and drone attacks, including a major Sejil missile strike on Israel’s Soroka Hospital, which left dozens injured.

The conflict escalated on June 22, when the United States entered the fray, striking Iran’s underground facilities at Fordow, Natanz, and Isfahan with bunker-buster bombs. In response, Iran has vowed severe repercussions, stoking fears of a wider war.

“The range of 85-86 is the ideal figure, which we should be having in the absence of a war. But because of the war, it could go up to 87,” said Madan Sabnavis, chief economist, Bank of Baroda.

“Iran is not a major supplier of crude oil in the global market. There’s an embargo on its exports though it still ships some oil to China. But overall its role in global supply is limited. The recent rise in prices to \$75 per barrel is largely driven by sentiment and psychological factors rather than fundamentals. So while \$80 is a possibility, \$75 is a short-term spike. Once the conflict subsides, prices are likely to settle back around that level,” he added.

The rupee depreciated by 1.13 per cent this calendar year so far. In June so far it has depreciated 1.17 per cent.