

Pressured by strong dollar and weak yuan, rupee hits a new low

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The rupee continues to feel the heat of a strong US dollar and a depreciating Chinese yuan, falling to a new all-time low on Monday.

Month-end importer demand for the greenback, too, weighed down the Indian currency.

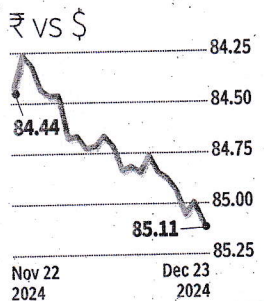
The Indian unit closed at 85.1175 per dollar, down about 10 paise vis-a-vis its previous close of 85.015.

In intra-day trades, the rupee went past last Friday's intra-day low of 85.10, touching 85.12.

The domestic unit had breached the crucial 85 mark for the first time last Thursday on indications that the US Fed may go in for fewer rate cuts.

Fewer rate cuts imply that the dollar will gain strength, relatively weakening other currencies.

Naveen Mathur, Director - Commodities & Currencies at Anand Rathi Shares and Stock Brokers, noted that the rupee's weakness over the past six weeks is primarily due to the strengthening of the Dollar Index following the US election results, coupled with the decline in other major Asian curren-



cies, including the Chinese yuan.

"The Dollar Index touched a two-year high of 108.54 last week and is currently trading around 108 levels."

"The cautious stance of the US Federal Reserve on the trajectory of cuts in Fed Funds Rate for 2025 contributed to dollar strength."

"The offshore Chinese yuan also fell 0.2 per cent to around 7.30 per dollar today as China's bond yields dropped in tandem with softer US yields, with China's 10-year bond yield declining to a record low," he said.

FOREX RESERVES DIP

Mathur noted that while frequent Central bank interventions have helped the rupee to be the least volatile among major Asian peers,

this has also weighed on India's foreign exchange reserves, which declined to a near-six month low of \$652.87 billion as of December 13, 2024.

He expects rupee to gradually depreciate towards 85.50-85.70 against the dollar in the next one month or so, with interventions by the RBI likely to continue damping volatility.

'UNIVERSAL PROBLEM'

Madan Sabnavis, Chief Economist, Bank of Baroda, noted that the dollar will continue to remain strong until the new US President reveals his actions on the economy.

"All indications are that they (the US Fed) will tend to keep the dollar strong and hence all currencies will have to adjust to the same. The problem of depreciation is universal, and hence actions of all those who compete with India need to be monitored closely."

"Presently, the market will test the 85.50 mark and it needs to be seen if this is crossed before the new US President takes over. This issue will also play on the RBI's Monetary Policy Committee as it would have a bearing on liquidity in the system," Sabnavis said.