

₹ stable, forward premia dip on RBI's likely \$5 bn forex rollover

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The rupee on Monday remained stable in the spot market, and forward premia did not fall as much as expected as the Reserve Bank of India (RBI) likely rolled over the \$5 billion swap, which was due to mature, dealers said.

Had the RBI allowed the sell/buy swap to mature and received the \$5 billion on Monday, it could have resulted in a significant scarcity of dollars in the system, leading to substantial demand for the US currency.

"They (RBI) most likely rolled over the contract for a short period of time, otherwise there would have been demand in the spot market," a dealer at a state-owned bank said.

"The delivery of the contract would have hit the dollar/rupee hard," he added.

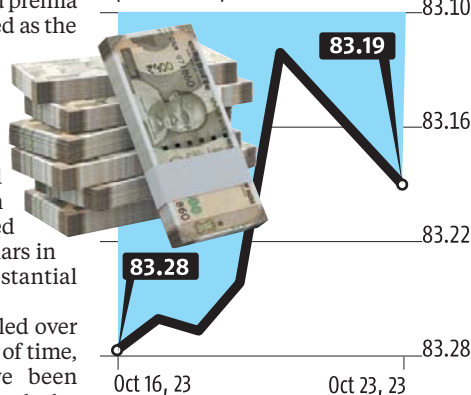
The rupee settled at ₹83.19 per dollar on Monday as against ₹83.12 on Friday.

During April last year, when the RBI implemented the sell/buy swap, the Indian currency was hovering near

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Rupee spot vs dollar

(Inverted scale)



Source: Bloomberg
Compiled by BS Research Bureau

historic lows due to the Russia-Ukraine conflict.

The central bank had stated the swap was executed to lengthen the maturity profile of the forwards book and streamline the receivables linked to forward assets.

Following the announcement of

the sell/buy swap, the premium on the one-year forward dollar/rupee had experienced a significant surge.

In a sell/buy swap, an entity sells a specified amount of dollars and simultaneously commits itself to repurchasing the same sum at the end of the swap period.

"The data forward premiums fell further after the RBI most probably rolled over the contract of \$5 billion due today (Monday) by doing a buy-sell swap," said Anil Kumar Bhansali, head of treasury and executive director at Finrex Treasury Advisors LLP.

The premium on the one-year dollar/rupee forward contracts was trading at 1.66 per cent on Monday as against 1.69 per cent on Friday.

If the maturity of the swap is pushed to a future date, it prevents the premiums from falling sharply.

In anticipation of potential challenges, banks consistently offloaded dollars for forward deliveries this month due to fears of shortage of the greenback if the RBI chooses to fulfil its \$5 billion sell/buy swap. As a result, the premium on the one-year forward dollar/rupee fell by 18 basis points in October.