Rupee plunges over 50 paise to end at 87.21 on heavy $ demand

STEEP FALL. Tuesday's decline is the biggest single-day fall in about three weeks

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The rupee plunged over 50 paise on Tuesday to move past the psychologically-crucial 87 to the dollar mark on heavy month-end importer demand for dollars, FPI selling in the Indian capital markets, and uncertainty about the effect of Trump tariffs.

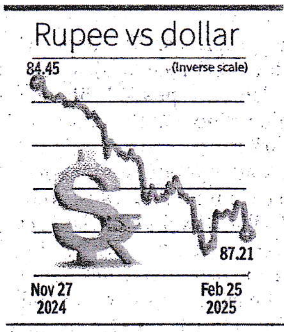
The Indian currency (INR) closed at 87.21 per USD, down about 52 paise against the previous close of 86.6950. Tuesday's decline in the rupee is the biggest single-day fall in about three weeks.

Forex traders said the RBI intervened in the market amid persistent demand for dollars.

TARIFF THREAT

According to them, elevated dollar against major crosses and sustained FII outflows contributed to the decline in the rupee.

Amit Pabari, MD, CR Forex Advisors, said the rupee depreciated as the dollar strengthened following US President Donald Trump's reaffirmation of plans to impose tariffs on Mexico and Canada.



This boosted the dollar index, adding pressure on the rupee.

"Additionally, a large number of offshore forward contracts were set to expire today, requiring traders and investors who engaged in currency deals outside India to settle them. This created strong demand for the dollar, putting additional pressure on the rupee," he said.

Deutsche Bank, in a report, observed that the rupee's trajectory under RBI Governor Sanjay Malhotra's leadership is likely to see more two-way movement, reflecting market dynamics.

FPI net inflows into debt remain muted, totalling just $1 billion since October 2024, amid a low interest rate differential with the US

RBI'S APPROACH

"While we forecast INR to end at 88 versus the USD by December 2025, near-term volatility cannot be ruled out, especially if global trade tensions escalate. However, the RBI's likely approach to keeping monetary and FX policies separate is a positive development, ensuring that exchange rate management does not undermine domestic policy objectives," the bank said.

Radhika Rao, Senior Economist (Eurozone, India, Indonesia), DBS, noted that the RBI's outstanding net forward dollar sales had jumped sharply to $67.9 billion as of December 2024, signalling measures to stabilise the currency.

FPI FLOWS

CareEdge Ratings assessed that that on a net basis, FPIs have pulled out $24 billion from equity markets since October 2024, driven by global risk-off sentiment, putting pressure on the rupee and domestic liquidity conditions.

FPI net inflows into debt remain muted, totalling just $1 billion since October 2024, amid a low interest rate differential with the US.

The agency also said the adverse impact of reciprocal tariffs could be partially mitigated by the depreciation of the rupee against the dollar, making Indian exports more competitive.

Currency markets will remain closed on Wednesday for Mahashivratri.