Fx reserves fall for 1st time in 5 weeks

RBI likely resumed dollar sales to shield rupee from excess volatility

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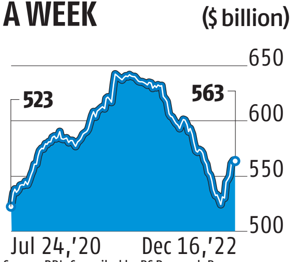
The Reserve Bank of India's (RBI's) foreign exchange reserves declined for the first time in five weeks to $563.50 billion in the week ended December 16.

The $571-million fall in the RBI's reserves was primarily due to a decline in the central bank's foreign currency assets, which dropped by $500 million to $499.62 billion in the previous week, latest data showed.

The decline in the reserves was likely due to the fact that the central bank resumed dollar sales in order to protect the rupee after a month of relative stability in the domestic currency.

In the week ended December 16, the rupee depreciated 0.7 per cent, weakening close to the psychologically significant 83 per dollar mark. The rupee's all-time intraday low is 83.29 per US dollar. So far in 2022, the rupee has depreciated 10.29 per cent against the dollar.

DOWN $571 MN IN A WEEK



Source:RBI; Compiled by BS Research Bureau

"The fall in the reserves is probably because of the RBI's dollar sales. Even after strength in Asian currencies, the rupee was unable to strengthen. Some foreign fund outflows were also there. Moreover, some importers rushed to cover positions, so it was because of that there was a minor dip in the forex reserves," HDFC Securities Research Analyst Dilip Parmar said.

According to market participants, a decline in dollar/rupee forward premiums to fresh 11-year lows last week had contributed to the rupee's weakness as importers had rushed to lock in dollar purchases while exporters refrained from selling the greenback due to lower returns.

The forward premium rate, which is essentially the interest rate differential between India and the US, represents hedging costs for importers.

After falling by around $100 billion from late February to end September, the RBI's foreign exchange reserves climbed by $31.4 billion till early December. The RBI's reserves fell after Russia invaded Ukraine in late February, prompting global investors to reduce exposure to emerging market assets and rush to the safety of the US dollar. The Federal Reserve's aggressive monetary tightening led to further dollar strength.

The RBI said earlier this month that, foreign exchange reserves worth $564.1 billion as on December 9 accounted for 9.2 months of imports projected for the current financial year. The level of reserves in September 2021 had accounted for close to 15 months of imports.