Rupee touches new low for 6th session in a row

HITS 85.2 AGAINST DOLLAR

LIQUIDITY DEFICIT WIDENS TO 7-MTH HIGH

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The rupee hit a new low for the sixth consecutive trade due to the month-end demand for dollars among importers coupled with the rise in US Treasury yields, said dealers.

The local currency settled at ₹85.20 per dollar on Tuesday, against ₹85.12 on Monday. During the current calendar year, the rupee has depreciated by 2.24 per cent. In December so far, it witnessed 0.73 per cent depreciation.

The Reserve Bank of India (RBI) intervened in the foreign exchange market via dollar sales which avoided further depreciation. India's foreign exchange reserves have declined to a six-month low, highlighting the RBI's timely interventions to mitigate excessive depreciation of the currency.

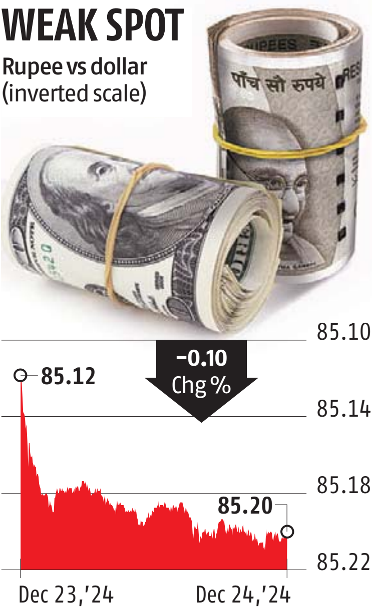
"The dollar index moved past 108 and there was month-end demand from oil importers," said a dealer at a state-owned bank. "The RBI was there, importers were present but not at a specific level," he added.

The 10-year US Treasury yield climbed to 4.59 per cent on Monday, and remained steady during the day. Meanwhile, the dollar index edged up to 108.2, gaining over 2 per cent this month.

"We were looking at ₹85.50 per dollar by March-end, but we approached ₹85.20 in December itself. The RBI is tied up in terms of intervention with the drying liquidity and short positions," said the treasury head at a private bank.

Liquidity deficit in the banking system widened to ₹2.43 trillion on Monday. This is the highest since May 21, 2024, latest data by the RBI showed.

WEAK SPOT
Rupee vs dollar
(inverted scale)



Source: Bloomberg

The rupee has faced significant pressure this quarter due to several factors, including sluggish capital inflows, expanding trade deficit, worries about slowing economic growth, and, most recently, the Federal Reserve's (Fed's) hawkish stance on benchmark interest rates.

The Fed cut interest rates by 25 basis points (bps) while maintaining a hawkish stance, signalling expectations of rising inflation. The central bank projected a 50 bps rate cut in 2025, followed by another in 2026.