

₹ ends beyond 81/\$ for first time

Lags EM peers; RBI may have sold around \$1 bn on Monday, but experts see pace of intervention declining

BHASKAR DUTTA
Mumbai, 26 September

The rupee witnessed a sharp 64-paise decline against the US dollar on Monday to hit a fresh low, as unabated strengthening of the greenback wreaked havoc on the financial markets across the globe. The local currency ended at 81.63 versus the dollar against the previous close at 80.99. It's for the first time that the rupee has settled the day's trade beyond the 81 mark. Intraday, it hit a low of 81.66 per dollar. So far in 2022, the rupee has depreciated 8.9 per cent versus the US dollar.

Analysts expect the RBI may have sold \$1 billion on Monday to calm nerves but suggest a decline in the pace of intervention. On September 21, the US Federal Reserve not only hiked rates by 75 basis points – taking the cumulative rate hike figure since March to 300 bps – but also hinted at a longer monetary tightening cycle than earlier expected. With the prospect of higher interest rates sending global funds rushing to the US, the dollar index surged to a fresh 20-year high of 114.50 early on Monday. The index, which has gained 20 per cent, so far, in 2022, was at 112.12 at the end of domestic trading hours on Friday.

The rupee has depreciated 2 per cent versus the dollar since September 21, making it one of the worst performing EM currencies. It has fared worse than 14 other emerging market currencies; only the South Korean won has lost more versus the dollar. Before September 21, the rupee had outperformed many of its peers, primarily on account of heavy market interventions by the RBI.

"I think the depreciation that is happening now is more of catch-up, because the market believed that the RBI had drawn a line in the sand at around the 80 level. Now that the level has been broken because of global triggers, the market is trying to find out the next level the RBI may try to defend," said Nitin Agarwal, head of trading at ANZ Bank.

"The market is taking that view that the RBI is going to revert to currency management the way it occurred around the 77 to 79 levels; which was to manage volatility. Now,

₹ fall may or may not help exports: FM

NIKESH SINGH
New Delhi, 26 September

Finance Minister Nirmala Sitharaman on Monday said though a depreciating rupee should theoretically help India's exports, under current slump in external demand, the fall in the local currency may or may not help the country's exports. "Some people do also speak that a falling rupee also helps exports. Whether it does or doesn't — theoretically it may, but in today's condition, with recession outside and demand not really as adequately as it should be, even a fall in the rupee may or may not help our exports. We are conscious about these basic facts," Sitharaman said while answering a question at a CNN-News18 event.



with the RBI not seen defending a level so forcefully, traders are sensing a clear playing field where they can trade both ways and that's why the depreciation is happening," he said.

According to HDFC Securities' research analyst Dilip Parmar, the rupee is seen in a band of 81.05-82.00 per dollar in the coming days. Market interventions by the RBI did rein in weakness in the rupee.

RUPEE LOSES 10% VS USD OVER A YEAR, FX RESERVES FALL TO NEAR 2-YR LOW

The rupee has depreciated 9.7 per cent against the US dollar over a year and with the RBI stemming the rupee's weakness through dollar sales, its reserves have dropped to their lowest levels since October, 2020. The fall in reserves has widespread implications, **BHASKAR DUTTA** writes

FX RESERVES: The headline foreign exchange reserves have decline to \$545.65 billion as on September 16, 2022. Some of that is owing to revaluation in the face of a stronger dollar, but analysts say a major part of the fall is due to the RBI's interventions in the forex market

RUPEE DEPRECIATION: The rupee has depreciated 9.7 per cent against the dollar since September 2021. Year-to-date, it has depreciated 8.9 per cent, but this is far lower than that seen during the Global Financial Crisis of 2008 and the taper tantrum of 2013

US DOLLAR INDEX: The US Dollar Index has strengthened 21.8 per cent since September 2021 and is at its highest level in 20 years as the US Federal Reserve has embarked on the most aggressive tightening cycle since 2004

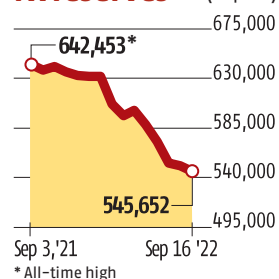
RBI LIQUIDITY OPERATIONS: Liquidity surplus in the banking system as measured by the RBI's absorption of excess funds has come down sharply since September 2021. On September 20, 2022, liquidity slipped into a deficit for the first time since May 2019. Since then, it is hovering around neutral-to-deficit liquidity

IMPORT COVER: The import cover provided by the RBI's foreign exchange reserves have reduce to 9 months (imports projected for the financial year) as on September 2, 2022. The import cover was at close to 15 months when the FX reserves were at their all-time high of \$642.45 billion on September 3, 2021

FX INTERVENTION: The RBI's dollar sales in the spot foreign exchange market have increased markedly over the last few months, with the central bank selling \$23 billion in June and July 2022 to shield the rupee from excessive volatility

RBI FORWARDS BOOK: The RBI's net outstanding forwards purchases have reduced sharply in FY23 as RBI has been taking delivery of its forward dollar purchases in order to prevent the headline reserves from falling too rapidly

FX reserves (in \$ mn)



US dollar index

Sep 27, 2021	93.4
Dec 31, 2021	95.7
Sep 26, 2022	113.8
Gain since Sep 2021	21.80 (in %)
Gain in 2022	18.90

Import cover

Date	Level (\$ bn)	Import cover*
September 3, 2021	642.5#	Close to 15 months
November 5, 2021	640.9	14 months
January 7, 2022	632.7	13 months
March 4, 2022	631.9	12.4 months
May 6, 2022	596.0	10 months
July 8, 2022	580.3	9.5 months
September 2, 2022	553.1	9 months

All-time high *projected for FY

FX intervention

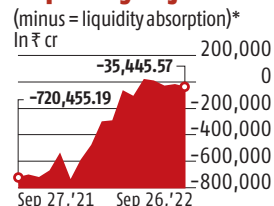
Net purchase/ sale of \$ by RBI

Sep '21	\$721 million
Nov '21	0
Jan '22	(-) \$771 million
Mar '22	(-) 20.1 billion
May '22	\$2.0 billion
Jul '22	(-)19.05 billion

Dollar/rupee rate

Sep 24, 2021	73.7
Dec 31, 2021	74.3
Mar 31, 2022	75.8
Sep 26, 2022	81.6
Depreciation since September 2021	9.70 (in %)
Depreciation in 2022	8.90
Depreciation in FY23	7.10

Liquidity injection



*Injections: tight liquidity, absorption mean surplus funds in banking system

RBI forward book

Outstanding purchase

Sep '21	\$49.6 bn
Nov '21	\$49.1 bn
Jan '22	\$49.9 bn
Mar '22	\$65.8 bn
May '22	\$49.2 bn
Jul '22	\$22.0 bn

Source: RBI