

₹ may bounce back in Aug on weak \$, US rate cut hopes

But some see it hitting 84/\$ tracking Asian peers

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Mumbai, 28 July

The rupee is expected to rebound in August after depreciating 0.4 per cent against the dollar in July so far, according to the majority view in a *Business Standard* poll. The bounce-back is likely to happen owing to a weakening greenback over expectations of aggressive rate cuts by the US Federal Reserve.

The Indian currency depreciated to a new low of 83.73 per dollar on Friday due to continuous demand for the greenback from oil importers, and weak risk appetite. Some respondents see the local currency slipping further to 84 per dollar by the close of August.

“We expect to see the dollar weakening overall as US short-term rates drop, and the yield curve bull steepens,” said Abhishek Goenka, chief executive officer of IFA Global.

“US economic surprises overall have been negative. If the next few data points confirm the disinflationary trend and weakness in the labour market, we may see the market price at a more aggressive pace of rate cuts. Fed Chair Jerome Powell had said that the Fed might not wait until inflation reaches the 2 per cent mark to begin rate cuts,” Goenka said.

The US unemployment rate crossed 4 per cent for the first time since November 2021, and the latest US consumer price index was the lowest in four years at minus 0.1 per cent on a month-on-month basis. The market expects the US rate-setting panel to cut rates starting September.

The interventions by the Reserve Bank of India (RBI) in the foreign exchange market may play a key role in the movement of the rupee during the month, said participants. “The volatility due to Budget impact and foreign portfolio investors moving out will stabilise. This



CURRENCY TRAIL

₹ vs \$

	Aug-end	Sep-end
Karur Vysya Bank	83.78	83.85
IDFC First Bank	83.5-84.0	83.5-84.0
Bank of Baroda	83.5-83.6	82.85
Shinhan Bank	83.2-84.25	82.8-84.25
Finrex Treasury Advisors LLP	84.0	84.0
CR Forex	84.0	83.3-84
Mecklai Financial Services	83.5	83.3
IFA Global	83.6	83.3
Kotak Securities	83.6	83.8
YES Securities	83.5	-

MEDIAN: 82.90-83.00

MODE: 83.0

depends on the RBI’s intervention or talking to markets through statements,” said Madan Sabnavis, chief economist at Bank of Baroda.

India’s foreign exchange reserves hit a fresh high of \$670.86 billion for the week ended on July 19. The rupee was under pressure this month, but the RBI’s intervention ensured volatility was in control and depreciation was slow.

development agencies and arrange ₹15,000 crore in FY25, with additional amounts in future years. However, this would not have any fiscal implications for the Centre in FY25.

Weak yuan behind upward pressure on ₹

A section of the market tracking the weakness in Asian peers said the local currencies might remain under pressure.

“The other Asian currencies are in a depreciation trend, particularly the yuan. Our central bank maintains export competitiveness hence allowing gradual and limited depreciation of the rupee. A continuous foreign institutional investors outflow from equities will keep the pressure on the currency,” said V R C Reddy, head of treasury at Karur Vysya Bank.

Some participants said the RBI had kept the rupee in check given the currency’s elevated real effective exchange rate (REER). According to the latest monthly RBI Bulletin, the rupee’s trade-weighted REER, based on a basket of 40 currencies, was 106.54 in June, which says that the local currency is more than 6 per cent overvalued.

In terms of the REER, the rupee appreciated by 1.8 per cent (M-o-M) in June 2024, majorly due to the positive

relative price differentials.

“The recent phase of upward pressure on the rupee is led by yuan weakness. The RBI’s intervention in July indicates a focus on limiting the rupee’s overvaluation. On the REER metric, the Indian currency is overvalued by 6.5 per cent as of June 2024,” said Gaura Sengupta, economist,

IDFC First Bank.

After the sharp depreciation of the rupee in 2022, following the Russia-Ukraine war, and the sharp interest rate increase by the US Fed, the rupee was one of the most stable currencies last year.

In June, the rupee depreciated by 0.1 per cent (M-o-M) against the dollar.

BS SUDOKU

4343

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SOLUTION TO #4342

3	5	7	8	2	4	1	6	9
8	6	1	9	3	7	5	2	4
9	4	2	5	1	6	7	8	3
4	8	5	1	6	3	2	9	7
2	1	9	4	7	8	3	5	6
6	7	3	2	5	9	4	1	8
1	3	4	6	8	5	9	7	2
5	9	6	7	4	2	8	3	1
7	2	8	3	9	1	6	4	5

Easy: ★★

Solution tomorrow

HOW TO PLAY

Fill in the grid so that every row, every column and every 3x3 box contains the digits 1 to 9

