

Hawkish Fed may push ₹ beyond 80 vs \$: Experts

But depreciation likely to be orderly because of RBI support, FPI inflows

BHASKAR DUTTA

Mumbai, 28 August

Over the past month, speculation of the US Federal Reserve slowing down the pace of monetary tightening amid fears of a recession has been a key factor that lent support to the Indian rupee, with overseas investors returning to domestic assets.

But with Fed Chair Jerome Powell on Friday unequivocally stating the US central bank's commitment to curbing inflation, emerging market currencies, such as the rupee, are set to feel pressure in the coming days because of a strengthening dollar. "Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy," Powell said at the Jackson Hole Economic Symposium.

Given Powell's emphasis on the importance of maintaining price stability -- even at the cost of economic growth -- the US dollar index is set to add to the significant gains it has already made this year. Consequently, the rupee, which has enjoyed a period of relative calm over the past month, is seen testing new lifetime lows against the greenback, analysts said.

"The 80 per US dollar level could be breached soon because if you look at not just the speech of Powell which was very hawkish, but even statements of various central bank, such as the ECB (European Central Bank). It was clearly saying that growth will fall and Europe can enter a recession; still, it has to take that risk," Anindya Banerjee, V-P, currency derivatives & interest rate derivatives at Kotak Securities told *Business Standard*.

Higher US interest rates and a stronger dollar typically lead to global funds heading towards the world's largest economy and this exerts pressure on emerging market currencies.



According to IFA Global's founder and CEO Abhishek Goenka, following Powell's speech, the markets are pricing in a 70 per cent chance of a 75-basis point rate hike by the Fed in September; the benchmark US interest rate is being seen at 3.80 per cent by March 2023. He sees the rupee in a range of 78.40-80.75 per dollar over the next three months. The Federal Reserve has raised interest rates by 225 basis points, so far, in 2022 and the benchmark rate currently stands at 2.25-2.50 per cent.

Banerjee pointed out that with the rupee closing at 79.96 per dollar in the off-shore market, the domestic currency shall just need a "nudge" to break past the record low of 80.06 per dollar, which the Indian currency had touched on July 19. For the week ahead, he sees the rupee in a band of 79.70-80.40 per dollar.

HDFC Bank Executive Vice-President, Overseas Treasury, Bhaskar Panda, too, believes that the rupee will soon hit new lows against the dollar.

The Indian unit, which closed at 79.87 per US dollar in the spot market on Friday, has depreciated 6.9 per cent against the American currency, so far, in 2022. After

sliding to lifetime lows in July, the domestic unit staged a strong recovery as foreign institutional investors returned to Indian stocks after a hiatus of nine months.

Over the past week, the rupee weakened a mere 0.1 per cent against the greenback, much less than most emerging market currencies.

However, going ahead, the rupee may not be able to show the same degree of resilience, given the sheer scale of dollar strengthening that is expected.

"Considering sustenance of high (US) bond yields, DXY (dollar index) can test 109.77 levels, while EUR/USD may test 1.09860 levels and GBP/USD can move towards 1.1680 levels. Brent Crude prices also seem to be a bit sticky, unable to sustain at lower levels," said Kunal Sodhani, vice-president, Global Trading Center, Shinhan Bank. "Considering the above factors, USD/INR may find strong support at 79.50, while a break of 80.06 levels will impact options sellers, hitting their stops and let USD/INR pair move towards 80.60 levels," he said.

The dollar index closed at 108.84 on Friday, higher than 108.19 at 3.30 pm IST the previous day. The dollar index has added a massive 14 per cent, so far, in 2022.

While the Reserve Bank of India (RBI) is seen drawing down on its reserves to shield the rupee from excessive volatility, the central bank is unlikely to prevent depreciation in the face of an international strengthening of the dollar, analysts said.

"Of course, the RBI is going to push but it will not create a sort of hard-line which the market cannot breach," Banerjee said.

The central bank has aggressively sold US dollars from its reserves since Russia's invasion of Ukraine in late February. The latest data showed that the RBI's foreign exchange reserves were at a 22-month low of \$564.05 billion as on August 19.