

# ₹ at another low of 81.94 as Fed talks up rate hikes

RBI may have sold over \$1 bn on Wednesday to stop ₹ from breaching 82/\$

**BHASKAR DUTTA**

Mumbai, 28 September

The rupee came perilously close to breaching the 82 per dollar mark on Wednesday as comments by various officials of the Federal Reserve suggested that the US central bank's policy tightening cycle had a long way to go yet. The rupee closed at a new low of 81.94 per US dollar on Wednesday, weakening 0.4 per cent. The domestic currency, which had settled at 81.58 per dollar on Tuesday, touched an intra-day low of 81.95 per dollar.

If not for heavy market interventions by the Reserve Bank of India (RBI) in the latter half of trade – the central bank is estimated to have sold more than \$1 billion in the spot market on Wednesday — the rupee would have weakened well past the 82/\$1 level, currency traders said.

"It's only because there was large intervention today that the dollar/rupee is here, otherwise we could have seen a move towards 82.50 per dollar. The interventions today will have definitely crossed \$1 billion," said Anindya Banerjee, VP, Currency Derivatives & Interest Rate Derivatives at Kotak Securities. He sees the rupee in a range of 81.3-82.5 per dollar in coming days.

So far in 2022, the rupee has weakened 9.3 per cent versus the dollar. The rupee's losses have occurred at a rapid pace since September 21 — when the Federal Reserve announced a 75-bps rate hike and signalled a longer-than-expected cycle of rate hikes.

Since that day, the local currency has depreciated 2.7 per cent versus the dollar, faring worse than 11 other emerging market currencies. With the rupee's weakness showing few signs of letting up, importers rushed to purchase the greenback, thereby aggravating the rupee's fall,



## MAJOR CURRENCIES VS \$

|                     | Sep 20, 2022 | Sep 28, 2022 | %change      |
|---------------------|--------------|--------------|--------------|
| British pound       | 0.88         | 0.93         | -5.98        |
| Swedish krona       | 10.89        | 11.44        | -4.79        |
| Brazilian real      | 5.14         | 5.38         | -4.41        |
| Euro                | 1            | 1.05         | -4.15        |
| Thai baht           | 37.01        | 38.37        | -3.56        |
| South Korean won    | 1,389.7      | 1,440.15     | -3.50        |
| Chinese renminbi    | 7.02         | 7.23         | -2.98        |
| <b>Indian rupee</b> | <b>79.76</b> | <b>81.94</b> | <b>-2.67</b> |
| Singapore dollar    | 1.41         | 1.45         | -2.58        |
| Philippine peso     | 57.49        | 58.99        | -2.55        |
| South African rand  | 17.69        | 18.15        | -2.52        |
| Mexican peso        | 20           | 20.51        | -2.51        |
| Indonesian rupiah   | 14,983       | 15,263       | -1.83        |
| Taiwan dollar       | 31.37        | 31.88        | -1.61        |
| Malaysian ringgit   | 4.56         | 4.63         | -1.54        |
| Turkish lira        | 18.31        | 18.51        | -1.12        |
| Japanese yen        | 143.75       | 144.67       | -0.64        |
| Hong Kong dollar    | 7.85         | 7.85         | 0            |
| UAE dirham          | 3.67         | 3.67         | 0            |
| Russian ruble       | 61.41        | 58.92        | 4.22         |

Source: Bloomberg

dealers said. On Tuesday, several officials of the Fed, including Minneapolis Fed President Neel Kashkari, San Francisco Fed President Mary Daly, and St Louis Fed President James Bullard made comments, suggesting the need for more US rate hikes. In order to tame 40-year high

inflation in the US, the Fed has already hiked interest rates by 300 bps since March 2022, the most since its rate hike cycle of 2004-2006. Consequently, the US dollar index has skyrocketed to 20-year highs as global funds have rushed to higher interest rates in the world's largest economy.

"With the latest FOMC feeds, good US data and hawkish Fed speakers, US Fed is already expected to hike 125bps more by December, 2022 itself, which is also reflected in 10-year UST rising to a 4 per cent," Shinhan Bank's vice-president (Global Trading Centre) Kunal Sodhani said.

"Equity outflows from FII in last five working days has been around \$2 billion," he said. Sodhani sees the rupee in a band of 80.6-82.5 per dollar in coming days.

Given the turmoil unleashed in global financial markets by the strengthening dollar, the RBI was said to have stepped up interventions in the latter half of the day to restore some calm in the rupee. The central bank is faced with a rapidly depleting arsenal of foreign exchange reserves as it has been selling dollars aggressively over the last few months to shield the rupee.

Latest data showed that the reserves at a near-two-year low of \$545.7 billion as on September 16, sharply lower than \$631.5 billion as on February 25, the week that Russia invaded Ukraine.

"The rupee movement at present is basically a function of what's happening overseas and overseas is a panic market," Banerjee said.

"In such times the volatility becomes unprecedented — when the market is broken, we see big moves on the upside for the dollar and then the authorities come in and intervene. We have seen headlines about the Bank of England, for Korea, etc," he said.