

# ₹ weakness may pressure RBI on 50-bps rate hike: Analysts

Domestic currency closes at 81.85/\$, 9 p higher than previous day's close

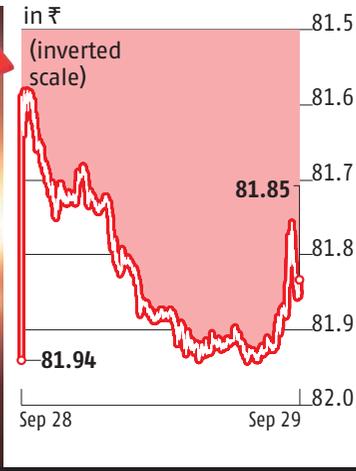
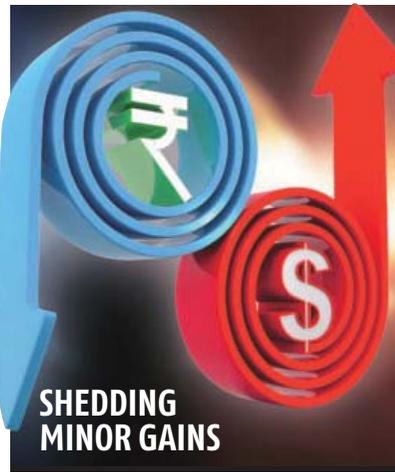
**BHASKAR DUTTA**  
Mumbai, 29 September

After strengthening sharply against the dollar earlier in the day, the rupee surrendered most gains by the end of trade as importers relentlessly purchased the greenback fearing fresh strength in the US currency, dealers said.

Analysts feel the recent sharp depreciation in the rupee — which lost 2.3 per cent since last week — has exerted pressure on the Reserve Bank of India (RBI) to raise interest rates by a greater quantum than it may have otherwise. The RBI's Monetary Policy Committee will announce its next statement on Friday.

While the RBI has made it clear of late that its monetary policy is driven by domestic inflation and growth considerations, some analysts feel that the central bank may opt for a 50-bps rate hike rather than a 35-bps increase in order to maintain rate differentials with the US.

“Central banks across the world, led by US Fed upped their hawkish tone and are now ready for a larger growth sacrifice in their efforts at containing inflation. Subsequently, INR depreciated sharply and with the interest rate



differential between India and the US falling to a 12-year low of ₹340 bps, capital flows are unlikely to be supportive,” YES Bank economists wrote.

“Inflation pressures for India could sustain with INR depreciation and also due to a relatively weak kharif season. We now expect the RBI to hike the repo rate by 50 bps on September 30 and continue raising for the next two policies for a terminal rate of 6.50 per cent by end-March 2023,” they wrote.

The RBI, which has raised the repo rate by 140 bps since May, has drawn

down heavily on its foreign exchange reserves since late February to protect the rupee. The reserves are near a two-year low.

With the Federal Reserve expected to raise rates by at least 100 bps more in the remainder of 2022, traders were averse to betting against the dollar, which has strengthened globally by close to 20 per cent so far in the calendar year.

The rupee closed at 81.85 per US dollar on Thursday as against 81.94 per dollar on Wednesday. The previous

closing was a record low for the rupee against the dollar. So far in 2022, the rupee has depreciated 9.2 per cent against the greenback.

Earlier in the day, the rupee strengthened to 81.58 as steps announced by the Bank of England on Wednesday to restore calm in the UK's financial markets led to a softening of the dollar index.

The US dollar index was at 112.60 late Wednesday, much lower than 114.50 earlier that day. At 3.30 pm on Thursday, the index was at 113.16. The dollar index, which is a gauge of the US currency against six major currencies, has surged in 2022 following 300-bps worth of rate hikes by the Fed.

“The month-end rebalancing, foreign fund outflows and dollar demand from the importers limited gains in the rupee,” Dilip Parmar, research analyst at HDFC Securities said.

“In the near term, spot USD/INR is having resistance near 82.40 and support at 81.30. A recent, parabolic up move in USD/INR in the last seven days warrants some retracement in the coming days but the directional trend remains up as long as it trades above 80.10,” he said.

On Wednesday, a finance ministry official said the government was not in favour of the RBI selling the dollar to protect any particular level of the rupee.