

ANALYSTS PEG 83 ON LOWER SIDE OF BAND IN 2023

Rupee fall most since 2013, nears euro debt crisis levels

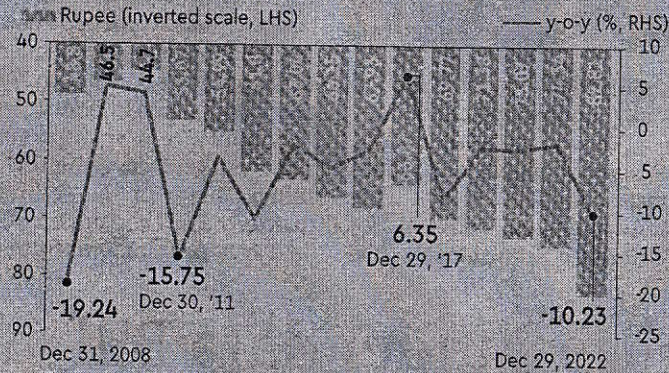
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Mumbai, December 29

THE SHARP FALL in the rupee in 2022 — at 10.2% — is the highest since 2013 when it had fallen 11% in a calendar year. Since September, when it breached 80, it has most stayed at 81-82 levels. Since 2014, the rupee has depreciated 34%.

The decline in the rupee in 2022 came after the US Federal Reserve and central banks of other advanced economies started aggressively raising interest rates to counter inflation. The Fed increased interest rates by 425 basis points (bps) from near zero levels, between March and December, to 4.25-4.50%. This coupled with skyrocketing crude oil prices on account of geopolitical conflict in Europe led to a significant depreciation of rupee.

Although, the local unit has been more resilient compared to its peers in other emerging markets and its movement has been orderly due to the RBI's intervention, it has come at the cost of significant depletion in the forex reserves. India's forex

RUPEE VS DOLLAR



reserves have dropped \$72.2 billion y-o-y to \$563.5 billion as of weekend December 16.

Outlook for 2023

Analysts have pegged ₹83 on the lower side of the band, with the Fed retaining a hawkish stance on interest rates, it might be breached. The movement in the dollar and its subsequent impact on FPI flows will determine the rupee's movement, said experts. "The rupee is likely to

remain dominated by trends in the dollar index and global sentiment, with the latter likely to keenly guide trends in FPI flows. 82-83 seems to have been accepted as the new normal for the USD-INR cross rate, although we expect overshooting on both sides of this band in 2023," said Aditi Nayar, chief economist at ratings agency, Icra.

According to Jyoti Prakash Gadia, MD, Resurgent India, crude imports and other com-

modities will continue to put pressure on the rupee, our exports are constrained due to adverse impact on demand because of recessionary trends in developed economies.

"The rupee is likely to depreciate against the Dollar in H1 2023 as the global inflation, economic concerns, supply chain disruptions and food inflation are also expected to extend from 2022 into 2023," Anuj Choudhary, research analyst, Sharekhan said.

However, Anindya Banerjee, VP, Kotak Securities, expects the rupee may face lower volatility on account of monetary policy convergence and possibility of rate cut during fag end of 2023 from the Fed. He has pegged USD-INR in the range of 79.50-85.50 in the spot market.

"Although the outlook for the Indian currency looks weak in near-term, we do not expect sharp downside extending for a prolonged period as India is expected to remain as the best performing major economy which may be supportive for rupee at lower levels," Choudhary said.

