₹ weakens below 85.8 intraday, RBI does rescue act

Still settles below 85.5 amid strong dollar demand

ANJALI KUMARI
Mumbai, 27 December

The rupee faced its sharpest intraday decline in two years on Friday, before recovering some losses, after coming under pressure from month-end dollar demand by importers, as well as maturing non-deliverable forwards (NDF) and currency futures that further spiked demand for the greenback.

By day's end, the Indian currency had recorded a 0.3 per cent drop — its steepest since June 4, when general election results were announced — closing at 85.54 to the dollar, a fresh low. Earlier, it had weakened to 85.82, prompting the central bank to intervene through dollar sales of around \$2.5 billion via state-run banks, said market players. On Thursday, the rupee had closed at 85.29 to the dollar.

The Indian rupee has fallen 1.3 per cent against the dollar this month, marking one of the poorest performances among Asian currencies.

"The volume is thin due to the year-end, which is leading to so much volatility, as even a small amount of buying puts significant pressure," said Anshul Chandak, head of the treasury at RBL Bank. "In the first half of the day, there was no intervention (by the Reserve Bank of India), but later, we did see some action."

Turn to Page 15 ▸

PAGE 4

FOREX RESERVES DROP BY \$8.47 BN TO \$644.39 BN

CAD MODERATES MARGINALLY TO 1.2% OF GDP IN Q2

FLASHING RED AGAINST GREENBACK

1-month ₹/$ NDF (inverted scale)

Major Asian currencies versus $

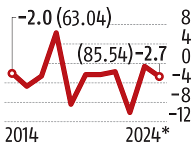
	Dec 27, 2024	% chg 1-year	% chg 1-month
South Korean won	1,473.49	-12.2	-5.6
Japanese yen	157.79	-10.1	-4.2
Indonesian rupiah	16,235.00	-5.0	-1.8
Indian rupee	**85.54**	**-2.7**	**-1.3**
China renminbi	7.30	-2.1	-0.7
Hong Kong dollar	7.76	0.6	0.3
Thai baht	34.01	0.9	1.5

Worst days for ₹ vs $ in 2024

	1-day chg (%)
Jun 4	-0.45
Mar 22	-0.33
Dec 27	-0.32
Apr 12	-0.27
Dec 2	-0.25

Annual trend

% change in ₹/$ in a calendar year (figures in brackets are ₹/$ spot)



Source: Bloomberg

* until Dec 27, 2024

₹ vs $: Experts warn against excessive intervention by RBI

"Given the current scenario, we were expecting 86 per dollar by March-end. Now, we wouldn't be surprised if the rupee reaches 86.50 per dollar," Anshul Chandak, head of the treasury at RBL Bank, added.

The rupee is set to finish 2024 weaker against the greenback for the seventh consecutive year, having depreciated 2.7 per cent so far. While the Indian unit suffered a sharp 10 per cent drop in 2022, following the war in Europe, it stabilised in 2023 with just a 0.6 per cent decline, thanks to central bank intervention.

The latest currency pressures coincide with a leadership shift at the Reserve Bank of India (RBI), as Sanjay Malhotra assumed the governorship earlier this month. Market participants noted that the central bank intervened across all three markets — spot, offshore, and forward — to stem the decline.

"The RBI could have sold around $2.5 billion today," said a senior executive at a brokerage firm. "They defended the rupee in the NDF market in the morning and later stepped into the spot market with banks to hold the 85.80 per dollar level."

However, experts caution that excessive intervention could be counterproductive, especially if other central banks allow their currencies to weaken in response to external pressures. In October, the RBI sold $9.3 billion in the spot market to counter the rupee's depreciation.

The dollar index, which gauges the greenback's strength against a basket of six major currencies, climbed to 108.15 on Thursday.

The rupee has faced persistent pressure since the US Federal Reserve's first interest rate cut in September. Alongside a strengthening dollar, India's Balance of Payments (BoP) outlook for the third quarter of the financial year has further weighed on the currency. Experts point to the rupee's relative overvaluation compared to its peers, as other currencies have depreciated more sharply against the dollar. By November 2024, the rupee was overvalued by 8.1 per cent on the Real Effective Exchange Rate (REER) metric, underscoring a misalignment with economic fundamentals. Market participants suggest that a faster adjustment of the rupee could ease overvaluation pressures, bring the REER closer to equilibrium, and reduce strain on both foreign exchange reserves and domestic interbank liquidity, which has remained in deficit in recent weeks.