# Currency traders split on which way India's rupee will move next

▶ A 7.4% depreciation against the US dollar by April this year has been pared back as foreign investment has flowed in and the central bank has eased FX purchases

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The Indian rupee was Asia's worst performing currency in the first six months of this year, amid the global and domestic impact of the coronavirus pandemic.

Analysts now have mixed views on where the currency is headed next: some are predicting that it could dive to new record lows, while others believe that the worst is over for the battered currency.

A decline in the Indian rupee was to be expected "given the sharp pandemic-driven volatility in the global markets over the last six months", says Suman Chowdhury, chief analytical officer at Acuité Ratings & Research, based in Mumbai.

"As typical in a crisis, investors moved their funds to safer asset classes, such as [the] US dollar or US treasury bills, from emerging market debt or equity."

The rupee is trading at about 74.60 to the dollar compared to 71.20 at the start of the year.

Mr Chowdhury says that he doesn't "see any significant risks of further weakness in the rupee" in the immediate future.

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However, some experts think otherwise. Currency trader Venkat Thiagarajan, who was the head of forex at Reliance Industries, the sprawling conglomerate controlled by India's richest man, Mukesh Ambani, has said that the impact of Covid-19 on India's economy will push the rupee to an unprecedented low of 80 against the dollar.

"Growth contraction of such severe proportion has made policy-making extremely difficult and in the absence of incremental room in fiscal and monetary policies, exchange rate depreciation is the way of stimulating the economy," Mr Thiagarajan told Bloomberg on June 25.

Last month, Fitch Ratings cut its outlook on India to negative, which puts the country's sovereign rating at risk of being downgraded to 'junk' status. Fitch is forecasting India's economy will contract 5 per cent this year, which is a multi-decade low. India has been hit hard by the coronavirus pandemic and a subsequent nationwide lockdown imposed by the government since March. Despite these efforts, infections have continued to rise in India, with its confirmed Covid-19 cases surging to more than 648,000, according to Johns Hopkins University, which is tracking the pandemic. This makes it the world's fourth-worst affected country.

It is these circumstances that are clouding the outlook for the Indian currency.

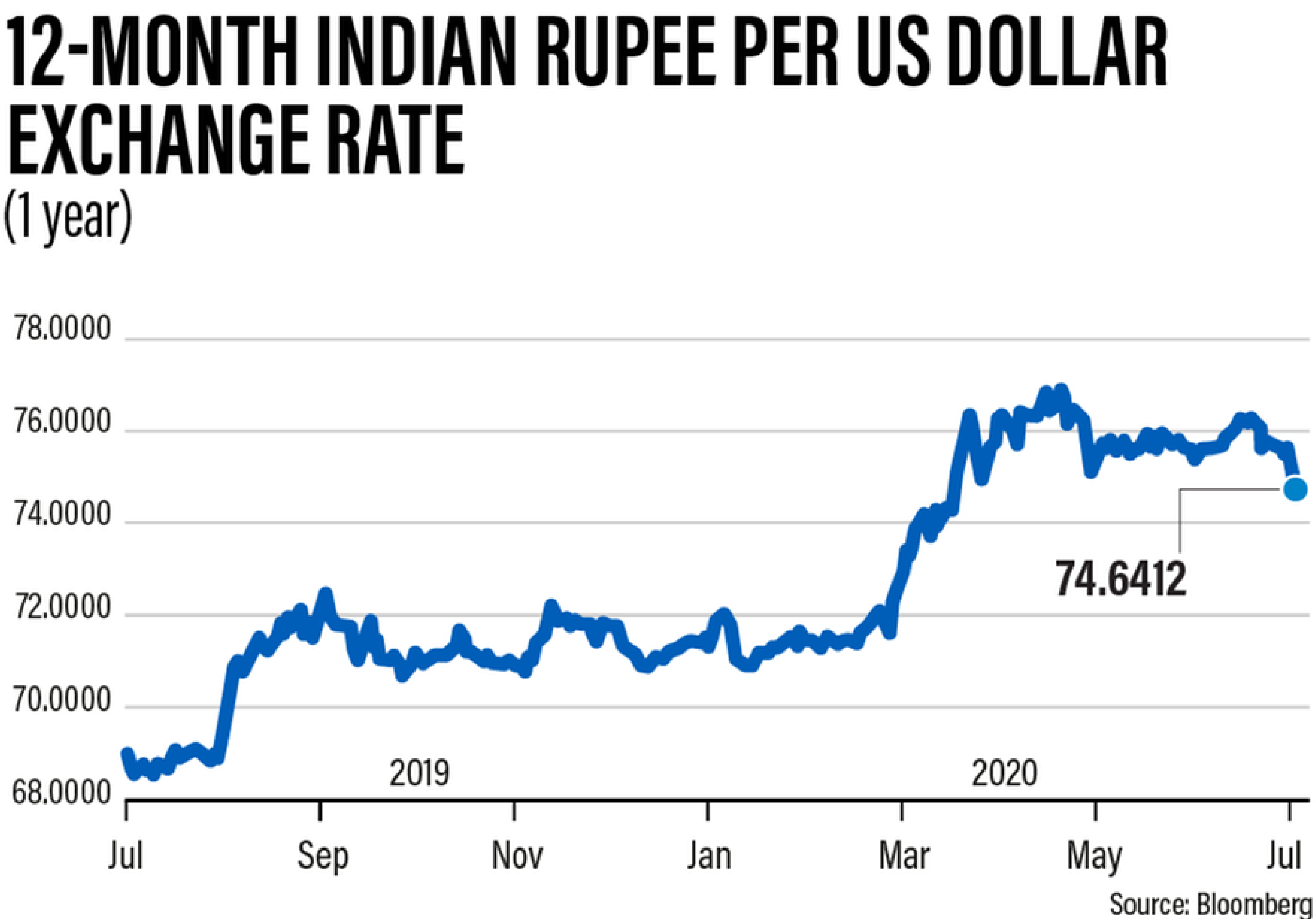
"The mixed risk sentiments are leading to very lacklustre trading in the forex market. Traders are unaware of which direction the dollar-rupee will trade and are looking for more cues," says Rahul Gupta, the head of currency research at Mumbai-based Emkay Global Financial Services.

He says that amid heightened tensions between India and China over a border dispute and continued rising Covid-19 infections, "any disappointment over the coronavirus or US-China trade war will hamper the market sentiments".

It has been a bumpy ride for the currency so far this year.

The rupee plunged to an all time low of 76.91 against the US dollar in April because foreign investors pulled out funds from Indian capital markets, as the coronavirus spread globally. That represents a decline of 7.4 per cent in the currency from the beginning of the year.

Last week, however, the rupee managed to claw back some of its losses and strengthen by more than 1 per cent over the course of the week to hit a three-month high of 74.55 against the dollar. These were the best gains in Asia for the week. The currency's rally was due to a strong performance of India's stock markets and because the country's central bank, the Reserve Bank of India (RBI) stepped away from buying dollars last week – something it has been doing aggressively over the past few weeks to build up its foreign exchange reserves to record levels during the pandemic, analysts say.




Meanwhile, a series of stake sales in Reliance Industries' digital unit Jio Platforms in recent weeks – including investments by Facebook, Mubadala, and the Abu Dhabi Investment Authority – helped boost foreign flows to stock markets, according to analysts.

On Friday, Indian shares closed near four month highs, as Intel Capital became the latest investor to buy into Jio Platforms.

“I don’t think we have to fear for the rupee further declining to 80 against the US dollar,” says Neeraj Bhagat, the founder of chartered accountancy firm Neeraj Bhagat. “The investment approach is now shifting, bringing India into the limelight.”

Many analysts are forecasting that the rupee will remain close to its current levels.

“The bias for the rupee has shifted towards appreciation, given significant flows in the market, and as strong data sets from the US have weighed on the dollar,” says Sugandha Sachdeva, the vice president of metals, energy and currency research at Religare Broking, headquartered in New Delhi.

“That should lead to the rupee testing levels of 74.30 and 74 eventually,” she says.

“Having said that, we believe the RBI will step in at regular intervals, and will not be comfortable to see the rupee appreciate beyond the 73.90 to 74 band. We expect the rupee to trade in the 74 to 75.60 band in the near-term.”

The strength or weakness of the rupee has wider implications for the economy.

A weaker rupee makes imports more expensive because it costs more to buy goods from abroad. However, it makes India more attractive as an exporter, as buying goods becomes cheaper for overseas companies. Authorities sometimes even prefer to keep a currency weak for this reason.

India is a major importer of oil and gold, which has fuelled the country's trade deficit and a weaker rupee exacerbates this, but low oil prices are working in India's favour to reduce this gap despite the devalued rupee.

“Any weakening of [the] rupee makes Indian investments more attractive for investors … in the short term we can view this as a positive for foreign direct investment and foreign portfolio investment entering the country,” says Divakar Vijayasarathy, the founder and managing partner at DVS Advisors, a Chennai-based professional services company.

“If the rupee weakens to 80 and beyond, it would make our imports expensive, especially oil, [but] it would also make our exports and investments attractive,” he adds.

A weaker rupee is also good for Indian expats who are remitting money home from countries including the United States and the UAE, given that the dirham is pegged to the US dollar.


Customers using a UAE Exchange outlet at a mall in Al Quoz, Dubai. The World Bank has estimated that remittances to India from countries such as the US and the UAE are set to decline by 23 per cent this year as jobs are lost as a result of the Covid-19 pandemic. Pawan Singh / The National

However, as many people are without work or losing their jobs in the current environment, the World Bank is forecasting that remittances to India will drop by 23 per cent year-on-year to $64 billion this year.

Going forwards, the direction of the rupee is likely to hinge on the course of action that the RBI chooses to take over the coming weeks, as the central bank focuses on trying to cushion the impact of the coronavirus pandemic and global fallout on the economy, experts say.

“The RBI's aggressive stance on building up the foreign exchange reserve has had a negative impact on the value of the rupee,” says Rukshad Davar, a partner and head at law firm Majmudar and Partners.

“At the same time, the RBI's actions may ensure that the economy is protected if it is not able to rebound in the near future and if there is an outflow of capital. Given this, it appears that macro-economic stability is being prioritised over holding up the value of the rupee.”

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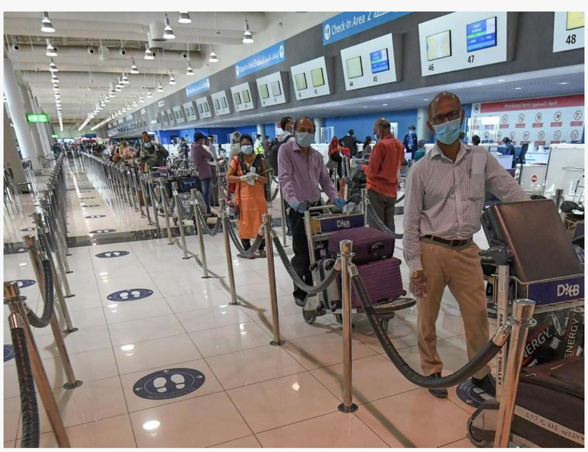

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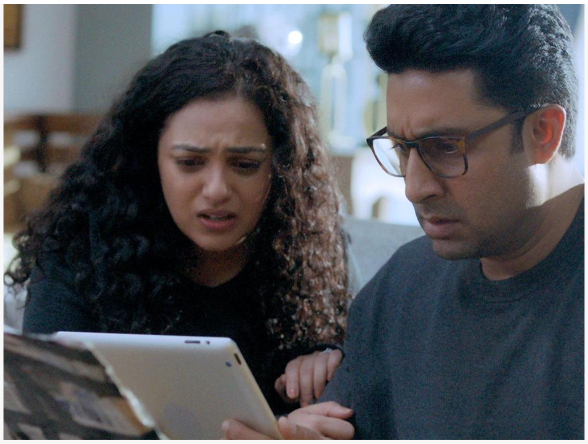

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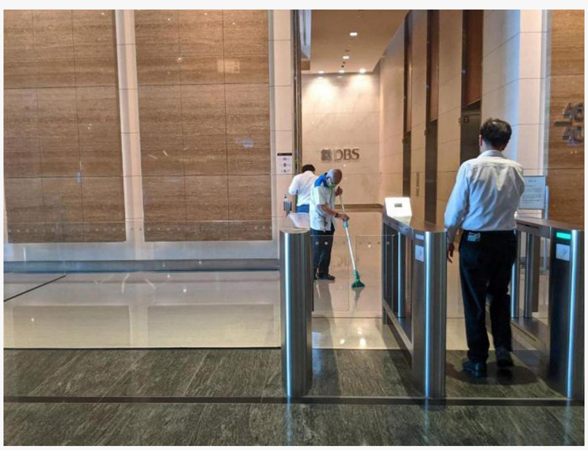


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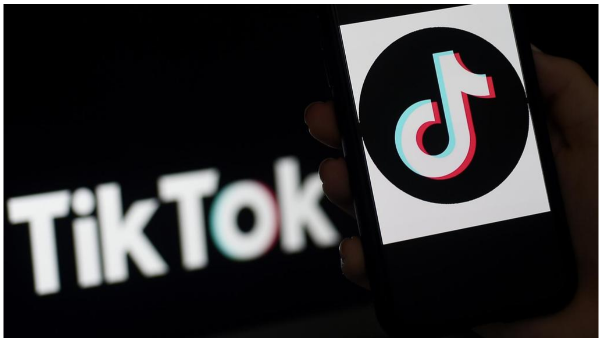


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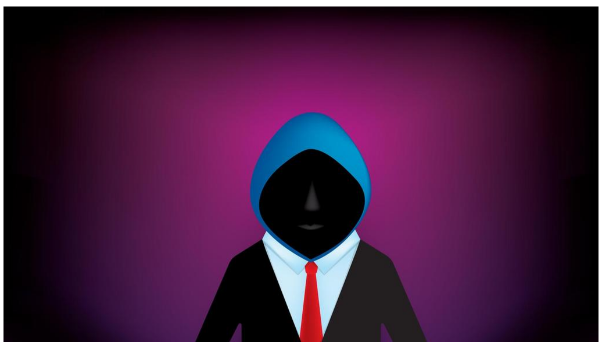

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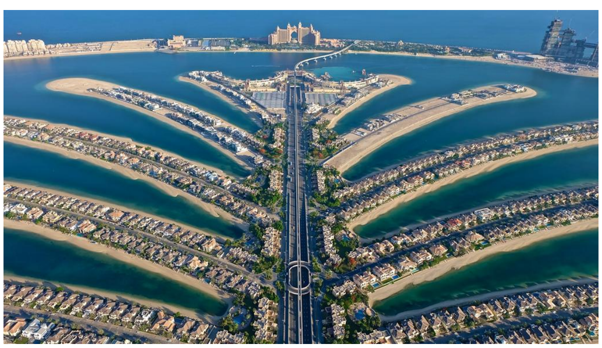

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