

Business Standard

Rupee hits one-year high of 65.4: Where is it headed?

On Thursday, the rupee opened at a one-year high of 65.4 against the USD

Puneet Wadhwa | New Delhi March 16, 2017 Last Updated at 10:30 IST



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5.44% and 4.95%, respectively.

The recent appreciation in the rupee, analysts say, has mostly been fuelled by the gush of liquidity into the equity markets by foreign institutional investors (FIIs) in the hope of accelerated pace of reforms post Narendra Modi – led Bharatiya Janata Party’s (BJP’s) landslide victory in assembly polls in the key state of Uttar Pradesh, which was being dubbed as a semi-final to the general elections in scheduled in 2019.

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Rupee hit a one-year high of of 65.4 against the USD, up 29 paise over its previous close. With a rally of over 3.4% in calendar year 2017, the rupee is the third best performing currency in Asia against the USD (sixth best among key world currencies) , behind South Korean Won and the Taiwan Dollar that have appreciated

“The turning point for the rupee has been the recent assembly elections. The rupee was expected to depreciate against the USD. If you look at the fundamentals, oil prices have slipped to \$50/barrel levels. That apart, the FII flows have also started to increase. Thirdly, there is some speculative element also at play. Given this, the rupee is expected to strengthen. This is one reason that the RBI has approached the banks to check the rupee’s appreciation. Though the recent trade data is a statistical mirage, it can add to the rupee’s strength,” says Madan Sabnavis, chief economist, CARE Ratings.

Year-till-date (March 16), foreign institutional investors have pumped in around Rs 23,007 crore in the Indian equity markets, NSDL data show. In the two days post the election outcome alone (on March 14 and 15), FIIs have invested a net around Rs 4,981 crore in the equity segment, NSDL data show.

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The BJP's thumping victory in Uttar Pradesh and substantial gains made in other states will facilitate reforms as the ruling party inches closer to a majority in the Rajya Sabha, Moody's Investors Service had said in a note.

“The rupee has been in an appreciation mode. Some part of this has been due to the flows into the Indian equity market, which have led to an appreciation in the rupee. That apart, if you look at the fundamentals of our external sector, things have improved considerably. Trade data announced Wednesday was also unusually very favourable. Despite the FCNR (B) deposit redemption and the US normalising its monetary policy at a faster pace, the rupee has been holding firm. All this shows investors’ confidence in India’s external sector credentials,” said Dr Rupa Rege Nitsure, group chief economist at L&T Finance Holdings.

The road ahead

Going ahead, analysts expect the rupee to remain on a strong footing in the immediate term as compared to Asian peers, backed by flows in to the equity markets. However, they do not rule out an intervention by the Reserve Bank of India (RBI) at regular intervals to check the sharp appreciation.

“I feel in terms of real effective exchange rate (REER), the rupee is overvalued. The appreciation at the current pace is not favourable from exports perspective. I think the RBI, through systematic intervention, will ensure that the rupee retains some kind of an orderly depreciation bias,” Nitsure of L&T Finance Holdings says.

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Given that the rupee is now the best performing Asian currency, Sabnavis of CARE Ratings, too, expects the RBI to intervene soon and buy USD. The ideal level for the rupee is around 66 – 66.5 to a USD. The sharp appreciation in the rupee is purely speculative in nature and is not driven by fundamentals.

Currency against US\$			
Name	Dec 30, 2016	Mar 15, 2017	Change (%)
Mexican Peso	20.73	19.45	6.56
South Korean Won	1205.83	1143.57	5.44
South African Rand	13.74	13.03	5.41
Taiwan Dollar	32.33	30.80	4.95
Russian Ruble	61.54	59.07	4.18
Indian Rupee	67.92	65.69	3.40
Brazil Real	3.26	3.16	2.97
Singapore Dollar	1.45	1.41	2.43
Japanese Yen	117.00	114.67	2.03
Thai Baht	35.84	35.25	1.66
Swedish Krona	9.11	8.96	1.64
Euro	0.95	0.94	1.04
Malaysian Ringgit	4.49	4.45	0.84
Indonesian Rupiah	13473.00	13364.00	0.82
China Renminbi	6.95	6.91	0.44
Uae Dirham	3.67	3.67	0.00
Hong Kong Dollar	7.76	7.77	-0.17
British Pound	0.81	0.82	-1.00
Philippines Peso	49.60	50.33	-1.45
Turkish Lira	3.52	3.72	-5.37
<i>Source: Bloombergchartmaker</i>			
<i>Compiled by BS Research Bureau</i>			

Currencies