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Rupee movement to depend on capital flows: Madan Sabnavis, CARE Ratings

By ET Now | 4 May, 2015, 04.29PM IST

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In an interview with ET Now, Madan Sabnavis, Chief Economist, CARE Ratings, shares his views on the rupee and oil. Excerpts:

ET Now: If the flows continue, there is a bit of risk aversion for emerging markets, especially India. Then the yield for some of the other emerging market currencies being higher given that they were oversold may lead to more weakness in the Indian rupee. What is your take on that?

Madan Sabnavis: As far as the Indian rupee is concerned, it would largely be driven by fundamentals. Fundamentals will refer to the current account balance as well as the capital inflows. Now in terms of the current account balance, as long as the crude oil price remains where it is, there would be a tendency for imports to remain relatively weak. Issue will actually be on exports whether we do see any kind of recovery in exports on account of changes in the demand conditions from the importing countries and here the picture is not very clear. So it is still fairly nebulous.



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I am not quite sure if rates were going to pick up any time soon. There is this argument if the weaker rupee will be helping exports. If you look at the last 10 years' data, we really do not get very clear picture on it and given the kind of composition of goods that we have seen, I am not so confident whether rupee depreciation will really give us that kind of competitive edge which will help increase our exports. It is more driven by demand conditions.

While the current account balance may not really be an issue for us, it will all depend upon how the FIIs behave and there are certain things which we will have to do internally because once again there is some talk of the taxation that MAT being applied on FPIs. It could certainly be a kind of a deterrent going ahead. So if we have more clarity in our policies and global conditions remain where they are, I should tend to think that the rupee should be largely stable, but then we will have to see when the Federal Reserve actually increases rates.

Mythili Bhusnurmath: When it comes to export performance, economist will never agree on how much of the export performance is driven by the exchange range and how much by demand for exports. But having said that, if all other emerging markets are going for competitive valuations which is what we are seeing, can the rupee afford to remain where it is vis-a-vis the dollar and then yet exports to remain unaffected?

Madan Sabnavis: It is going to be difficult because the RBI can actually prevent the rupee from appreciating further, but can the central bank actually lead the rupee? Let the currency depreciate, that is a very tough call. How exactly can the Reserve Bank get that to happen? But I would agree with you that even in the past in the last two years when we saw other currencies depreciating, especially when you spoke of the fragile five nations, India was a much better performing currency in the sense that we depreciated less. That is because of the inherent strength which is there in the fundamentals, but I do agree that at some point of time, countries cannot really sit back and let their currencies not to depreciate.

Mythili Bhusnurmath: We have seen some reversal in the price of oil. It does not seem to be given that oil prices will fall indefinitely. So what does that mean both for our current account deficit and also what does it mean for fiscal because we have not set aside much money by way of oil subsidies?

Madan Sabnavis: Yes, it is kind of a gamble which we have taken that oil prices will remain in the current range and even today we can look at a range of something 60 to 70 for a barrel for the entire year. But a lot will depend upon whether the demand conditions will change very soon and how the supply responses are going to be. For example, if you are looking at demand, you are talking of China

slowing down and the US not recovering at the same rate as was expected.

The demand issues would definitely keep the price of oil under check. This controversy or this debate about how the Shale gas would add to the supplies or lower the supplies and as of now it has felt that there would be at some point of time when the Shale production will not be able to keep pace, there could be an interim period where there could be an increase in prices, but as of now we can be fairly confident.

Going by the NYMEX Futures rates, the price is not really going to cross the 70 mark this year and that is a kind of an assumption which was made in the budget. To that extent our fiscal will be protected, otherwise any kind of an increase beyond this particular level will definitely mean that there will be more problems for the government. Especially we are not still quite sure about when the economic recovery is going to take place.

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