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Syria and rising oil prices, new pressure points for the rupee

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The threat of military action in Syria and the consequent rise in crude oil prices have, in the last two days, emerged as new factors contributing to the pressure on the rupee that sank to 68.85 intra-day against the dollar on Wednesday before closing at 68.80, down 3.86 per cent, the biggest fall in 18-years.

There are indeed concerns over the Food Security Bill's impact on the fiscal deficit, but the market was well aware about its impending passage and thus its contribution to rupee's woes is minimal, said analysts.

Sentiment continues to remain extremely weak as the market reads RBI as defenceless. Traders are also speculating that a lot of corporates are yet unhedged on their borrowings and may want to cover given what has been happening in the spot market. "There is fear that the U.S. will strike on Syria and that has created more risk. Crude oil prices have started moving up due to the Syrian factor, and it will lead to more dollar outflow. Other concerns remaining the same, these two external factors have caused massive volatility in the foreign exchange market," said DK Joshi, Chief Economist of rating agency Crisil.

Mr. Joshi felt that the passage of the Food Security Bill had no bearing on the free fall of the rupee or flight of FIIs from the stock market.

"This (bill) is not a new factor. It was always believed that this bill will be passed and the market had factored it," Mr. Joshi said.

Agreeing with him Ambareesh Baliga, Managing Partner, Global Wealth Management at Edelweiss Financial, said "It (bill) was not the trigger, it was known to the market that it would go through".

He said demand for dollar from oil companies, short-covering and speculative buying of dollar by corporates have caused sudden pressure on the rupee.

Care Ratings is of the opinion that the fall of the rupee is being driven by sentiment and the rise in oil prices has added to the woes.

"The Food Security Bill has spooked the market because it believes that the fiscal balances will get distorted and we could slip up here," said Rajesh Mokashi, Deputy Managing Director, Care Ratings.

"The fact that oil prices are rising and the government will not be able to pass on the cost fully due to this being an election year — the market has taken it with desperation," Mr. Mokashi added. Bharat Petroleum Corporation Chairman and Managing Director R. K. Singh told The Hindu that abnormally high crude prices would sharply increase the under-recovery of oil marketing companies. "Each Re.1 depreciation against the dollar increases under-recovery by 80 to 90 paise," Mr. Singh said.

Stating that the Food Security Bill played a big role in the rupee's sharp fall, forex trading firm, Alpari India's Regional Director Monjit Gogoi said the industry was reading that that this measure would add to the already high fiscal deficit.

"The industry feels that this is negative on the economy. Second, the rise in crude oil prices due to the impending action on Syria has caused more concern. Crude prices have gone haywire and since India is a net importer of crude oil, it would be severely affected. The dampness in the economy is adding to these problems and as September approaches, FIIs are pulling out draining dollars," Mr. Gogoi said. According to analysts, the rupee will remain volatile and it would cross the 70-mark soon. "Now that crude is headed towards $120 a barrel, the situation is really crazy. In the immediate span rupee would slip to 72 and 75 thereafter", said Mr. Gogoi. Crisil's Mr. Joshi said that the rupee would stabilise at 60 by March 2014.

"We have to endure this pain. We have to wait for things to stabilize and now only wait and watch," Mr. Joshi said.

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