

## Currency movements: A new low for the rupee?

**Contact:**

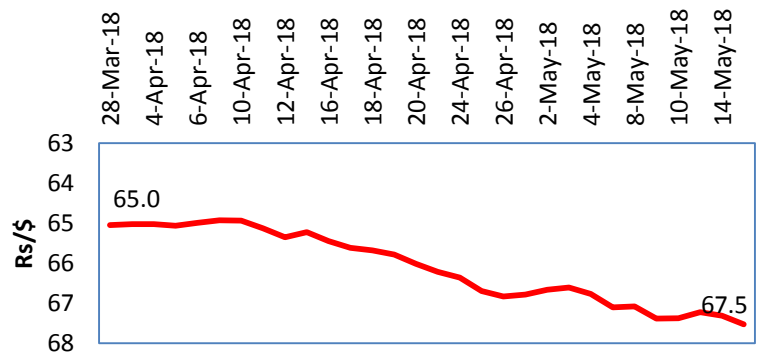
**Madan Sabnavis**  
Chief Economist  
Madan.sabnavis@careratings.com  
+91-11- 4533 3489

**Manisha Sachdeva**  
Associate Economist  
manisha.sachdeva@careratings.com  
+91-22-6754 3675

**Mradul Mishra (Media Contact)**  
mradul.mishra@careratings.com  
+91-22-6754 3515

The rupee has witnessed depreciation vis-à-vis dollar with the dollar rate dropping from Rs 65 to Rs 67.5 during 28<sup>th</sup> Mar'18- 15<sup>th</sup> May'18. This can be put in the context of global developments where several currencies have depreciated against dollar as well as fundamentals. The chart below plots the movement of the rupee-dollar during the period.

**Exhibit 1: Movement in Rupee viz-a-viz during 28<sup>th</sup> Mar'18- 15<sup>th</sup> May'18)**



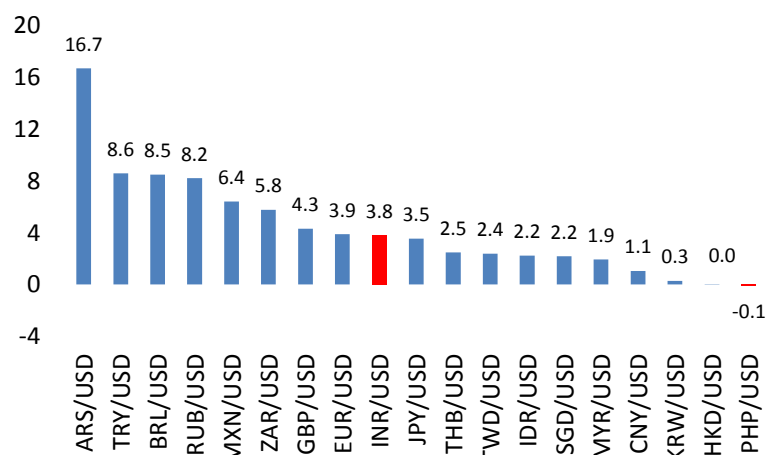
Source: RBI

### How have currencies moved vis-à-vis dollar?

Of the 19 currencies considered below, 18 currencies have depreciated against the dollar during 28<sup>th</sup> Mar'18- 15<sup>th</sup> May'18. Philippine Peso is the only currency that appreciated against dollar by 0.09%. Among currencies that witnessed depreciation, Argentina Peso recorded the highest depreciation (17%), followed by Turkish Lira (9%), Brazilian Real and Russian Ruble (8%).

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**Exhibit 2: Appreciation (-)/Depreciation(+) in currencies vis-à-vis dollar during week ending 28<sup>th</sup> Mar'18- 15<sup>th</sup> May'18**

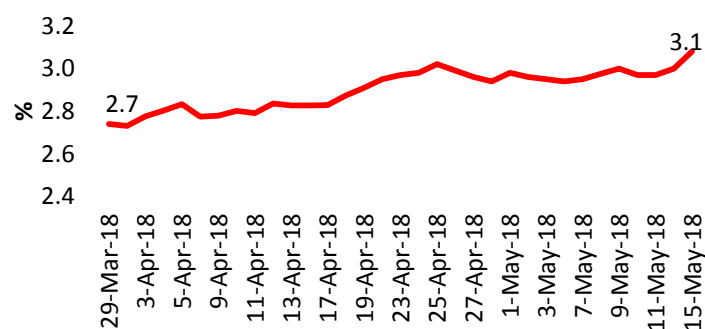


Source: Pacific exchange rate services

Table 1: Exchange rates per US dollar

|                   | 28-Mar  | 04-Apr  | 11-Apr  | 25-Apr  | 02-May  | 09-May  | 11-May  | 14-May  | 15-May  |
|-------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Euro              | 0.81    | 0.81    | 0.81    | 0.82    | 0.83    | 0.84    | 0.84    | 0.84    | 0.84    |
| Pound             | 0.71    | 0.71    | 0.70    | 0.72    | 0.73    | 0.74    | 0.74    | 0.74    | 0.74    |
| Yen               | 105.92  | 106.70  | 107.15  | 109.01  | 109.43  | 109.69  | 109.32  | 109.56  | 110.33  |
| Argentine Peso    | 20.16   | 20.18   | 20.19   | 20.37   | 21.81   | 22.69   | 23.21   | 24.98   | 24.06   |
| Brazilian Real    | 3.32    | 3.34    | 3.40    | 3.47    | 3.52    | 3.60    | 3.58    | 3.61    | 3.66    |
| Yuan              | 6.29    | 6.30    | 6.29    | 6.32    | 6.35    | 6.36    | 6.33    | 6.34    | 6.38    |
| Hong Kong dollar  | 7.85    | 7.85    | 7.85    | 7.85    | 7.85    | 7.85    | 7.85    | 7.85    | 7.85    |
| Rupee             | 65.02   | 65.02   | 65.15   | 66.66   | 66.68   | 67.31   | 67.33   | 67.56   | 68.09   |
| Indonesian Rupiah | 13710   | 13749   | 13783   | 13907   | 13973   | 14127   | 13890   | 14038   | 13996   |
| Malaysian Ringgit | 3.88    | 3.87    | 3.87    | 3.91    | 3.93    | 3.95    | 3.95    | 3.95    | 3.96    |
| Mexican Peso      | 18.31   | 18.23   | 18.21   | 18.84   | 18.98   | 19.56   | 19.33   | 19.50   | 19.75   |
| Philippine Piso   | 52.26   | 52.09   | 52.00   | 52.14   | 51.76   | 52.01   | 52.31   | 52.40   | 52.38   |
| Russian Ruble     | 57.45   | 57.70   | 62.12   | 62.15   | 63.26   | 63.05   | 61.79   | 61.72   | 62.44   |
| Singapore Dollar  | 1.31    | 1.31    | 1.31    | 1.33    | 1.33    | 1.34    | 1.33    | 1.33    | 1.34    |
| S Africa Rand     | 11.73   | 11.91   | 12.05   | 12.38   | 12.58   | 12.58   | 12.26   | 12.28   | 12.57   |
| S Korea Won       | 1069.30 | 1061.00 | 1069.00 | 1077.30 | 1074.50 | 1079.40 | 1067.60 | 1069.90 | 1078.40 |
| Taiwan dollar     | 29.14   | 29.21   | 29.25   | 29.63   | 29.70   | 29.93   | 29.76   | 29.79   | 29.92   |
| Thai Baht         | 31.22   | 31.24   | 31.19   | 31.54   | 31.68   | 32.09   | 31.88   | 31.85   | 32.12   |
| Turkish Lira      | 3.98    | 4.01    | 4.10    | 4.08    | 4.16    | 4.29    | 4.30    | 4.33    | 4.45    |

Source: Pacific exchange rate services

**US rates are rising****US Dollar continues to rise with rise in US treasury yields**

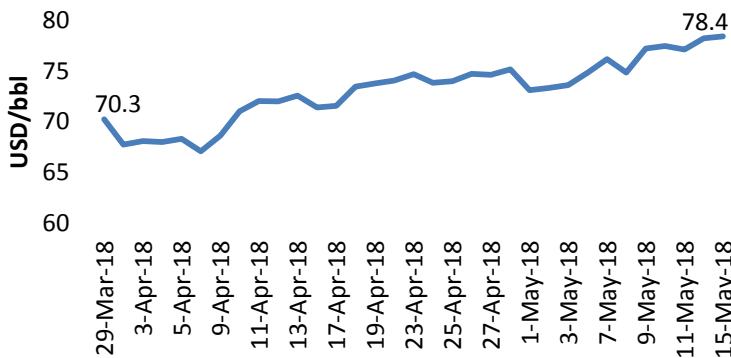
Source: CNN Markets

US treasury yields rose on back of :

- Growing expectations of Federal Reserve to undertake 3-4 rate hikes during the year
- Inflation inching up to 2% target,
- Unemployment reaching to historic lows
- Strong outlook for US economy
- Concerns over increased government borrowings

In addition to this, inflationary pressures from rising oil prices further lifted the yields.

**Crude oil price rise amid supply disruptions**



Source: Bloomberg

Brent crude oil prices have increased from \$70.3/bbl to \$78.4/bbl between 29<sup>th</sup> Mar' - 15<sup>th</sup> May'18. This rise can be ascribed to increased concerns over supply disruptions following US sanctions on Iran. (Iran contributes 11-12% of the total OPEC production). Declining output of OPEC's biggest producer in Latin America- Venezuela and recent geopolitical tensions in the middle east region further led to a rise in oil prices.

Going forward, with demand only coming in during September- December, the movement in oil prices in the coming months will largely be determined by supply factors.

**How about India's fundamentals:**

• **Trade deficit : Largely stable**

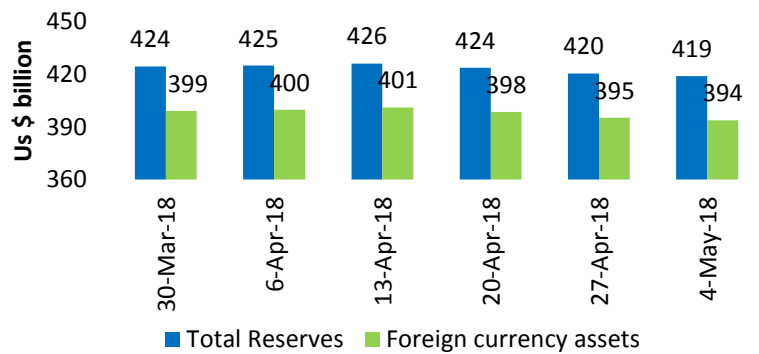
- The trade deficit remained more or less stable in the month of April 2018 compared with April 2017. It is estimated at US \$ 13.72 billion as against the deficit of US \$ 13.25 billion in April 2017.
- While both imports and exports have increased, a sharper rise in the latter has been witnessed. The exports grew by 5.17% on y-o-y basis in April 2018 and imports grew by 4.60% during the period.

• **Sustained outflows by foreign funds – resulting in rupee depreciation**

- The economy has witnessed FPIs outflows to the tune of \$2,765 mn and \$1795 mn in Apr'18 and May'18 compared with FPIs inflows of Rs \$3,513 mn in Apr'17. A similar trend was witnessed in the months of February'18 where FPIs took out a total of \$1820 mn.
- The outflows in FPI are majorly on account of outflows in the debt segment on account of increased expectations of US rate hikes.
- The economy continued to witness foreign outflows in the month of Apr'18 and May'18, despite RBI enhancing the investment limits and relaxing the rules for foreign investors in terms of revising minimum residual maturity requirement and cap on aggregate FPI investments in Central Government securities.

• **Declining Forex currency reserves**

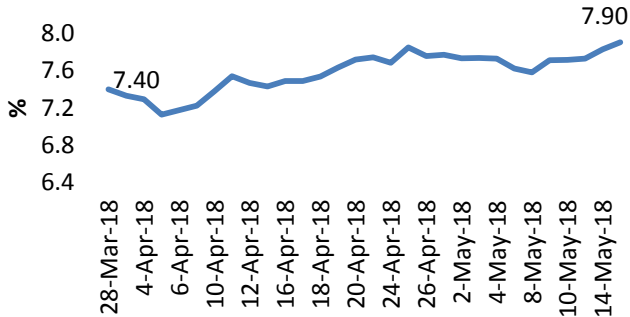
Forex currency Reserves witnessed a decline from \$400 bn as on 6<sup>th</sup> Apr'18 to \$394 as on 4<sup>th</sup> May'18.



Source: RBI

## Where collateral effects being seen?

### Rising 10 year GSec yields



The benchmark 10 year GSec yields increased from 7.4% to 7.9% during 28<sup>th</sup> Mar'18- 15<sup>th</sup> May'18.

Following factors have led to a rise in GSec yields :

- Increasing oil prices.
- Rise in US treasury yields.
- Tight liquidity in the market.
- Recent uptick in consumer price inflation.
- Concerns over fiscal slippages.

## Concluding remarks:

- Rupee depreciated vis-à-vis dollar during 28<sup>th</sup> Mar'18- 15<sup>th</sup> May'18. This can be put in the context of global developments where dollar has appreciated against major currencies coupled with increasing US treasury yields that has led to FPI outflows in the Indian economy.
- The strength in dollar can be ascribed to rising US treasury yields along with increased prospects of U.S. economic expansion.
- Going forward, factors including FPI flows, direction of oil prices, movement in GSec yields, decision of monetary policy committee on interest rates will determine the final direction of the rupee and RBI intervention might be needed to stabilize the currency.
- The market is on the lookout for RBI intervention to assuage rates. The 68 mark was breached and it is widely believed that there has been some intervention. The rupee will be volatile in the region of 67.5-68.5 in the next week or so driven by FPI flows, oil prices and central bank intervention.

#### CORPORATE OFFICE:

CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: [care@careratings.com](mailto:care@careratings.com) | Website: [www.careratings.com](http://www.careratings.com)

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