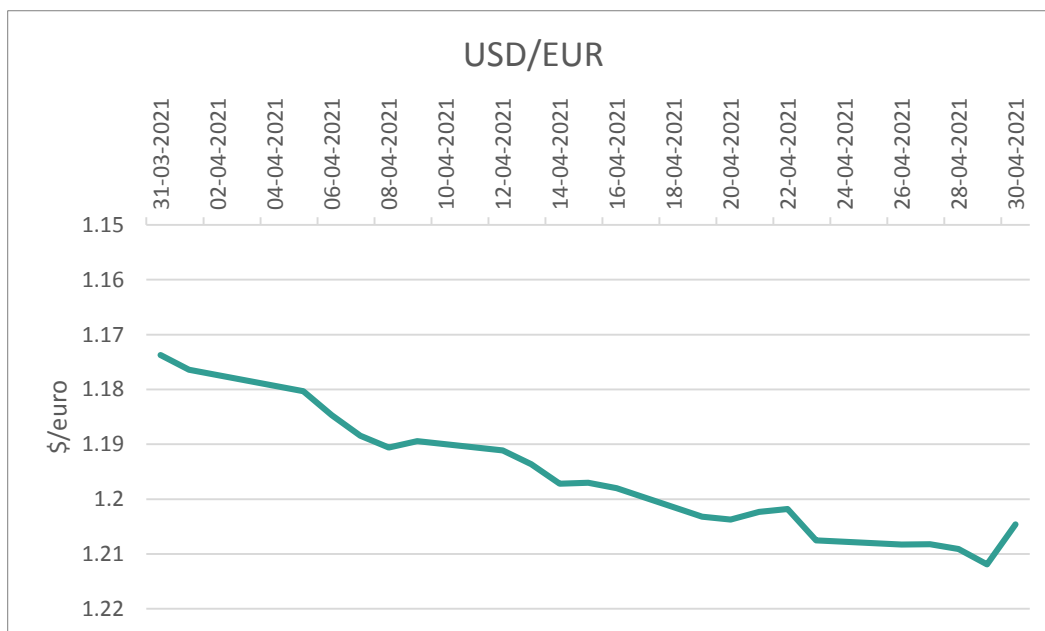


Currency movements in April

May 3, 2021 | Economics

The rupee turned out to be one of the weakest performing currencies this month as the table below shows. The dollar did weaken against the euro by 2.6% by the end of the month in comparison with 31st March 2021 which should have ideally pulled all currencies up. (Even in terms of average for weeks the dollar declined by 2.8% relative to last week of March). This is different from what it was in March when the dollar strengthened. However, only the Turkish lira and Indian rupee fell.

The rupee which was at Rs 73.17/\$ on 31st March ended at Rs 74.06/\$ by April 30th. The primary driving force was the rapid spread of the covid infections which increased exponentially to make India end the month with the all-time high infection case rate of around 400,000 per day which has not been witnessed anywhere else in the world. Being now the epicentre of the virus, the growth prospects appear to be much weaker now as markets sense further lockdowns in the country that will push the economy back.



Source: Pacific FX database

The main economic factor that kept the rupee down was the RBI credit policy announced on April 6th which was dovish in stance. There was promise of more liquidity (introduction of GSAP) and focus on growth which gave the sense to the market that the economy will remain weak. Even while inflation projections were high the RBI pointed to the need to ensure that growth is maintained.

At the same time FII's turned net sellers. Nearly \$ 1.1 bn was drawn out towards the end of the month which made the rupee weaker. There were higher withdrawals in the equity segment which put pressure on the rupee on a daily basis as stock markets turned volatile. It was hence more of sentiment that drove the rupee down as forex reserves which can be considered as the final result of all forex transactions increased by almost \$ 5 bn between March 26 and April 23 had.

Major currency movements against the USD (%)

Currency	Movement
EUR/USD	-2.56
BRL/USD	-4.89
ZAR/USD	-2.02
TWD/USD	-1.91
MXN/USD	-1.39
JPY/USD	-1.36
CNY/USD	-1.23
SGD/USD	-1.12
KRW/USD	-1.06
MYR/USD	-0.92
RUB/USD	-0.51
GBP/USD	-0.39
PHP/USD	-0.28
HKD/USD	-0.08
THB/USD	-0.02
IDR/USD	-0.01
TRY/USD	0.20
INR/USD	1.17

Source: Pacific FX database

(-) is appreciation of currency

Going forward while a fair valuation of the rupee would be in the region of Rs 74-74.5/\$, the pandemic impact would overwhelm the fundamentals.

- As there are no clear signs of what the government plans to do to stem the spread of the virus, with localized lockdowns being enforced by almost all states, uncertainty will prevail until the daily infections come down.
- The vaccination programme has run into rough weather with no clear direction being provided by the government which also adds to the uncertainty.
- Hence notwithstanding the fundamentals and the external factor i.e., dollar movement, the rupee will be guided more by the covid factor in May.

Rs 75/\$ could be the next level when the currency will be tested. We do expect some RBI intervention once this level is breached.

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