November 03, 2020 | Economics

Currency update: November 2020

Contact:

91-022-6837 4433

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-6754 3573

The spread of the pandemic which went with lockdowns across the world was also associated with volatility in the currency markets with the tendency being for the dollar to weaken against the euro. This had collateral effects on other currencies too where appreciation tended to be the rule.

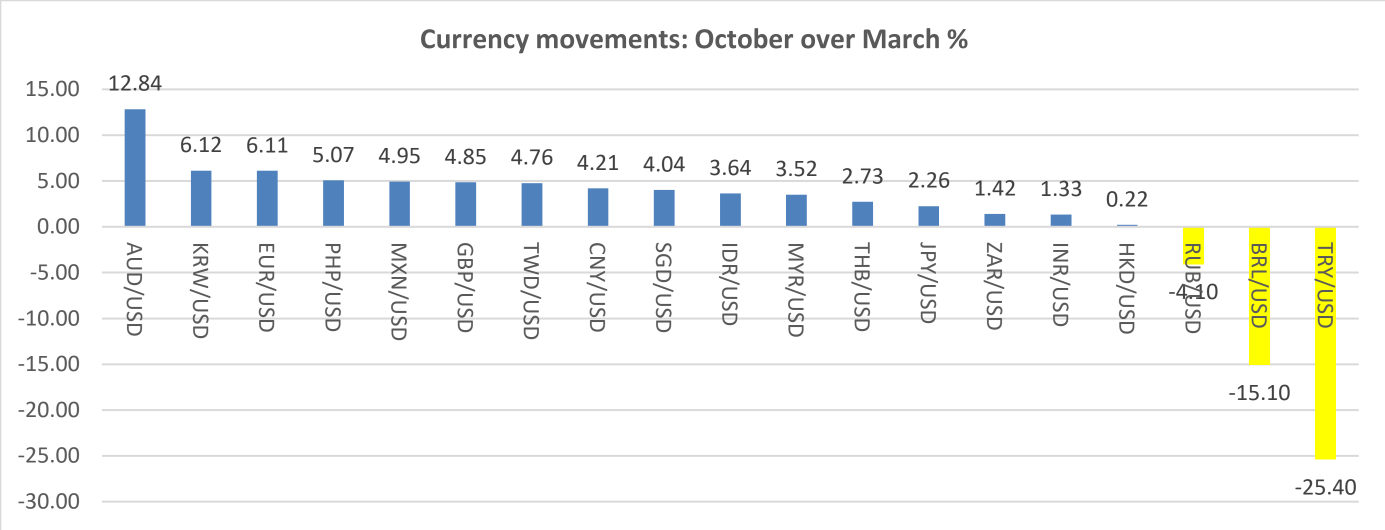
The dollar was under pressure for various reasons.

- The spread of the virus was probably the most problematic here with the USA recording the highest number of cases. The future path has remained uncertain with this spread that has cast doubt on growth prospects.
- While the WEO revised outlook is more positive for USA growth is to be down by 4.3% this year. With the second round of the virus already embedded in the European continent, there is a sense that the USA is still a long way from being out of this syndrome. The search for the vaccine is still on and with no solution being found, prospects in this country look weak.
- The USA elections have weighed on the future economic policies and hence growth path which has impacted the dollar and caused considerable volatility. It may be expected that post the announcement of the results markets may reconsider the prospects for the economy based on what the new President stands for. Meanwhile expectations in the recent past of a win for the Democrats has pulled up the dollar. But this may be considered to be transient until the results are declared.
- The trade wars with China remains at the back of the mind. With China recovering from the pandemic and being possibly the only large country to register positive growth rate this year, the currency has faced additional pressures.

Back home in India, the rupee has also gained on this score besides the fundamentals turning more positive over time. The forex reserves have been increasing by $ 83 bn since March to $ 561 bn as of 23rd October. This was brought about by a combination of positive factors on balance of payments.

- Trade deficit in first half was lower at $ 23.4 bn as against $ 88.9 bn last year. In October, the deficit was $ 8.8 bn against $ 11.8 bn last year.
- Until October 23rd, FPIs have aggregated $ 9.5 bn this year notwithstanding the pandemic and its effects.
- Gross FDI to India was around $ 35 bn in first 5 months.

How have currencies moved?



Source: Pacific Exchange rates

Apart from the rouble, real and Turkish lira, all other currencies have fared well against the dollar with appreciation in October over March. In India's case appreciation was more gradual at 1.33% over this period with RBI buying $ 34.3 bn cumulatively between April and August.

The Elections results in the USA will be a big factor affecting how the dollar moves. A range of Rs 73.5-74 /$ appears to be what the fundamentals would indicate. Rupee has ranged around 74-74.5 on 2nd and 3rd of November.

CARE Ratings Limited
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 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com

Follow us on /company/CARE Ratings
/company/CARE Ratings