

ALL-TIME LOW

Rupee plunges past 69-mark on oil prices and trade wars

Has lost close to 8 per cent this year, one of worst performing currencies

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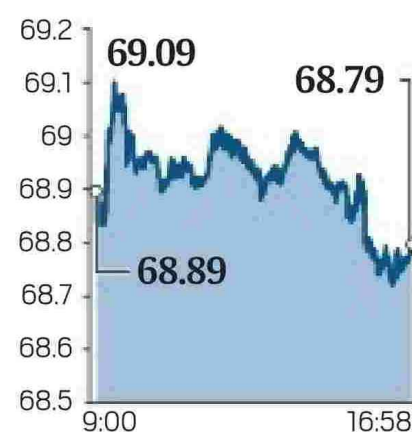
THE RUPEE on Thursday plunged to an all-time low of 69.09 against the US dollar intraday, as fears over rising crude oil prices, portfolio outflows and tariff wars, which could lead to a widening account deficit, impacted the foreign exchange market. However, the rupee later recovered partially to 68.79/ 80 as the Reserve Bank of India (RBI) sold dollars to help stabilise the currency.

The rupee, which is now one of the worst performing currencies, has lost close to eight per cent this year. Foreign investors have started pulling out funds from India, adding to the rupee's bearishness, along with the spike in crude oil prices coupled with the strengthening of the dollar across the globe.

Capital outflows of around Rs 60,000 crore — Rs 19,500 crore from the equity market and over Rs 40,000 crore from the debt market — since April this year have put severe pressure on the rupee.

Oil prices rose to their high-

RUPEE VS DOLLAR



MOODY'S: INDIA LEAST VULNERABLE

INDIA IS among five countries which are least vulnerable to currency pressures amid strengthening of the US dollar, because of low dependence on external capital inflows, Moody's Investors Service has said. **P 17**

est level since November 2014 on Wednesday after a bigger-than-expected drop in US crude stockpiles added to a rally fueled

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Rupee plunges

by a major Canadian supply outage, concerns about Libya's exports and stepped-up efforts by the Trump administration to disrupt Iran's petroleum exports.

Analysts said persistent weakness in the Chinese yuan also dragged down emerging market currencies, including the Indian rupee, amid escalating trade tensions. "There is 'risk off' environment as investors are waiting to see the next development in the trade tussle involving the US and China. The domestic currency is leading the decline in the region," said a report from Religare.

"We have seen a dramatic rise in crude oil prices in the last couple of months due to geopolitical concerns. There are supply issues from Venezuela, Libya and Canada. US has asked countries to cut imports of Iranian oil from November. So the crude oil prices are moving higher in the international market. On the other hand, the rupee has depreciated to all-time low levels. The rupee is expected to depreciate in coming sessions due to steady capital outflows and worsening macroeconomic conditions," said Rushabh Maru, research analyst, Anand Rathi Commodities.

On June 13, the RBI had said India's current account deficit (CAD) surged over three times to \$48.7 billion, or 1.9 per cent of the country's GDP, in fiscal 2017-18, from \$14.4 billion, or 0.6 per cent, in the previous year, driven by a higher trade deficit. As India normally finances the current account deficit with portfolio investments and foreign direct investment, capital outflows will put pressure on the external account. Rising crude prices are a drag on the Indian economy and fuel inflation concerns, as it is a major driver of the current account deficit. India imports around 80 per cent of its crude oil requirements and higher crude oil prices risks widening India's current account deficit, adding inflation risks.

The rupee fall is expected to make imports — especially oil — costlier, but a weak rupee could boost exports. Tech companies are expected to reap a windfall from the rupee depreciation. It will be double whammy for the economy as the oil import bill will go up owing to rising crude oil prices and a weak rupee. Similarly, travellers and students studying abroad will see their expenses rising as they will have to shell out more rupees while converting their foreign exchange.

"The sectors that are looking good due to the fall in the rupee are, of course, the

export-oriented ones including IT and pharma. However, we believe this could mean further weakness for the oil marketing companies which have already been languishing under the pressure of higher crude prices," said Nitasha Shankar, head of research, YES Securities.

With the debt market witnessing large outflows since April this year, the RBI liberalised debt market investment norms — especially in corporate bonds and treasury bills — for foreign investors. Despite that, debt market outflows have continued in the wake of a strong dollar and interest rate hikes in the US.

Earlier this month, on June 6, the RBI had increased the key policy rate — Repo rate — by 25 basis points to 6.25 per cent for the first time in four years. Headline inflation has been sharper than anticipated, and has remained above the 4 per cent target for six consecutive months, the RBI had said. A week later, on June 13, the US Federal Reserve had raised its policy rate by 25 basis points.

The sentiment in the forex market is expected to remain jittery ahead of the (US government) report on Chinese investments due Friday, and the July 6 deadline for tariff imposition. On Wednesday, the rupee slipped to 68.61, its weakest level in 19 months, against the dollar.