

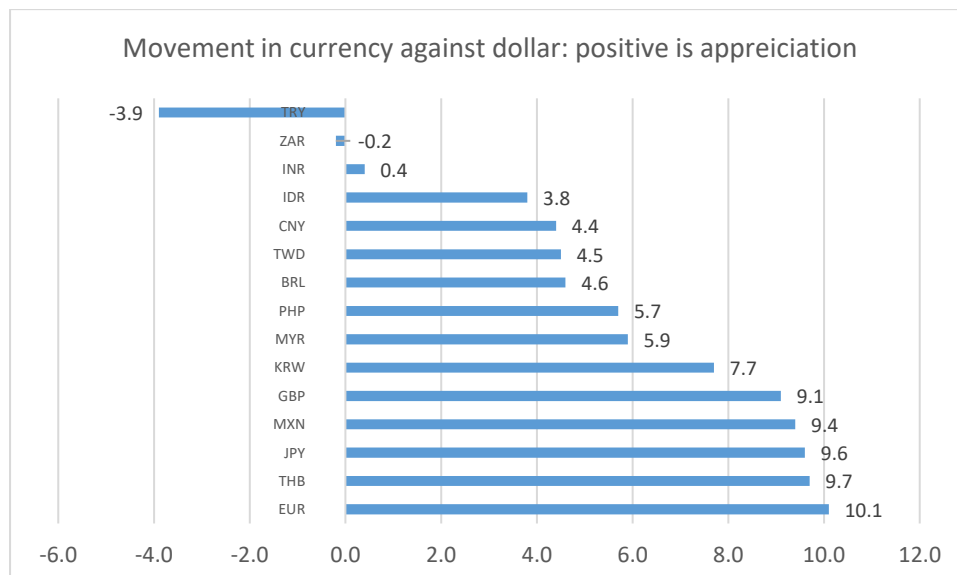
21st April 2023

Rupee still the best performing?

August 22nd was significant for the currency markets as this was when the USD went below the parity mark against the euro. The dollar had till then generally traded weaker than the dollar. The Fed's aggression on rate hikes and the expectation that the Fed will be steadfast in its quest to control inflation made the dollar stronger. This also meant that the other currencies weakened which was the resulting collateral damage. Interestingly, this was the period when the extraneous factor of dollar strength weighed on domestic currencies across the world. The dollar strength also led to revaluation of forex reserves held by central banks and hence most countries witnessed a decline in reserves.

From 7th November onwards, however, the dollar maintained the downward path against the euro leading to other currencies gaining in strength. It is not surprising that now one does hear voices in the market that speak of the rupee appreciating gradually. How does the rupee stand up now in comparison with other currencies?

The period chosen is post November and monthly averages have been reckoned for various currencies. Between November and April, the dollar weakened or euro strengthened by around 10%.



As can be seen in the chart with the exception of the Turkish lira and South African rand, all others have appreciated against the dollar. The rupee has been more or less unchanged with appreciation of just 0.4%. This has been achieved despite the improvement in CAD expected for Q4 of the year and positive FDI inflows. There has also been an increase in the forex currency reserves of India from \$ 470.7 bn on 4th November to \$ 514.4 bn on April 7th 2023. A part of the increase in forex currency reserves can be attributed to also revaluation effect. But the RBI has been buying up dollars which also ensures that there is not too much appreciation.

One takeaway from this observation is that the steady rupee should provide a slight export competitive advantage compared to other countries. As the CAD is expected to slow down further in FY24 the rupee would get support. The critical part would be how FPI moves as this can turn the tide and shift pressure on or off the rupee. The dollar-euro relation will continue to be volatile until the Fed ends the cycle of rising policy rates. Presently it is expected that there can be one or two rate hikes which will in turn make the dollar strengthen. Actions from the ECB and BOE will also be watched

in this respect. All these factors would drive the rupee and hence a range of Rs 81-83/\$ during the year would be the corridor until such time there is any shock in the form of oil prices or FPI flows.

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