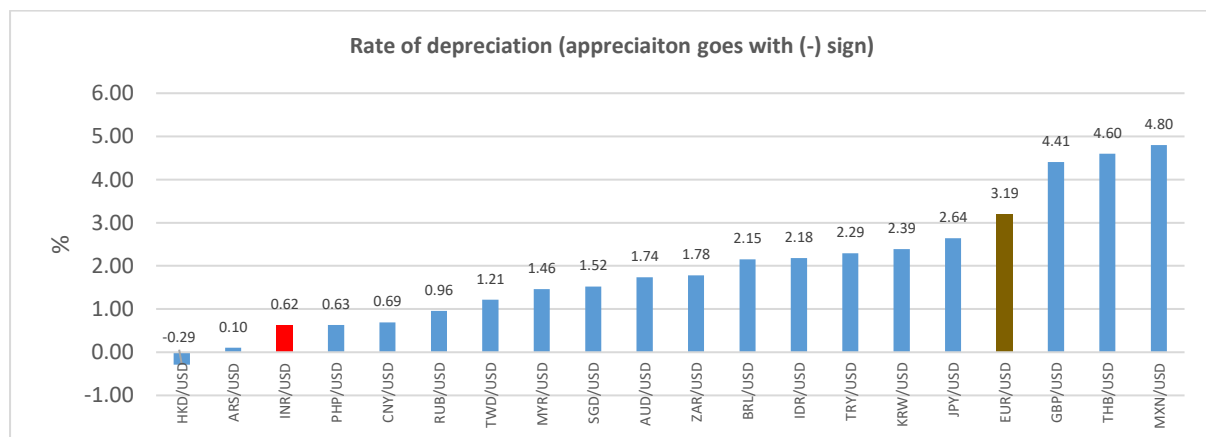


Rupee continues to be better placed on global scale

The rising price of crude has become a worry once again and the immediate impact is being felt on the rupee which has been under pressure in the last few sessions. The recent BOP numbers for Q1 indicate that the forex situation was steady; but amidst rising crude price meaning thereby higher imports and trade deficit there can be pressure on CAD. FPIs have also turned negative of late (- \$ v1.5 bn) and hence there may have to be more adjustment on the currency front. Add to this the global factor where the dollar is strengthening and there can be some volatility in the rupee. The Fed stance on rates and indication of another hike as well as the fact that the USA is not doing too badly has made the dollar stronger. In fact, instead of a deceleration that was expected there has been steady acceleration. Strong U.S. economic data has continuously defied investor expectations for a slowdown.

In this context how has the rupee fared in the global context?

Two aspects are looked at here. The first is the movement in currencies in the month of September and the second is the annualized daily volatility.



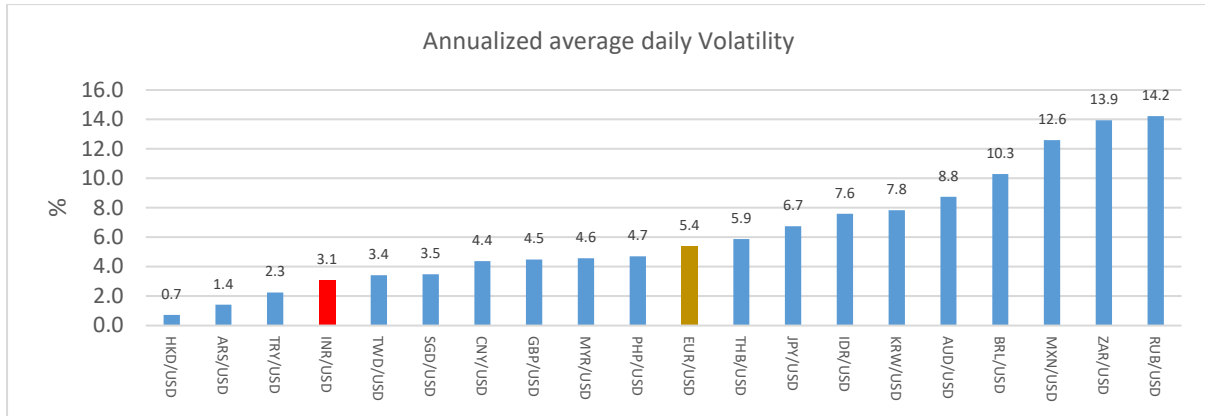
Source: Pacific Exchange Rate Services

As can be seen in the Chart, the rupee has been one of the best performing currencies with depreciation of just 0.62% moving from Rs 82.71/\$ to Rs 83.22/\$ in this period ending 27th September. Hong Kong dollar is the only currency which has appreciated. The Euro has fallen by 3.2% as has the British pound by 4.4%. Emerging markets have done relatively better compared with the developed counterparts.

The dollar index has gone up by almost 5% in the last 2 months which has put pressure on other currencies. One market view is that the Fed is working to keep the dollar strong. If this were so then there could be further volatility going ahead.

How about volatility?

In terms of volatility too the rupee has been a high performer and the role of the RBI cannot be missed as timely intervention in the form of providing dollars at appropriate times has steadied the rupee. The coefficient of correlation between currency depreciation and volatility was 0.35 which means that high changes do get reflected considerably in volatility.



How will things look going ahead?

The dollar does appear to be becoming stronger progressively and could be heading towards the parity level with euro which was witnessed last year. Crude oil price is probably the critical factor that can affect our fundamentals. The trade deficit will tend to widen as prices go up. However, given the state of capital account, there could be smaller accretions to our reserves on the whole and hence stability in currency may be expected and a range of \$ 82.75-83.50 will prevail in the coming weeks. The credit policy may have less of an influence on the currency movement.

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department
 Bank of Baroda
 +91 22 6698 5143
chief.economist@bankofbaroda.com