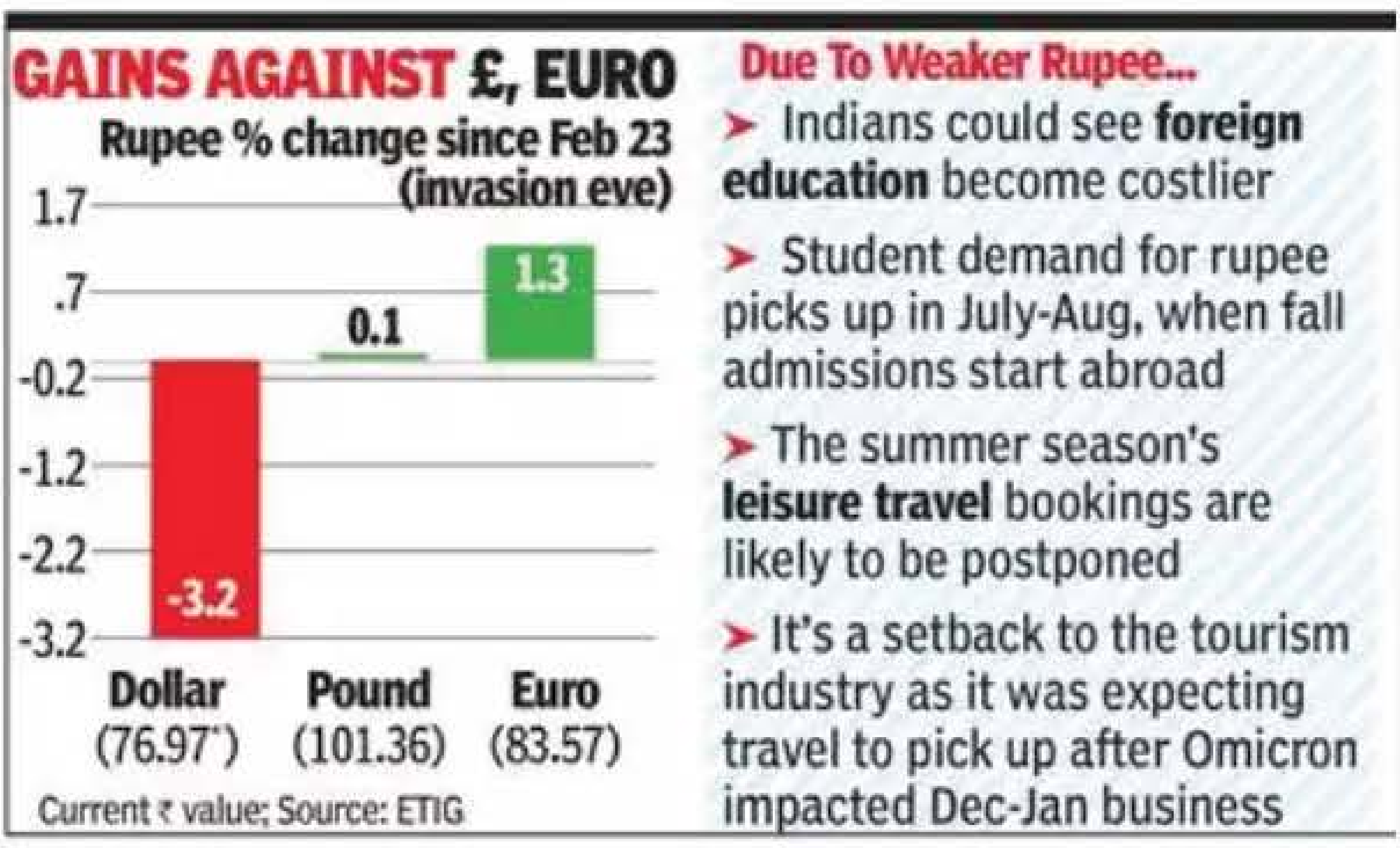
Re breaches 77/$ for first time, enters uncharted territory

TNN / Mar 8, 2022, 04:00 IST



Mumbai: The rupee breached the 77 level against the dollar for the first time on Monday as India was seen to be the worst impacted by the crude oil surge in the wake of the Russia-Ukraine conflict.

International crude oil prices have shot up nearly 50% from where they were when the government drew up its Budget for FY23. The rise in oil prices is expected to worsen the current account deficit, add to inflation and push up government borrowing, leading to lower growth. India saw a net outgo of nearly $24 billion for oil imports in the third quarter.

The domestic currency opened weak at 76.85, down from Friday's close of 76.17 and came under sustained pressure as demand for dollars surged. The RBI managed to keep the rupee steady at 76.96 levels for the better part of the day before it briefly crossed 77. It finally closed at 76.97, 80 paise weaker from Friday.

"There is no way to make a forecast as markets are not being driven by fundamentals but by the ongoing Russia-Ukraine conflict. The conflict, in turn, will determine the direction of oil prices. If the stand-off continues, the market will be on tenterhooks and will hedge most open risks. If the conflict settles down, oil and commodity prices would also ease. While the sanctions may continue, the markets would get more realistic. The longer the conflict persists, the more it will dent world GDP and lead to a sooner than expected recessionary trend," said DBS Bank head (treasury) Ashhish Vaidya.

According to HSBC's chief India economist Pranjul Bhandari, if oil averages around $100 for a prolonged period, the drag on GDP growth could be up to 0.9 percentage points and inflation could rise by around 1 percentage point, and the current account deficit could widen by 1.2 percentage points.

While businesses run the risk of costlier inputs, lower demand and higher interest rates triggered by inflation, individuals could see travel and education abroad become costlier. "Business travellers and students do not have the flexibility to postpone their travel. But the weaker rupee could hit leisure travel booking for the summer holidays," said Ebixcash World Money ED & business head M Hariprasad.

This is a setback to the travel industry, which was expecting some recovery after slowing down in end-December and January due to the Omicron wave. "Student demand for foreign exchange will pick up around July-August when the fall admission starts in foreign universities," he said.

On Monday, dealers were unwilling to take a view on where the rupee would be at end-March and most of them chose to maintain nimble positions. "India is the worst affected because we are majorly dependent on oil imports, it is not because of exposure to Russia. But if there is a ceasefire and oil retraces, the rupee can become the best performer," said Vaidya.

Hariprasad said, "In my view, the RBI will keep a close watch on the rupee-dollar levels and will intervene to stem further sharp depreciation. The pair is likely to trade in the range of 75.50 to 76.50 in the short to medium term."