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Devaluation chatter sends the rupee on a wild ride

FinMin, Sitharaman refute media report

OUR BUREAU

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The rupee was caught in a roller-coaster of wild speculation on Thursday following media reports that the Commerce Ministry would lobby for a devaluation of the Indian currency in order to support beleaguered exporters.

The Finance Ministry moved swiftly to quell the speculation, and state-owned banks sold dollars, apparently on the Reserve Bank of India's advice. But by then the rupee, which had opened the day at 66.89 to the dollar, had fallen sharply to an intra-day low of 67.0725.

The currency subsequently recovered to close at 67.0250, down 13 paise from its closing on Wednesday.

"The market was caught off guard by the report of a rupee devaluation. With exports falling for the 10th straight month in September, exporters are evidently lobbying for a devaluation to protect their earnings," said a public sector bank dealer.

Importers rushed to buy dollars at the 67 level, fearing that the rupee would fall further. Once the rupee breached the 67 mark and touched its intraday low, there was some support from public sector banks.

The PSU bank dealer said he expected the rupee to test 67.20 levels over the next few days.

Agency reports quoted Economic Affairs Secretary Shaktikanta Das as saying that the value of the rupee "is determined by the market and there is no plan to change policy. Reports that the government wants to devalue the rupee are false."

Commerce Minister Nirmala Sitharaman tweeted: "I had no conversation on devaluation of any currency with any news correspondent. Any quotes/mentions referring to me on this topic baseless."

Commerce Minister Nirmala Sitharaman

India Ratings, in a report, said that in the backdrop of rising global yields, where global sovereign-bond yields have risen to their highest in almost three months, the Indian currency may come under pressure and push the RBI to turn hawkish.

Kotak Institutional Equities, in a note, observed that it expects the current account deficit (CAD) to rise to around 1.5 per cent of GDP in Financial Year 2017 from 1.1 per cent in calendar year 2016 owing to softer software exports; lower repatriations from overseas Indian workers in West Asia; and a further increase in net income payments to overseas entities (essentially, foreign owners of capital in India).

However, it added that a CAD of below 2 per cent of GDP would still be quite comfortable and that there were no serious concerns about India's CAD/Balance of Payments unless crude oil prices rise sharply.