

Rupee May Continue to Slide on US Election, Covid Worries

Having lost over 1% against US dollar over past 2 weeks, rupee was worst-performing currency in Asia in the past month; traders expect it to drop by another 1% to 74.80/\$

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The rupee has become the worst-performing regional currency in the past month amid worries related to the pandemic, fund flows and the US elections, with the local unit losing more than 1% against the dollar over the past two weeks. The one-month Bloomberg Option Volatility Index, a key gauge for wild swings, has surged 77 basis points to 7.51% since October 16. A basis point is one-hundredth of a percentage point.

Emerging market currencies including the rupee have begun to take hits as investors brace for volatility amid the next wave of Covid-19 infections across the world. There's also nervousness over the results of the US presidential election on November 3.

"The market has to negotiate risk aversion arising out of a contested US election in the near term," said B Prasanna, group head for global markets sales, trading and research at ICICI Bank. "Overall fresh capital allocation in EM markets including India is likely to remain subdued in the near term before it improves post events settling down. The second wave of pandemic in large parts of Europe has brought back the risk of a graded lockdown resulting into renewed uncertainty on the global markets."

The rupee closed at 74.11 to the dollar on Thursday against 73.35 on October 16, since when the local currency has been weakening. It was down 0.31% from 73.88 on Wednesday. The rupee was the worst performer in Asia in the past month, down 0.34%, show Bloomberg data compiled by ETIG. It's one of two currencies, the other being the Hong Kong dollar, that depreciated against the greenback during the period in a pack of a dozen Asian currencies.

"Investors are becoming conservative ahead of US elections, which is a key driving event for world currency markets," said Anindya Banerjee, currency analyst at Kotak Securities. "None seems to be building any long position on the rupee that will likely lose value in line with other emerging markets. Also, there is no immediate support in terms of fund inflows."

Currency traders expect that the rupee may slide to as much as 74.80 per dollar, which would translate into a drop of another 1%. It's not clear whether the US election result will be known in the hours after polling closes or whether it will get dragged out, leading to confusion over who wins.

In the past few months, the Reserve Bank of India (RBI) has been seen intervening in the spot, futures and overseas markets as it bought dollars. The intensity of RBI intervention has declined as the rupee has weakened, dealers said. They are waiting to see whether the central bank will move to stem the rupee's fall. The central bank's presence on Thursday was not felt significantly, they said.

"The fear that economic conditions are going to get worse before they get better is keeping the dollar strong against EM currencies," said Rahul Gupta, head of research, currency, Emkay Global.