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WHERE RISK MEETS ITS MATCH

Experts expect rupee to fall against dollar despite Moody's rate

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MUMBAI: Rating company Moody's lifting of credit outlook on India could lead to an acceleration in fund flows, but investors predict the rupee to depreciate as much as 6% by next March due to overall US dollar appreciation and the Reserve Bank of India intervention to maintain competitiveness.

An ET poll conducted among 11 market participants sees the rupee weakening over the next one year against the dollar. A majority of respondents expect the rupee to lose 3-4% value versus the greenback to trade in the range 64-65 by December 2015 and March 2016. That is because the local unit is seen overvalued, being one of the best performing currencies in the world. Also, the Reserve Bank of India, too, may not be comfortable with any sharp rupee rise. A comparatively weaker rupee would ensure export competitiveness and help shore up dollar reserves.

Rating company Moody's revised India's 'Baa3' rating outlook to 'positive' from 'stable'. "While this outlook change was expected at some stage, the actual event is still a positive impulse for all India asset classes," said Ananth Narayan, regional head of financial markets, South Asia at Standard Chartered Bank. "Given real and financial sector companies allocate country limits based on ratings, we should see more capacity for real and financial investments into India over time," he said. The rupee was little changed at 62.25 per dollar on Thursday.

According to Narayan, the rupee is already 12% overvalued. "The pressure on monetary policy to ease from FX and capital flows will only increase. The rupee is already 12% overvalued," he said. "The only cloud on the horizon is true growth. The headline new high GDP growth rate does not resonate on the ground." Despite all odds, the rupee would continue to outperform when compared with other currencies.

Real effective exchange rate, or REER, is now at 112.70 after touching an all-time high of 124.34 in February. REER is the weighted average of a country's currency relative to a basket of major currencies.

"As the RBI remains mindful of rupee strength on a REER basis, this is likely to limit any INR gains against the dollar even as inflows persist," said Siddhartha Sanyal, chief India economist at Barclays. "But with an attractive carry, we think the rupee long (positions) still offer healthy carry- and risk-adjusted return potential. We expect the rupee to remain an emerging market FX outperformer."

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So far in this calendar year, the rupee has risen 1.26% versus the dollar while it strengthened 2.77% during the same period last year. During the January-March quarter, current account was a healthy surplus as portfolio flows continue to pour in.

Between January 1 and April 9, foreign institutional investors net invested.`80,916 crore in Indian debt and equities, according to data from NSDL, a depository. The net investments during the same period last year was 40% lower than this. "Unless we move to trade surplus, rupee cannot appreciate but it may gain temporarily versus the dollar," said KN Dey, senior advisor at Mecklai Financial, a forex advisory firm. "On the back of higher inflows, RBI would extend shoring up dollars, so that the gap between external debt and forex reserves is plugged."

Since the beginning of the year, the central bank has increased its reserves to $338 billion from $319 billion. As a percentage to the country's total external debt, reserves now stand at 73% compared with 130% six-seven years ago. "India needs to be competitive in exports and the RBI will be seen supporting the rupee," said Indranil Pan, chief economist at Kotak Mahindra Bank.

"During mid-year, there could be some pressure on the rupee for the expected US rate hike," he added.

http://economictimes.indiatimes.com/markets/stocks/news/experts-expect-rupee-to-fall-against-dollar-despite-moodys-rate-lift/articleshow/46867519.cms