Mecklai Financial
WHERE RISK MEETS ITS MATCH

Indian rupee in 2018: Jamal Mecklai says currency to be valued in 61.5-70 range to US dollar

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The rupee experienced its most volatile day in over two years on December 18, 2017, reflecting the market's nervousness over the outcome of the Gujarat elections. It opened at 64.17 and immediately collapsed to a low of 64.75 when it appeared that Narendra Modi and the BJP were in for a drubbing; it recovered quickly right after as the counting trends showed that the BJP would hold on, as it indeed did. The trauma speaks volumes about the fragility of the rupee's strength, and its dependence on Modi. And while his government has several pluses to its credit—its pro-activeness, the passage of GST (despite the early fumbles), the bankruptcy code and beginning action on bank NPA's, for instance—its single-minded focus on electioneering undercuts its claims to being corruption-free, and highlights its failures, key amongst which are the lack of jobs, the steady deterioration in law and order, and the alarming pressure on individual rights, institutions and civil society. It is clear that the "Modi wave" has lost its sheen. While Mr. Modi is a brilliant political strategist, he appears tone deaf to what people are really saying. Rather like Donald Trump, he believes he knows all the answers but has no clue about the right questions. This inability to truly lead will certainly result in a reduction of his strength in Parliament in 2019, possibly even a loss of majority. Shades of this were already seen in Gujarat. Given that 2018 has a packed political calendar, there will be continued nervousness and concern about the impact on the deficit—gain, something we are already seeing—which could affect the rupee negatively. And, of course, there are always global known and unknown unknowns. Of these, the strength of the US economy and the course of US interest rates, as always, will be a prime force. The Fed has penciled in three rate hikes in 2018, but, it would seem, that equity markets, at least, don't quite believe it. Rather like Jiminy Cricket, they fiddly away, hitting records every few weeks.

Dangerously, the largish crowd of analysts that had feared a sharp correction during 2017 has dissipated. Everyone is focused on and excited by Trump's tax cuts, despite the obvious ballooning impact it will have on the deficit. US interest rates will likely rise faster and higher than most people expect, which could bring things down to earth. Equally worrisome is that the US yield curve has been flattening for over four years now – the current 10 year/2 year spread is at 53 basis points, the lowest it has been since September 2017; this generally portends a slowdown or even a recession. Just in time commodity prices are rising – the other day, I saw an article than mentioned oil at $100! It is conceivable that just as global growth is picking up, the party could be aborted, either by central banks taking away the punch bowl or worse, a market-driven collapse. While any such trauma would, of course, impact portfolio flows, which have long been the rupee's lifeline, it will also have a serious impact on India's barely-coming-to-life exports – even though October exports showed a 30% jump from the previous year, our current average monthly export run rate is still below that of 2011.

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