

Rupee Continues Downward Spiral in New Year

The domestic currency, rupee, continued its downward spiral on Monday, the first day of the new year, depreciating by about 22 paise to settle at Rs.53.30/31 against the US dollar.

With this, the rupee has already shed 16 per cent value against the dollar since the beginning of 2010. From its peak of Rs.43.85 it touched on July 27, the fall was even steeper, at over 20 per cent. The rupee touched a peak of Rs.54.37 before strengthening on the Reserve Bank of India's (RBI) intervention with a slew of measures to counter its fall.

The rupee touched a low of Rs.53.34, before recovering some lost ground in line with the domestic equity market. Trading remained lacklustre as the New York currency market remained closed on Monday.

Weakening rupee imposes more costs on tourists going abroad as their rupees fetch fewer dollars. The same is the case with students going overseas for studies. They will see their budgets going ballooning for no fault of theirs.

For example, suppose a student who has to pay \$11,000 as semester fees to a university in the US and is expected to incur \$500 per month towards living and other expenses. When one dollar came at Rs.43.85, the fee, in rupee terms, would have been about Rs.4.82 lakh. But at the current price of Rs.53.30 it would cost the student about Rs.5.86 lakh, a difference of over Rs.1 lakh. The same is the case with monthly expenses - in rupee terms it costs 20 per cent more.

However, the same is not true for students going to Europe to pursue further studies, since the Euro has depreciated against the dollar over the last few months, in the wake of Euro zone sovereign debt crisis.

Except high-end electronics and luxury items, which are not produced in India, all other imports could prove costly compared to domestic purchases.

As a result, importers will have to shell out more rupees for the goods and services they import. "Of particular concern are oil prices that could shoot up in the global markets. These could increase the government subsidies multi-fold (as India imports over 70 per cent of its consumption), besides increasing the demand for dollar," said C. Chandrasekhar, senior vice president-forex, Mecklai Financial and Commercial Services.

However, exporters have been reaping windfall gains as their wares fetch 20 per cent more revenue than they would have last July-end.

Chandrasekhar is of the view that the rupee would not weaken below Rs.55 per dollar mark till March. "But it could even go up to Rs.60 per dollar, if the sovereign debt situation worsens in Europe," he added, while ruling out appreciation of the rupee in the next couple of months.

Paresh Nayar, head of forex and money market treasury of FirstRand Bank said the recent RBI initiatives to check speculation and depreciation of the rupee would work against further fall in the rupee.

<http://indiatoday.intoday.in/story/rupee-continues-downward-spiral-in-new-year/1/167004.html>