

See Continued Volatility In Rupee : Mecklai Fin Services

The rupee has witnessed rapid rise in 2012. Jamal Mecklai, chief executive officer of Mecklai Financial Services sees continued volatility in the Indian currency. "I think 2012 is going to be a pretty good year. That doesn't necessarily mean that rupee is going to strengthen," he adds.

According to him, Rs 50-51 per dollar is very reasonable level. "I feel we are now at pretty close to equilibrium value," he adds.

He further says, over the medium-term, the dollar is going to be strong.

Below is the edited transcript of his interview with CNBC-TV18's Latha Venkatesh and Ekta Batra. Also watch the accompanying video.

Q: What's really propelling such a rapid rise in the rupee? Is it all those capital doors that were opened up, the NRE and the FII debt?

A: I am sure there is some impact as has the blocking of long dollar positions with bank. It has been somewhat anomalous because the rupee has strengthened even while the dollar has strengthened. That is not common.

My sense is that over the medium-term the dollar is going to be strong. I think that the global economy is much better than people have expected. I am always an optimist. That probably we will start seeing some capital flows, portfolios flows coming in. Already in debt, we had nearly USD 1.6-1.8 billion in the first ten days of the year. Equity has not been that much about USD 200-300 million. That is going to be a little wobbling because Europe remains off balance.

I think 2012 is going to be a pretty good year. That doesn't necessarily mean that rupee is going to strengthen. I think you are going to see continued volatility. At some point, RBI is going to have to lift the gate. The trend of FX market liquidity is very low. It's hard for companies to hedge. So, when you open things up again, you really don't know what is going to happen.

Q: Considering that a level of stability has been achieved in the currency market, do you think the Reserve Bank should and more importantly ease it, removing what were clearly unnatural controls on bank long dollar positions as well as customer dollar positions?

A: On bank long dollar position, they should continue to hold it. I do not know what they are thinking right now.

On customer position, it was a mistake in the first place. The problem was not created by companies cancelling, the problem was created by the fact that we had huge short positions in the market. We still have huge short positions in the market.

If you look at April-May-June-July, when the rupee was around 45, that seem like an equilibrium level. Exports-imports were both growing. Nobody was complaining. Then it fell out off that, went to 54. Now with the dollar having strengthened, I feel we are now at pretty close to equilibrium value- 50-51 is very reasonable level.

From a competitiveness stand point, we are in an okay place.

Q: I wanted to focus on the appreciation at this point in time for the rupee and what sort of role has the RBI, according to you, played in it?

A: My sense is that once they pull the shutters down on banks then for most of the period after that there was talk that nationalised banks were selling dollars every time it crossed 53. So, probably they have been doing a job in terms of preventing it from getting the speculators in line.

I think what's happened now the Indian arbitrage is more or less zero. So, they did a good job, perhaps they should have done it earlier. You can't live like this, you can't live in an illiquid market.

Q: What are you making in terms of a correlation with the euro? What we could see going forward?

A: Actually this is a technical factor. In point of fact, when the dollar strengthens, the rupee will weaken. The reality is if dollar goes up, rupee goes down.

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