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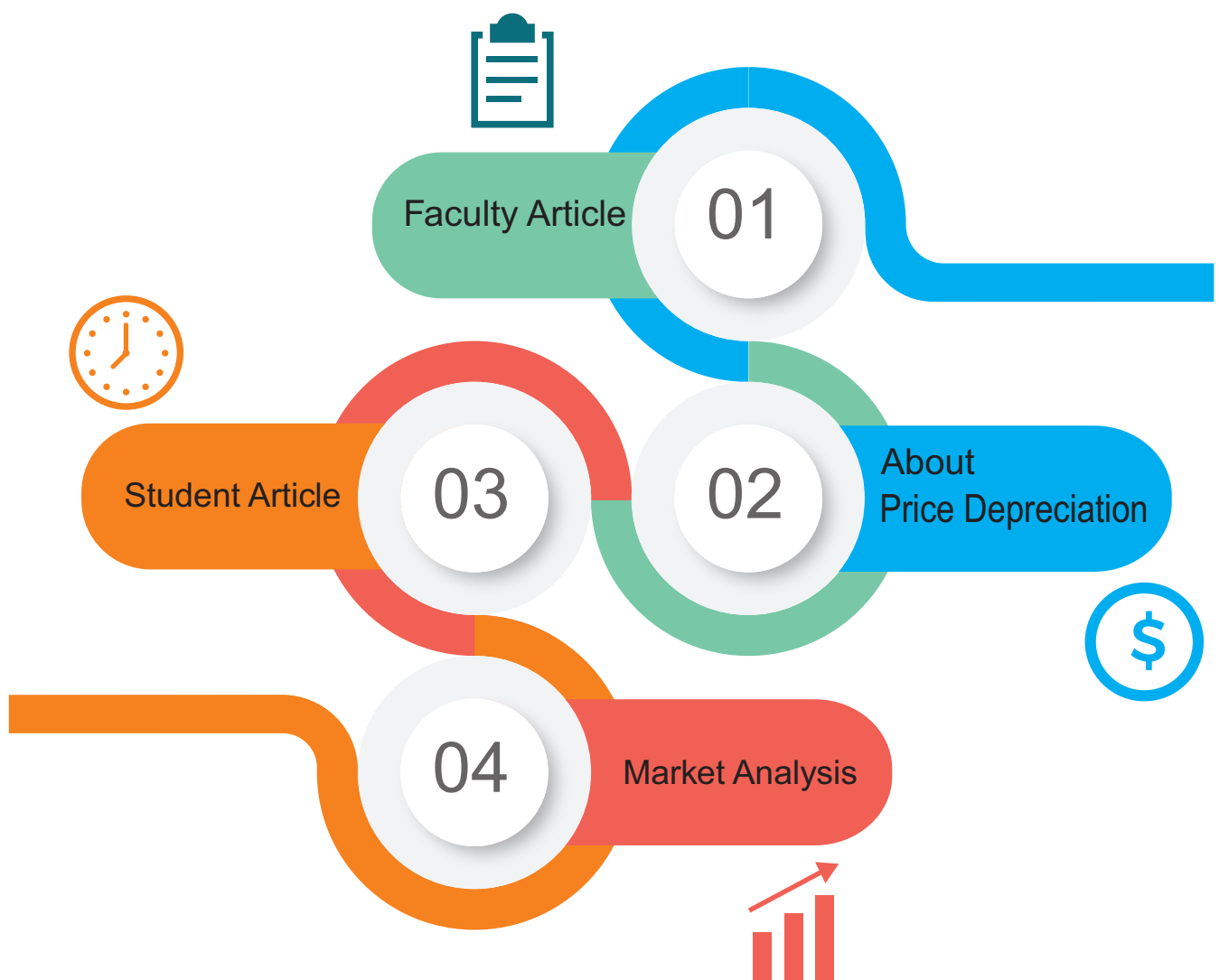
# THE BUZZ



## RUPEE DEPRECIATION

**E-JOURNAL BY FINANCE CLUB OF IMNU**

# Index





# RUPEE@75

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Since the start of the 2018 calendar year, INR – USD exchange rate has declined by almost 16%, and in the next few days, it seems to dwindle further. INR-USD closed at 74.105 on October 5. We are not alone witnessing our currency getting slashed against the dollar, Argentinian Peso (103%) and Turkish Lira (62%) are the worst performing international currencies. Two of our BRICS partners' currencies, Brazilian Real (16%) and South African Rand (19.5%) have also witnessed weakness.

First of all, let's understand the reasons why rupee is nosediving against the dollar in recent months. These may be either due to forces resulting in an oversupply of the rupee in the market or undersupply of the dollar in the market or both of them at play simultaneously.



Dr. Vishalkumar Jani

Major reason behind fall of rupee is widening of current account deficit of India due to over-dependence on crude oil imports, and in recent times crude oil prices are skyrocketing. At the same time, the international trade market is also not favourable with trade wars re-emerging resulting in fewer exports for India. The situation would have worsened if India had given in the threat of US sanctions due to the import of oil from Iran. One more reason is dwindling of fiscal deficit. The government is not able to receive the amounts projected under GST every month. This year is an election year, and even though the current government has been putting forward a fiscally prudent face but later on in the year, they have to think of politics and not economics. So, in this scenario where revenue is not as per estimate and expenditure needs to be increased, the government has to increase debt that may not go well with the rupee. Recent curbing of fuel prices by the government or increasing MSP are examples of policies that may be driven by politics and not economics.

However, the bigger reason for INR-USD exchange rate depreciation seems to be the strength of USD and US economy. The jobs data shows a higher employment rate and GDP growth is peaking up for the USA. The commentary by the Fed has indicated interest rate hikes that has resulted in bond yield gains in the US market. The capital is flowing back to the USA from emerging markets. For most of the FII players, USA is more stable and low-risk investment as of now compared to highly volatile emerging markets. The money that was invested in Indian markets is flying back to the USA, and that is one of the major causes of the recent mayhem on Dalal Street. As far as overall rupee depreciation is concerned, it is more of strengthening of USD. And that is why we are seeing most of the emerging market currencies going southwards against USD simultaneously.

What can be done?

Theoretically, India should take measures that may reduce the quantity of INR in the market or increase the supply of USD by using foreign exchange reserves or reducing buying of USD.

The government should focus more on the current account deficit that has been plagued by rising oil prices. The government has to find alternatives to boost the exports. As of now with the current international trade environment, this seems to be a tough task. A depreciating currency should be a boost for exports, but it may not be a long-lasting phenomenon. Majority of exports of India are highly import intensive and hence depreciate rupee may not result in higher exports. This calls for rejig of our trade basket and trade partners for long-run benefits and stability.

From the monetary side, RBI has already launched open market operations to support rupee falling violently. However, as per the RBI, the fall in rupee is the result of the market finding a fair price of INR, and they do not wish to use interest rates to curb this fall. Technically, RBI is correct in saying their tool called interest rate is to control inflation and not to stem rupee depreciation. By not raising the interest rate in the monetary policy meeting of October 5, 2018, RBI wants to let the market know all is well and under control.

Today, if we want to control falling rupee, we need to give up on growth expectations of 7.6%. Fiscally, the government should focus more on cutting down deficits and in the given environment that is only possible if the government curbs the expenditure. On the monetary side, to curb liquidity RBI should increase CRR or SLR initially and repo rate, if required, to curb the supply of INR in the market. But both of these results in lower aggregate demand resulting in lower growth for the economy. Are we ready to trade growth for rupee stability?

Learning

The main takeaway from recent meltdown in the rupee is that our economy needs to reduce our dependence on imports of volatile commodities like oil and understanding our dependence on the world for our growth. However, this is our learning for the future. When the mother economy starts growing, in the world of free-flowing capital, the mother economy would grow at the expense of the dependent economies. Earlier it used to happen that US economy grew due to disruption in technology and enhanced productivity. This time their growth is not because of either of them, but they are growing due to normalization happening post the recession of 2008. In simple words, the capital that flew out of the US economy due to recession is coming back to the US with higher growth, more stability, more employment, and higher interest rate environment in the USA.

# INTRODUCTION

Due to pressure from emerging markets, the Indian rupee has fallen against the US dollar in recent days. The last move of the rupee triggered an argument in India. This makes the currency one of the worst companies in Asia, losing 12% this year. The sudden drop caused the government and the central bank to be caught off guard. The high volatility of crude oil prices and the growth in the current account deficit of countries of origin are attributed to the free fall of the rupee.

Many factors require officers to take action - among other things, the fact that rupee has become both a tool of national pride and a political productivity tool. But so far, the government and the RBI did not oppose it for fear. They should not lose nerves. The policy announced by the Reserve Bank is to reduce volatility rather than specific levels of money.

Some of the most famous complaints have arisen due to companies that could affect currency depreciation to corporate balance sheets. Those who built the RBI went ahead when faced with the wear and tear pressure that they borrowed in international markets.

Another point of pressure is the price of oil, which quickly becomes a problem between the middle class. India imports about 80%. Its oil demand, which is aggravated by the country's excessive internal fuel taxes - almost 100 percent. - petrol and 60% - up to 70% Diesel This means that when the rupee wears out, the exchange rate is due to fuel prices and therefore to the rest of the economy.

The RBI has several tools that can support the currency. The most obvious is to intervene in foreign exchange markets by selling dollars: the central bank has more than 400 billion dollars available stock. Or it may increase interest rates, which is justified by currency weakness, higher oil prices and the latest high inflation rates. Third, it can raise dollars by borrowing Indians from non-residents who have become currency stresses.

Currency rupee fluctuations depend on the demand and supply of dollars in domestic and global commodity and financial markets. If the dollar's demand exceeds the supply, it is valued according to rupee and vice versa. The current account deficit (CAD) or the difference between import and export values increases the demand for dollars for imports. India's ADC amounted to 1.9% of GDP in 2017-2018, increased from 0.6% in the previous financial year. According to the latest data releases, it increased even more in FY2019. As a result, net cash flow increased from \$ 15 billion to \$ 48 billion.

Growing CAD is one of the main causes of higher dollar demand and rupee depreciation. CAD is funded by foreign investment flows from the financial market or capital account (investing in FDI). If the first FDI inflows and outflows are robust, CAD is realized through this surplus. However, past experience suggests that unexpected outflows can be very volatile. However, net FDI inflows, portfolio investment, and net income from non-resident deposits further contributed to the rupee.

The increase in CAD is linked to an increase in the prices of imports of basic products from India (crude oil, gold and three major electronic products) when payments are made in dollars or euros. In addition, the Federal Reserve's (EE) money and interest rates are increasing. Therefore, FII has transferred funds from emerging economies to the United States.

Each move — from fixing liquidity and raising loan fees to talk of non-occupant getting and limitations on derivatives — was deciphered as a frenzy response that just affirmed the rupee was feeling the squeeze. Non-natives felt it was smarter to remove cash from India within the near future, and the fall of the rupee turned into an unavoidable outcome. Cash and derivatives markets, cash and credit markets, and high expenses of borrowing all hurt the economy in consequent months.

In the years that pursued, the RBI kept on dealing with the rupee deliberately. RBI, for the most part, accomplished this by lessening the extent of the rupee-dollar derivatives advertise, which made its mediation more powerful and afterward purchasing rupees forward.

To some degree, the methodology worked: Currency unpredictability settled. While the genuine conversion standard of the rupee increased in value, the cash didn't debilitate in accordance with India's higher expansion. However, some could contend this just set the phase for the current defeat, which can be considered more to be a past due to recalibration than an insignificant blip on a few people's radars.

Undoubtedly, there are a few sections of the economy that gain from rupee devaluation. A weaker money helps send out development, which has been frail as of late. Organizations — a large number of which are little and work concentrated — have battled with the change to a merchandise and enterprises assess, and a few experience considerable difficulties getting credit. A weaker rupee would likewise balance rivalry of shabby imports from nations like China, which could give household businesses a truly necessary lift.

The RBI and India's legislature, at present, are quiet. This is a solid stance that must withstand the everyday news, media weight, campaigning and political provoking. In 2016, the RBI had been given another command to meet its expansion target and look after development. Protecting the money no matter what isn't a piece of the brief. This most recent shortcoming will test its purpose.



# CAUSES OF RUPEE DEPRECIATION

## 1. Widening Trade Deficit

A situation in which the import bill of a country exceeds its export bill is called trade deficit.

According to the trade ministry, India's trade deficit hit a 5-year high of \$18.02 billion in July. This is mainly because of surging oil imports. While total imports jumped 28.81 per cent to \$43.79 billion, exports only went up by 14.32 per cent to \$25.77 billion.

The widening trade deficit against the backdrop of growing global uncertainty is expected to keep exerting pressure on the rupee in the near term.

## 2. The Turkish Crisis

It was the free-falling Lira, the Turkish currency, which accelerated the rupee's depreciation. The currency has lost more than 40% against the dollar this year on account of the country's deteriorating ties with the United States and concerns over President Tayyip Erdogan's increasing influence over the overheated economy.

Given how interconnected the global financial system is, the fears of spill over impact in other emerging markets - at least in the short term - have sent investors scrambling for safe haven currencies like the dollar and hammered emerging market currencies, the rupee included, in the bargain.

## 3. Global Trade Tensions

US President Donald Trump's trade policies have also beefed up the dollar in recent times. The greenback climbed to a 13-month high against a basket of six major currencies.

The Trump administration's move to impose import tariffs against China, Europe, Mexico, Canada and now Turkey is expected to stoke US inflation, which could accelerate the pace of Fed rate hikes and, in the bargain, strengthen the dollar further. The U.S. Federal Reserve is expected to raise interest rates twice more this year.

A strong dollar is bad news for India because it makes imports more expensive.

## 4. Increase in the Price of the Crude Oil

As India produces just 20% crude oil of her requirement and rest is imported from countries like Iraq, Saudi Arabia, Iran and other gulf countries. Crude oil is the biggest contributor in the import bill of India.

According to a report; the daily fuel demand of India is expected to more than double to 190,000 barrels in late 2018, up from last year's 93,000 barrels. As the demand of crude oil is increasing the bill of oil import is also increasing. So, increase in the demand of crude oil will be followed by the increasing import bill in the form of payment of more dollars to oil exporting countries. Hence, the demand of dollar will increase in the Indian market which will reduce the value of Indian rupee.

## 5. Beginning of Trade War between the USA and China

The US President Donald Trump has initiated the trade war with China and European countries and India and these countries also retaliated in the same way. So due to this war the price of the imported commodities will go up which will further increase the outflow of dollar from the Indian market.

As we know that Indian import bill is always greater than its export bill. It means that the trade war will adversely affect the Indian market and India will also experience the outflow of US dollar from its domestic market.

## 6. Outflow of Foreign Currency

It is worth to mention that when the foreign investors find other attractive markets in the other parts of the world; they pull out their invested money by selling the equity shares. But they demand the most respected currency or easily accepted money i.e. dollar. So, in such situation the demand of dollar increases which further increases its price.

Foreign Portfolio Investors (FPIs) have pulled out nearly Rs. 48,000 crores from Indian capital markets in the first six months of 2018, making it the fastest outflow in a decade.

FPIs withdrew a net sum of Rs. 6,430 crores from equities besides Rs. 41,433 crores from the debt markets during January-June period of the year, taking the total outflow to Rs 47,836 crore.

## 7. Atmosphere of Political Uncertainty

As to the surveys done by the media houses, the popularity of the current NDA government is decreasing which is creating the atmosphere of the uncertainty among the foreign investors.

Major point of uncertainty is that whether the current NDA government will retain the power at centre or not. If the new government comes in the power and changes the FDI and other policies then the money of investors will trap.

So, the foreign investors are pulling out their money from the Indian market to invest in those markets which can provide them secured return. This is the reason that the demand of dollar is increasing and the price of Indian rupee of falling.

Hence on the basis of the combined impact of the above-mentioned reasons the exchange rate between the dollar and India rupee is touching its lowest point.

In the conclusion it can be hoped that if the RBI and government of India puts combined efforts in this direction then depreciation trend in the Indian currency can be checked.



# IMPACT OF RUPEE DEPRECIATION ON DIFFERENT INDUSTRIES

The rupee fell to a new record low, plummeting to 74.10 against the US dollar. A weaker rupee made crude oil, electronics, precious metals, drugs, and iron ore, which India imports in large quantities, more expensive. Major impacts are briefed below:

## 1. Exports:

Reacting to RBI announcement of maintaining the repo rates following falling of Indian Rupee below the mark of 74 against the dollar, FIEO President Ganesh Kumar Gupta said that "the depreciation is also increasing cost of imported capital goods, inputs and various services used by exporters paid in foreign currency particularly the freight charges as shipping companies adopt exchange rate which is much above the market rate."

He added that buyers are asking for a significant price reduction, because of the depreciation of the rupee, because the depreciation of their currencies has also led to an increase in the selling price in their own country.

The most virulent are buyers from the Middle East, Africa and parts of Asia who demand very low prices, while such demands from the United States and Europe are barely received. This puts exporters in a dilemma: if it has been hedged, it will not benefit from a low rupee, but it is forced to reduce prices.

## 2. Telecommunications:

Rupee depreciation can increase cash outflows in the telecommunications sector by nearly 4,000 crores, with an additional increase of 2,000 crores in operating income due to higher fuel prices in the current fiscal year said the ICRA rating agency.

The sector is under the current debt of about 5 million rupees and the incumbents - Bharti Airtel and Vodafone Idea - are expected to face further downward pressure on profitability.

ICRA executives added that diesel prices could increase by 15% and should have an impact of approximately 3 to 4% on the industry's estimated EBITDA for FY19. As on March 31, 2018 out of the total debt of 470 million rupees, external debt is of about 100 million rupees, of which about 70% in US dollars.

## 3. Real Estate:

As the Indian rupee has been under pressure for a few months and has fallen to an unprecedented level, real estate agents expect non-resident Indian investment, or NRI, in the sector to gain momentum. A lower rupee against the US dollar makes investment in India cheaper for foreign investors and NRIs. Stakeholders say that NRI's real estate collection is around 7 to 8 percent of the country's total real estate shares.

Speaking about the countries of origin for NRI's investment in the India's real estate market, NCR-based HomeKraft CEO Prasoon Chauhan told IANS that significant investments came from the Middle East, United States, United Kingdom, Canada and Australia. Although a weak national currency is considered a disadvantage for the economy in general, it can also be considered as an investment opportunity for both individuals and institutional investors.

"Since real estate is considered to be a long-term investment, foreign investors chance upon the depreciating Indian rupee. Thus, the depreciation in currency has a long-term impact on the overall investments made in the country," said Abhinav Joshi, Head of Research, CBRE India.





# RBI'S ACTION ON RUPEE DEPRECIATION

As the central bank of the economy, the Reserve Bank of India is considered the depository and controller of the foreign currency. While the exchange rate (rupee value in terms of foreign currency) is determined by the market forces of demand and supply, the role of RBI interventions is also of great importance. The supply of dollars comes from the export of goods and services, as well as the inflow of foreign investment, both from FDI and portfolio investment. On the other hand, the demand in dollars comes from the importation of goods and services and the exit of foreign investments. If dollar demand exceeds supply for the dollar, the rupee depreciates and more rupees are deducted for every dollar. The same thing is happening now, since the exit of the FII and the rise in oil prices, the demand for dollars exceeds their supply. As a result, the rupee depreciates. If RBI intervenes and increases the supply of dollars it chooses from its foreign exchange reserves, it can stop the fall of the rupee.

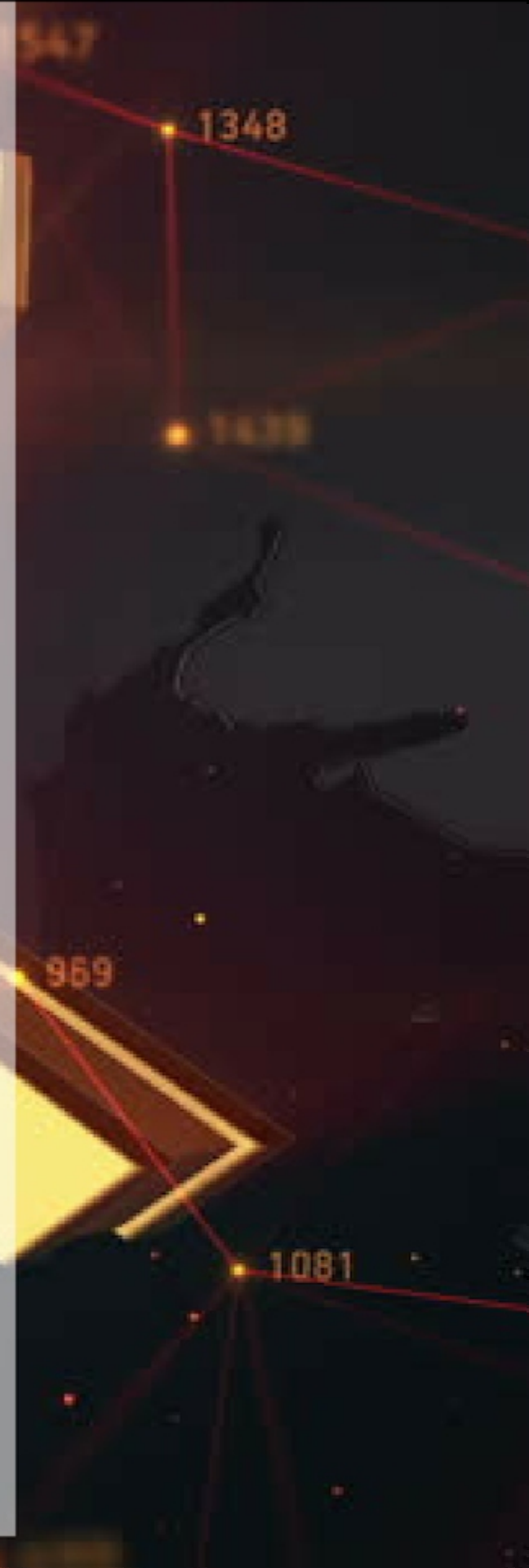
RBI Governor Urjit Patel did not seem baffled by the sharp decline in the currency and said the depreciation helped correct external imbalances. The RBI has no target or band in mind and only acts to manage volatility.

In the fourth bimonthly policy statement, Monetary Policy Committee (MPC), a six-member panel headed by RBI Governor Urjit Patel, voted 5-1 to leave the repurchase rate or repo rate at 6.5% (repo rate is the rate of interest at which the RBI lends money to banks in the system). The decision was a surprise as the central bank raised the repo rate twice in previous two bimonthly policy statements and was expected to do the same this time by 40 out of 49 economists.

MPC adhered to its central objective of achieving its mid-term inflation target of 4% while supporting growth. The MPC did not increase the repurchase rate (which was what the market expected) since, rightly, it focused on the growth momentum of India. RBI alluded to the fact that growth continues to be a priority. The increase in interest rates would have had an effect on the cost of inputs and, ultimately, would have had a negative impact on exports, which experienced double-digit growth in July and August 2018. Exports offset rising oil imports.

The RBI has reduced India's economic growth forecast for the first quarter of fiscal year 2020 to 7.4%, compared to the August projection of 7.5%, while maintaining the forecast for the current year to 7.4. %. "Lowering the inflation forecast to a range of 3.9% to 4.5% for the second half of the year ending March, from 4.8 percent previously, allows the MPC room to pause on rates," Governor Urjit Patel said.

Patel listed several risks and uncertainties which are clouding the economic horizon. "First, the government announced in September measures aimed at ensuring remunerative prices to farmers for their produce, although uncertainty continues about their exact impact on food prices. Secondly, oil prices remain vulnerable to further upside pressures, especially if the response of oil-producing nations to supply disruptions from geopolitical tensions is not adequate. Thirdly, volatility in global financial markets continues to impart uncertainty to the inflation outlook. Fourthly, a sharp rise in input costs, combined with rising pricing power, poses the risk of higher pass-through to retail prices for both goods and services. Firms covered under the Reserve Bank's industrial outlook survey report firming of input costs





# Rupee depreciation and its adverse effects

The year 2018 has been a rollercoaster ride for the Indian economy with respect to its currency. The Indian Rupee has depreciated over 14% against the US Dollar from 63.85 in January 2018 to 72.82 in October 2018. It crossed the 70 mark for the first time in its history recently in August and has since shown no major sign of recovery. There are a lot of factors, both internal and external, which have contributed to the falling value of rupee. The rising global crude oil prices have played a major role in the downfall of the currency, since India is a major importer of oil. The rising oil prices also created a cascading effect on other commodities and industries, thus affecting the overall economy. The changing international economic policies and trade wars, such as US-China, US-Iran and US-Turkey have also been having an impact on currencies around the world, including India. At the domestic level, higher current account deficits (ie. net outflow of foreign capital) due to higher import bills and capital outflows have attributed to the falling rupee. The depreciating value of the rupee has had various effects on the Indian economy at the micro and macro level. The weakening of the currency will lead to a rise in the cost of imports, which as mentioned before, will further lead to a fall in value, and the cycle continues unless controlled. While some economists argue that falling currency value leads to higher exports which is beneficial, it is only possible if the weakening of Indian rupee is dominant as compared to other currencies. However, over the past year the weakening of currencies in Latin American, African and Middle-Eastern countries has been at a greater rate than India, thus ruling out any competitive advantage to Indian exporters. Moreover, the rising costs in our dominant industries due to rising oil prices will lead to a rise in overall inflation. At the individual level, cost of dollars going up also means higher cost of travel, education and health. However, on the positive side, rupee depreciation will lead to higher foreign investments as investors will earn higher returns for their dollar investments.

The Reserve Bank of India(RBI) is taking various measures in order to stabilize the depreciation and minimize its effects. It is already taking liquidity easing measures such as bond purchases to the tune of Rs 36000 crores. As per economists, RBI is also expected to increase the interest rates with an aim to control currency-backed inflation. On the fiscal side, the Government is closely monitoring the trade deficit and taking policy measures to reduce import bills.

While analysts suggest that the Rupee will be under pressure for next few months, the rupee should appreciate back to below the 70 mark due to the efforts of the Government and RBI.

**-Simran Miharia**  
**181257**



# Stock Market Analysis

After a big Bull Run in month of July and August, volatility was back to haunt the markets in month of September. The markets have corrected from all time high of 38312.52 to 36227.14 which is almost a correction of 5.44% and Nifty 50 index is down 5.63% over previous month close of 11582.35 to close at 10930.45. There are multiple reasons for this correction as follows:

- Continuous increase in crude oil prices has negative impact on government finances.
- Widening of current account deficit due to increase in oil bill as well as non-oil imports.
- FPI have pulled out almost Rs. 21000 crore from stock market.
- Continuous fall in Rupee since July end due to widening CAD worries.
- Huge fall in stocks of NBFC sector like IL&FS and DHFL due to liquidity crunch and IL&FS defaulting on loans.
- Fall in banking stock due to news of merger of three PSU's and also fall in YES Bank.
- Worry of further increase in fuel prices due to sanctions on Iran coming into full effect on November 4 and reluctance of OPEC + Russia to increase oil production.
- Oil prices, inflation data, rupee weakness could affect the markets in near term.

Below are top five gainers and losers stocks traded on S&P BSE SENSEX for the month of September, 2018:

## Top Five Gainers:

Company Name	Current Price	Previous Close	Change	%Change
WIPRO	330.85	301.65	29.20	9.68
TCS	2255.80	2078.20	177.60	8.55
INFOSYS	744.45	720	24.45	3.40
VEDENTA	232.90	227.20	5.70	2.51
DR. REDDY LABORATORY	2511.25	2491.35	19.90	0.80

## Top Five Loser s:

Company Name	Current Price	Previous Close	Change	%Change
YESBANK	201.20	343.40	-142.20	-41.41
MARUTI	7465.30	9097.25	-1631.95	-17.94
SUZUKI HERO MOTOCORP	325.85	383.35	-57.50	-15
TATA MOTORS (DVR)	121	142.20	-21.20	-14.91
TATA MOTORS	229.25	267.10	-37.85	-14.17



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