

Trade Deficit will Continue to Put Pressure on Rupee

Mahalakshmi Hariharan

The Reserve Bank of India (RBI) appears to be sticking to its guns in terms of simply managing the volatility of the currency and not holding it at any particular level, which seems a reasonable approach, says **Jamal Mecklai**, CEO, Mecklai Financial. Speaking to **Mahalakshmi Hariharan**, Mecklai says he sees the rupee headed towards the Rs 50-mark over the next six months. Excerpts:

Where do you think the rupee is heading to?

While I have till recently been holding on to a range of 45.50 to 48.50 over the next six months, I now feel there is greater risk on the downside. I would now suggest a range of 45.50 to 50 over the next six months. With global risk appetite is still low, inflows are relatively modest. Thus, the rupee strength under the capital flows is an old story, any strength will simply be the result of volatility. On the other hand, the fact that our monthly trade deficit is at a high of \$10 billion suggests that there could be continuing pressure on the rupee. This is also probably why the NDF market is discounting a much weaker rupee.

Of late, the RBI has not been seen intervening too much into the forex market. Do you think it's a good strategy?

Well, the RBI appears to be sticking to its guns in terms of simply managing the volatility and not pushing for any particular level and it seems a reasonable approach.

How do you read FII inflows into the debt and equity markets? Do you think rupee will start gaining with stock market rising?

As I mentioned, global risk appetite is very uncertain. Besides, domestic equity markets are quite heavily priced, so flows will remain modest and may be skewed towards debt as Indian interest rates are likely to remain elevated. The Indian stock market appears unable to sustainably break 18,000, so I don't see a major bull run there.

Do you have an estimate of how much of the country's total forex reserves are accounted for by the euro and what share the dollar would have?

It's hard to say. But we had done some research few months ago, which suggested that the country's reserves were not much more than 50% in the form of dollar. A significant aspect of our reserves holdings is that, unlike most other countries we have as much as 7.5% in non-SDR currencies, like : CHF and the AUD.

Your views on other Asian currencies and the euro...

I think the Euro will remain at current levels of 1.29-1.30 to the dollar and perhaps even strengthen a bit, after which it will decline again, possibly breaching its 1.1875 low.

Are Indian companies going overseas to raise funds and what kind of rates are they able to borrow at?

With Libor quite low, many companies want to access global markets. However, banks have increased the spread for forex loans-- even strong companies are being quoted at Libor plus 400 basis points to prevent companies cashing in on the arbitrage. At Libor+ 400 basis points, the fully-hedged cost of a five-year loan works out to around 9.5-10%, which is close to the domestic borrowing cost....

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