

How RBI's management of the rupee has helped soften commodities

A strong Indian currency has made imports cheaper

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The rupee was at its lowest at the end of August 2013. From there on, the Reserve Bank of India along with measures from the Government has brought respite to the rupee's extreme volatility. It has now stabilised at 60-62 levels despite the dollar strengthening.

In fact, the rupee is one of the best performing Asian currencies. With the benefit of a stronger rupee, the RBI has built up the country's forex reserves by being active in spot and forward rupee markets.

RBI Governor Raghuram Rajan has said that India has to be prepared for a volatility in the rupee, especially once the US Federal Reserve begins to raise interest rates. Expecting that the Centre will now usher in the much-needed reforms, FIIs have been sanguine and have poured huge sums into equity and debt markets, thereby adding some base strength to the rupee.

The year 2013 saw huge volatility in domestic commodities. Most of this occurred during April-September, a period when a few key commodities, most notably gold and crude oil, surged to record highs in domestic



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bourses. While the price of gold on MCX increased by a whopping 40 per cent to a record ₹35,074 per 10 grams in just two months (its international price rose some 20 per cent), crude oil was up 66 per cent to a record ₹7,784 per barrel (international price climbed by 30 per cent).

So, what caused domestic commodity prices to spiral up so steeply? It was basically the rupee movement that triggered the upside. Last year, the domestic currency plummeted by about 30 per cent, slumping to a record low of ₹68.84 to a dollar in less than four months starting May. While several factors were responsible for its slide, some of the key ones turned out to be de-

celerating economic growth, mounting gold imports, high current-account deficit and FII outflows on expectations of the Fed tapering off its quantitative easing in the US.

The plunge in the rupee played a critical role in pushing commodity prices to their peaks in India, which, in turn, stoked inflationary concerns and worries about policy tightening.

Since the mayhem witnessed between May to August 2013, the rupee has now stabilised considerably, thanks to RBI policies.

Also, a fall in international commodities has helped several domestic commodities retreating from their record highs. The most dramatic drop has been in

gold and crude oil, which slid approximately 25 and 40 per cent respectively, from their peaks.

Meanwhile, prices of agricultural commodities too have come down, not only due to the stable rupee but also because of ample rainfall. Most of agri-commodities (soyabean, sugar, wheat) in international bourses have plunged this year and similar movement has been seen on domestic bourses.

All these factors, coupled with a stronger rupee, have resulted in imports becoming less expensive; thereby contributing towards lowering inflation and raising hopes of an interest-rate cut.

With commodity prices softening globally with the stabilisation of the rupee, domestic commodity users can heave a sigh of relief.

One, commodities have become less volatile as the volatility in the currency has been arrested. Second, domestic commodity prices now are largely in sync with international prices. However, we are in a global market place and therefore, exposed to its inherent nature of unpredictability. An astute entrepreneur will always hedge his risks in such a large and precarious market place.

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