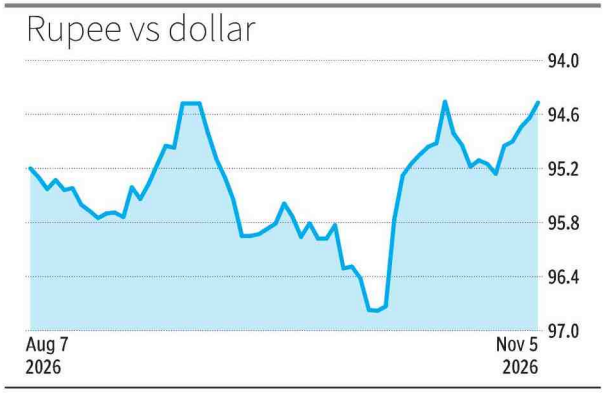
Rupee at 2-month high on easing tension, weak dollar

EXPERT OPINION. Analysts cite foreign inflows and bargain buying behind rupee's rise

Our Bureau
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The rupee (INR) closed at a two-month high on Thursday on expectations the US will de-escalate the West Asia war after the Democrats swept the mid-term elections, falling US Treasury yields, softening crude oil prices and a weakening dollar.

The Indian unit closed at 94.47 per USD, a level last seen in early September, up 17 paise, against the previous close of 94.64. Intra-day, INR tested a high/low of 94.32/94.57.

Dilip Parmar, Senior Research Analyst, HDFC Securities, noted that the rupee extended its north-bound journey for the fifth consecutive session, supported by a declining US dollar and lower Treasury yields.

"Risk-on sentiment, driven by foreign fund inflows and softer crude oil prices, further underpinned the domestic currency. Spot USD/INR retraced to its October lows, triggering some bargain buying. In the near term, the pair faces psychological support at 94.00, with resistance pegged at 94.90," he said.

US POLITICAL SHIFT

Axis Bank's economic research team in a report, opined that the US political shifts with the blue wave (Democrat win in the mid-term elections) can directly impact INR fair value, as a retreat from the West Asian conflict can improve terms of trade, a slower AI rollout can pull costs of capital lower and protect productivity.

However, the great power competition is unlikely to end, leading fiscal spending to continue (the national debt of major countries in conflicts tends to increase) and continuing to draw down on savings.

These have driven the financeable CAD (current account deficit) to 0 per cent and a basic balance deficit since 2023.

The estimates of the bank's economic research team show that fair value is still weaker than current levels, though depreciation of fair value may no longer outpace actual depreciation. This is also visible in lower forwards and a smaller covered interest parity gap.

Further, forex reserves' adequacy is still low, whether by traditional measures or by the IMF's Assessing Reserve Adequacy (ARA). The report said the necessity of reserve re-accumulation will likely preserve the depreciation trajectory ahead, holding out 100 by June 2027 view for now.

WAR PREMIUM CRACKS

Rajeev Sharan, Head of Research, Brickwork Ratings, said, "What changed is that the war premium in energy prices finally cracked. Overnight, Brent crude plunged below the psychological $100 mark to $93.64 per barrel after the US mid-term elections reduced fears of military escalation with Iran."

"Combined with a softer dollar index at 101.22, a 1,400-point Sensex rally, and ₹7,284 crore in foreign stock inflows, the macro tide has turned in India's favour. Even when oil crashes and foreign cash floods in, the rupee will climb slowly because importers and the RBI are using every rally to buy cheap dollars," he added.