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1. Rupee rallies to 69.85 on falling oil prices, US Fed guidance

- ❑ What are the impacts of falling crude oil prices on Indian Economy?
- ❑ What were the negative impacts of raising oil prices on Indian Economy?
- ❑ What factors will contribute to the strengthening of rupee?

GS paper 3 (Indian Economy)

In this video, you can find detailed answers for all the above questions.

The above article has been retrieved from:

ENS Economic Bureau. (2018, November , 30). Rupee rallies to 69.85 on falling oil prices, US Fed guidance. Indian Express. Retrieved from <https://indianexpress.com/article/business/market/rupee-rallies-to-69-85-on-falling-oil-prices-us-fed-guidance-5471613/>

What is the context about?

- ❑ After a steep 15 per cent fall in the rupee due to the rise in crude oil prices and foreign capital outflows earlier this year, the rupee has now bounced back 6 per cent. The last time the rupee closed below 70 was on August 24.
- ❑ Oil prices slipped below the US \$ 60 per dollar mark as investors fretted over a supply glut with a bullish trend in the equity market and a weak US dollar greenback further propping up the Indian currency.

What are the impacts of falling crude oil prices on Indian Economy?

- ❑ The fall in global crude oil prices comes as a big relief to the Central government, which has faced increasing macroeconomic and political pressure due to rising prices.

- ❑ According to UBS, a drop of \$10 in the price of oil can improve India's current account and fiscal deficits by 0.5% and 0.1% of GDP, respectively.
- ❑ The Reserve Bank of India will be relieved as it will have to worry less about the rupee and oil-induced inflation.
- ❑ This points to an increase in investor confidence in the economy as the fundamentals improve.

What were the negative impacts of raising oil prices on Indian Economy?

- ❑ Rebounding oil prices have pushed up oil import costs and will widen India's currency account deficit. This will in turn weigh on the rupee, which is expected to depreciate further.
- ❑ That widening deficit will result in a weakening rupee, as more imports mean India has to buy more foreign currencies to meet its needs.
- ❑ India could overtake China as the world's largest oil demand growth center by 2024, according to a Wood Mackenzie report.
- ❑ Crude Oil Demand is expected to grow by 3.5 million barrels per day from 2017 to 2035, accounting for a third of global oil demand growth. That's driven by rising income levels, a growing middle class and increasing need for mobility.

What factors will contribute to the strengthening of rupee?

- ❑ As the dollar is strengthening and all accompanying fundamentals are strong, it looks difficult.

There are three important elements linked to the weak rupee:

- ✓ Persistent current account deficit;
- ✓ Episodes of net capital outflow in terms of speculative and debt capital outflow; and

- ✓ Predominance of debt capital in forex reserves.
- ❑ In the event of rupee depreciation, the RBI intervenes in the forex market with the objective of containing volatility.
- ❑ This decline could be on account of the RBI selling dollars to intervene in the market to manage rupee volatility.

The way forward

- ❑ Government should focus on making strategic reserve storage facilities now as Gulf Countries are looking towards tapping the Indian oil demand due to low import demand from America owing to availability of shale gas at cheaper rate.
- ❑ Moreover, Oil Corporation of Gulf Countries have shown interest in storage-refining in India since it can reduce their transport costs into Southeast Asia.
- ❑ In future, Government may readily utilise this storage facility in the international markets as it can release inventory and book profits when prices climb, and recharge reservoirs when prices fall again.