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# India

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# Indian Rupee Slide

**Report Categories:**
Agriculture in the Economy
Competitor
Fresh Fruit
Grain and Feed
Oilseeds and Products
Tree Nuts

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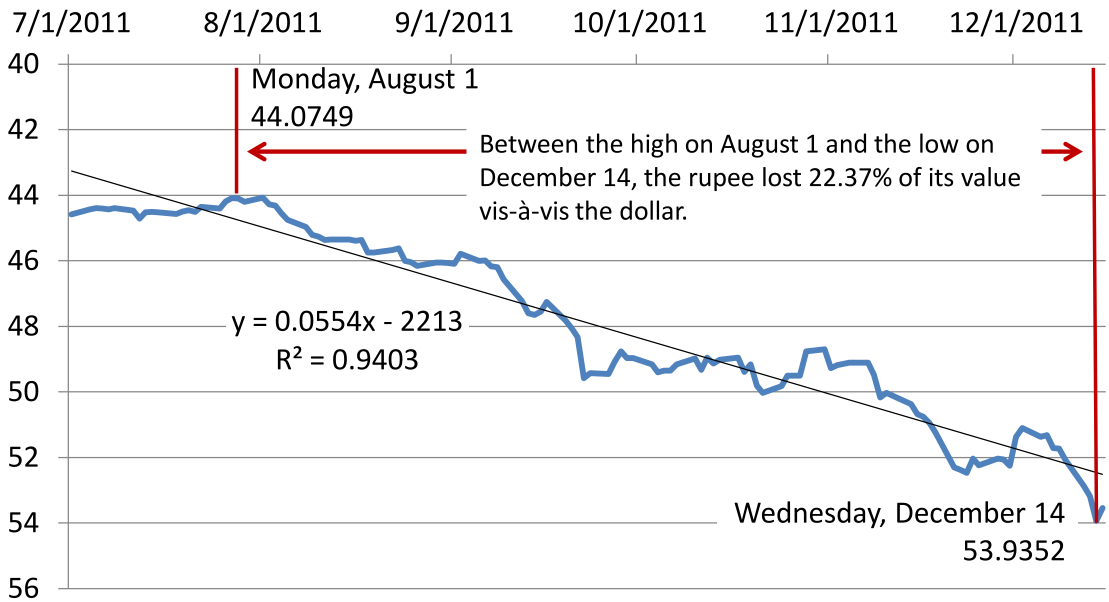
**Report Highlights:**
Since August 1, the Indian rupee has lost roughly 20 percent of its value relative to the U.S. dollar (see Figure 1). While large Indian traders of bulk commodities generally hedge against exchange-rate risk, smaller traders as a rule do not, preferring to bear this risk themselves. As a result, commodities traded primarily by small and medium traders are entering an import slump. The rupee's fall may have been arrested by a modest intervention coupled with indirect controls imposed by the Reserve Bank of India December 15.

**General Information:**

Figure 1. Indian rupees per U.S. dollar, July 1-December 15, 2011




Data source: X-Rates.com Inc.

In the last four months, the Indian rupee has lost approximately 20 percent of its value relative to the U.S. dollar (on a monthly average basis, the drop from July to mid-December is 17.52%; from maximum to minimum the spread equals 22.37%). The reasons for this are well known: first, the financial crisis of the euro zone has bid up the dollar globally as investors use the dollar as a safe haven, and second, the Reserve Bank of India had for some time reportedly decided not to support the rupee as the exchange rate fell. The Reserve Bank of India is holding $307 billion in foreign exchange reserves and would have needed to expend these reserves at the rate of $1 billion per working day to support the rupee directly.

The impact of this exchange rate shift is felt in several major commodities.

**Fruits and Nuts**

There are two immediate consequences of the rupee's fall. First, traders are presently unwilling to borrow dollars for additional imports out of concern the exchange rate may continue to slide, and second, future imports will be sold at higher rupee prices to cover the higher cost of dollars, reducing effective consumer demand.

Almonds, the largest single U.S. agricultural export to India, are imported primarily by small and medium trading houses. Most current contracts were signed when the rupee was trading at 45 to the dollar, and many importers used bank credits to finance their trades. Most of these traders built in a profit margin sufficient to cover some exchange rate fluctuations, but it is highly unlikely that any of them built in profit margins exceeding 20 percent. In other words, almond importers are currently breaking even at best and, if the exchange rate slides farther, will be in the red. Traders indicate that if the exchange rate should drop below 55 rupees to the dollar, imports would drop off dramatically; some are already forecasting a drop in the next quarter from the year previous in the range of 20 to 40 percent.

Apple imports are already slowing. Chinese-origin apples in ports of entry (mainly Chennai) and on the water are arriving but new orders are reportedly drying up. Importers advise that they are in “watch and wait” mode, and if the exchange rate deteriorates more over the next month, orders from the United States will largely dry up. Current deliveries are against contracts signed in August for fourth-quarter delivery; as these contracts expire, traders are taking stock of cash on hand to pay for future purchases rather than turning to banks for financing dollar-denominated imports, and these resources are limited.

**Grains and Pulses**

India’s rice exports have benefitted from the rupee value depreciation. Trade sources report that total non-basmati rice export contracts from September through mid December are estimated at around 2 million tons, of which about half has already been shipped. Indian non-basmati parboiled rice is currently available at $415-420 per ton FOB (end-of-October price $450-470 per ton) in sufficient volumes for the export market.

The wheat export market has remained bearish due to continued weak International prices and firm domestic prices. The GOI decision to hike the minimum support price of wheat for the MY 2012/13 season raised local prices of wheat by about Rs. 1000 ($19) per ton from the end-of-October level. Despite the depreciation in value of the Indian rupee, Indian wheat is available for around $245-250 per ton FOB, which is not competitive against other origins (Australia, CIS countries) in the target markets (Middle East and South Asian countries). Typically, Indian wheat is discounted by $15-20 per ton for quality inferior to that from other origins. Consequently, India’s wheat export market has remained bearish with export contracts from September through mid-December estimated at around 350,000 tons, mostly for Bangladesh.

The rupee value decline has supported corn exports, with MY 2011/12 export contracts (October–mid-December 2011) estimated at 900,000 metric tons compared to 600,000 metric tons during the same period last year. Currently, Indian corn is very competitive in the south Asian market with prices in the range of $240-245 per metric ton CIF. Market sources report that India’s corn exports in MY 2011/12 may surpass 3 million metric tons (vs. 2.8 million metric tons in MY 2010/11) if the value of the Indian rupee stabilizes at the current level.

Pulse imports (mainly yellow peas, chickpeas and lentils) have slowed due to the rupee decline despite steady domestic demand. With the rupee's value depreciating by nearly 20 percent over the last three months, domestic pulse prices have gained by about 5 percent. Market sources report the landed price of chickpeas (Australian origin) is around $650 per metric ton compared to the local market price of $610 per ton, while the landed price of yellow peas (Canadian origin) is $470 per ton compared to a local market price of $390 per ton. Consequently, most of the importers are incurring losses and there have been some reports of contract default over the last month.

**Vegetable Oil**

Vegetable oil imports reflect bearish sentiments. Total imports fell from 912,341 tons in September to 855,363 tons in November 2011. Since imported oils have become costlier, Indian vegetable oil importers, rather than negotiating only with suppliers, are negotiating prices with domestic buyers as well in search of a positive margin, and simultaneously disputing contracted deliveries from suppliers.

**Reserve Bank of India actions**

On December 15, the Reserve Bank of India (RBI) prohibited cancelling and rebooking forward contracts for foreign exchange by both domestic and foreign institutional investors, regardless of the type or tenor of the underlying exposure. Previously, this had been permitted for either current account transactions of any tenor or capital account transactions of up to one-year tenor. This has the practical effect of reducing demand for dollars and of spurring banks to sell off dollars, and thus of indirectly supporting the dollar-to-rupee exchange rate.

The RBI additionally modified risk hedging rules and reduced the net overnight open position limit of authorized currency dealers, which is intended to cut back on currency speculation. Again, the practical effect is to reduce demand for dollars. According to traders the RBI also intervened directly on December 15, selling a limited amount of dollars to stave off a continued fall of the exchange rate.

The RBI has indicated it is concerned that an exchange rate exceeding 54 rupees to the dollar could fuel inflation and slow economic growth.

The RBI notification is at http://rbidocs.rbi.org.in/rdocs/notification/PDFs/EAP58151211FL.pdf

A press release on this action is at
http://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/IEPR945R1211.pdf