Research on the Indian Rupee (INR)

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Abstract

This paper mainly discusses the Indian rupee. The Indian rupee is one of the essential components of global foreign exchange. This article analyzes the importance of the rupee in the global market through turnover analysis, trade restrictions, onshore and offshore interest rate analysis, etc. This paper discovers the importance of the Indian Rupee as an economic dominance of India, as well as the volatility and riskiness of the Indian Rupee in the context of global economic conditions due to global dynamics.

Keywords: Indian Ruppee, global marketing, global economics

Introduction

The Indian Rupee (₹) is a crucial global foreign currency market component. The INR, India's national currency, symbolizes its diversified culture, economic vitality, and large population (Bhatia, 2022). Beyond being a currency, the INR represents India's economic power and growing worldwide significance. India, the world's sixth-largest economy by nominal GDP, has become a worldwide economic powerhouse (Nagarjuna, 2022). The INR supports internal and international trade, investments, and financial transactions as part of its rise. The ₹ sign symbolizes India's economic transformation and globalization. The paper explores the complex aspects of the Indian Rupee. In particular, this examination includes turnover trends, regulation, interest rate dynamics, currency value evaluations, and path policies. Also, the inherent risks and exposure mitigation measures are considered. This research on the Indian Rupee in the global foreign exchange helps investors and policymakers make informed decisions and sheds light on the currency's changing position in international commerce and finance.

Turnover analysis

In foreign exchange markets, "turnover" refers to the total value of all currency transactions that occur within a specific period, typically measured in a day or a year (Ito & McCauley, 2020). It represents the overall trading activity in a particular currency. Turnover is a crucial metric as it reflects the liquidity and attractiveness of a currency to traders and investors. When analyzing the turnover of the Indian Rupee (INR), it is valuable to compare it to the world's dominant vehicle currency (USD), which featured in 88% of all forex trades in April 2019 (see Figure 1)

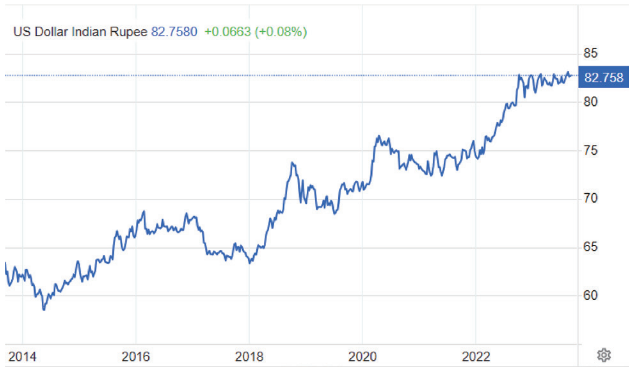

Figure 1 US dollar vs. Indian Rupee between 2013-current Source: (Trading economics, 2023: *https://tradingeconomics.com/india/currency*

Figure 1 above shows that the Indian Rupee (INR)has changed significantly against the US dollar (USD) over the last decade. Commencing in 2014 at 62.582 INR/USD, the currency initially demonstrated a gradual appreciation trend until 2016. However, 2017 witnessed a depreciation, which was succeeded by a period of relative stability in 2018, followed by fluctuations in 2019. Subsequently, from 2020 to 2021, the INR underwent a notable appreciation phase against the USD, reflecting the influence of diverse global economic and financial conditions. This trajectory of appreciation continued into 2022 and 2023, with the INR achieving higher exchange rates.

Trade Restrictions

Trading restrictions for the Indian Rupee (INR) have historically limited offshore trading. These restrictions include NDF markets and capital controls (De, 2023). The INR was not entirely convertible. Therefore, offshore NDF markets allowed merchants to speculate on its exchange rate without exchanging it. This was mostly owing to India's conservative capital account convertibility. However, India has capital controls that limit INR exports and foreign investment. Trading limits and regulations affect offshore currency trading, liquidity, and exchange rates.

Onshore vs. Offshore Interest Rates

Onshore interest rates refer to the rates set by the Reserve Bank of India (RBI) within India, while implied offshore interest rates are derived from various offshore financial instruments like non-deliverable forward (NDF) contracts (Raizada & Rao, 2022). The distinction arises because of capital controls and restrictions on offshore INR trading. Generally, implied offshore interest rates tend to be slightly higher than onshore rates due to the perceived risk of offshore transactions. This difference influences investor decisions, as higher implied offshore rates can make offshore INR investments more attractive, affecting INR demand and exchange rates.

Assessing real valuation of INR

Evaluating the real valuation of the Indian Rupee (INR) compared to its historical levels involves a multifaceted analysis. These factors encompass inflation rates, trade balances, interest rate disparities, and overall economic performance (Ranjana & Barai, 2021). When juxtaposed with its historical averages, it becomes imperative to ascertain whether the present INR exchange rate stands as either overvalued or undervalued. A meticulous scrutiny of these factors aids in understanding whether the currency's current valuation aligns with its underlying economic fundamentals or if it is subject to the influence of speculative factors. Furthermore, a comparative evaluation of the INR's value against the currencies of major trading partners offers valuable insights into its competitiveness in international commerce, thereby exerting a profound impact on its enduring stability and allure for investors.

Central Bank's exchange rates goals and policies

The Reserve Bank of India (RBI) has adhered to a managed floating exchange rate system for the Indian Rupee (INR) over an extended period. Its primary objective revolves around upholding the stability of the exchange rate with a vigilant effort to prevent excessive volatility (Iqbal et al., 2023). RBI commonly engages in forex market activities involving the purchase and sale of INR to mitigate substantial fluctuations. The central bank's strategy is to strike an equilibrium between preserving the competitiveness of exports and managing inflationary pressures. Recently, the RBI has introduced several strategies to address currency movements, including managing foreign exchange reserves and interventions in response to external shocks (Iqbal et al., 2023). RBI's exchange rate policies are geared towards fostering stability while considering India's economic imperatives and the ever-evolving global market dynamics.

Indian Rupee (INR) five-year outlook

INR Vs the US dollar (USD)

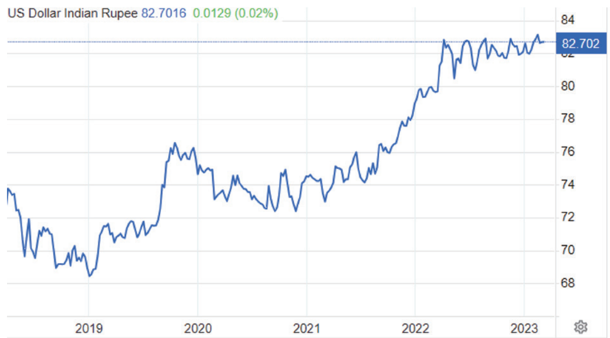

Figure 2 5 years USD vs INR
https://tradingeconomics.com/india/currency

INR Vs Euro (EUR)

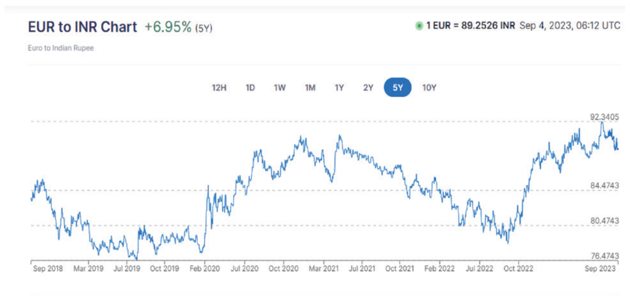

Figure 3 Source: *https://www.xe.com/currency charts/?from=EUR&to=INR&view=5Y*

INR Vs. Japanese Yen (JPY)

Figure 4 Source: *https://www.xe.com/currency charts/?from=JPY&to=INR&view=5Y*

Discussion

Over the past half-decade, the Indian Rupee (INR) has demonstrated a mixed performance when measured against significant global currencies. Notably, the INR has witnessed a substantial appreciation vis-a-vis the US Dollar (USD), surging from an approximate rate of 71.310 INR/USD in 2019 to 82.752 INR/USD in 2023. This discernible trend implies the potential for the INR to maintain its strengthening trajectory concerning the USD in the foreseeable future. Conversely, when scrutinizing the Euro (EUR), the INR has exhibited a degree of variability, oscillating between a high of 92.3405 INR/EUR and a low of 76.4743 INR/EUR. This inherent fluctuation makes it challenging to envisage a clear and definitive path for the INR against the EUR over the next five years. The Japanese Yen (JPY) has likewise experienced analogous oscillations, registering a pinnacle of 0.723863 JPY/INR and a nadir of 0.551126 JPY/INR. Consequently, the INR's future performance vis-a-vis the JPY remains uncertain.

The Indian Rupee (INR) has faced many risks and threats in the past five years. Its vulnerability to trade dynamics and financial crises stems from the changing global economy (Ranjana & Barai, 2021). The different interest rates between India and its trading partners can also affect currency rates. Geopolitical upheaval, international conflicts, and major policy changes could cause currency market volatility. The INR may lose purchasing power as India's inflation rises. The RBI's interventions and monetary policies heavily influence the INR's path. Health catastrophes like the COVID-19 pandemic continue destabilizing economic stability and currency prices.

Recommendation

Dollar-based investors seeking exposure to the Indian Rupee (INR) should hedge long positions, especially via forward contracts. Hedging has many benefits, especially given the INR's volatility and risk concerns. Forward contracts allow investors to lock in an exchange rate for a future date, giving certainty and reducing currency risk (Oglend & Straume, 2020). Also, hedging with forward contracts gives investors a predictable return on investment, making portfolio management easier (Oglend & Straume, 2020). This provides certainty and reduces currency fluctuation losses. When using forward contracts as a hedge, investors must consider their risk tolerance, investment horizon, and market outlook.

Conclusion

To conclude, this complete examination of the Indian Rupee (INR) in the world foreign exchange market reveals its importance as a symbol of India's economic dominance. The INR's turnover has changed over the past decade, reflecting domestic and global economic developments. The currency's rise against the US Dollar, Euro, and Japanese Yen stresses risk management. Restrictions on offshore INR trading affect liquidity and currency rates. Interest rate differentials and the difficulties of comparing the INR's present valuation to prior levels exacerbate its volatility. The RBI examines economic aims and global dynamics to stabilize currency rates. INR has a good five-year outlook against USD and EUR. Global economic conditions, interest rate variations, geopolitics, and central bank policies may affect the INR. Dollar-based investors can hedge long INR exposure with future contracts for currency protection and predictable returns.

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