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THE TALE OF A BATTLING RUPEE: RBI'S CALCULATED COUNTERATTACK



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In the heart of Mumbai, the Indian rupee found itself at the center of a fierce financial tempest. The last week of December 2024 was anything but ordinary for India's currency, as it waged a determined battle against a relentless US dollar. For weeks, speculative forces had been building, like storm clouds, pushing the rupee to its lowest ebb—a historical low of 85.8075 to the dollar.



The central bank, a seasoned sentinel of India's economic stability, had been watching. On that fateful Friday, the Reserve Bank of India (RBI) stepped into the fray, its arsenal brimming with dollar reserves. In what one private bank dealer described as a “very busy intervention,” the RBI sold dollars in substantial volumes. The move was deliberate, swift, and decisive, forcing speculators to retreat and unwind their dollar-long positions.

The impact was palpable. As Monday dawned, the rupee began its cautious ascent, with the one-month non-deliverable forward suggesting an opening range of 85.40-85.42—an improvement over the previous close of 85.5325. The market murmured with the words of a currency dealer: **“The excessive positions are being flushed out now that the RBI has intervened with intent.”**

But the war was far from over. Analysts warned that while this recovery was encouraging, it was unlikely to extend beyond 85.30. Many viewed the dip as an opportunity to buy dollars, knowing the rupee's challenges remained formidable.



The rupee's struggles were multifaceted, tied to a global stage where rising US Treasury yields and uncertainty over President-elect Donald Trump's trade policies loomed large. With US bond yields at their highest since April, the dollar index stood firm at 108, casting a long shadow over emerging markets. As one trader put it: **“Unless the trajectory of U.S. yields turns, the rupee will have it difficult.”**

Adding to the complexity was the erosion of India's forex reserves, which had dwindled to a seven-month low, collateral damage from the RBI's interventions. Yet, in the face of adversity, there was a glimmer of hope. The rupee's real effective exchange rate (REER), which measures its value against a basket of currencies adjusted for inflation, painted a more balanced picture. A high REER suggested that a controlled depreciation could potentially bolster India's export competitiveness.

For now, the RBI's strategy was clear: manage the rupee's volatility and ensure stability amidst global turbulence. It was a delicate dance, one that required balancing currency interventions with the broader objectives of monetary policy. As 2025 approached, the rupee's journey was a microcosm of the challenges facing India's economy—resilient yet vulnerable, driven by the ebb and flow of global forces.

The rupee's story is a reminder that currencies, much like nations, are shaped by the interplay of strength and strategy. And in this tale, the RBI emerged not just as a central bank but as a guardian of India's economic sovereignty, ensuring that while the winds of the global economy may blow, the ship remains steady.



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