

RBI in Defence of INR

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Bank of America*

September 2013



Real current account deficit 3.5%

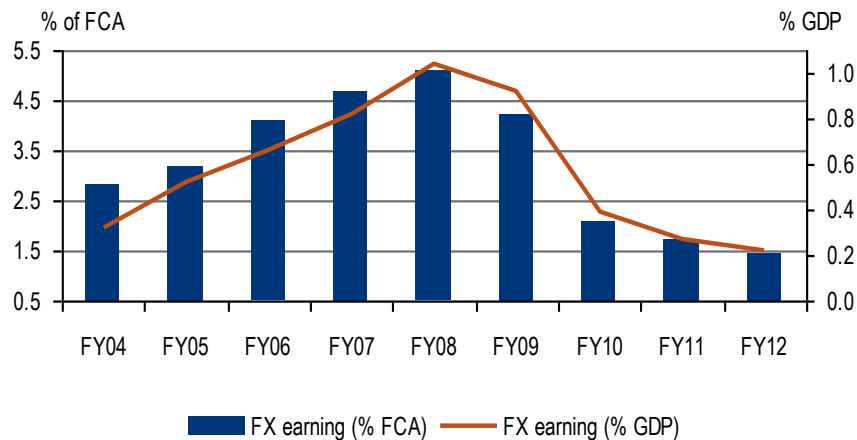
Current account deficit really ~3.5% of GDP

	Current account deficit (CAD)		CAD adjusted for oil discrepancies		CAD adjusted for NRI deposits		CAD adjusted for oil discrepancies and NRI deposits		CAD adjusted for oil discrepancies, net gold imports and remittances	
	USDbn	%GDP	USDbn	%GDP	USDbn	%GDP	USDbn	%GDP	USDbn	%GDP
FY04	14.1	2.3	14.3	2.3	17.7	2.9	17.9	2.9	-2.4	-0.4
FY05	-2.5	-0.3	-1.9	-0.3	-3.4	-0.5	-2.8	-0.4	-13.9	-1.9
FY06	-9.9	-1.2	-11.0	-1.3	-7.1	-0.9	-8.2	-1.0	-27.0	-3.2
FY07	-9.6	-1.0	-10.1	-1.1	-5.2	-0.6	-5.8	-0.6	-27.8	-2.9
FY08	-15.7	-1.3	-19.1	-1.5	-15.6	-1.3	-19.0	-1.5	-47.0	-3.8
FY09	-27.9	-2.3	-24.7	-2.0	-23.6	-1.9	-20.4	-1.7	-52.7	-4.3
FY10	-38.2	-2.8	-37.7	-2.8	-35.3	-2.6	-34.8	-2.5	-65.2	-4.8
FY11	-45.9	-2.7	-51.3	-3.0	-42.7	-2.5	-48.1	-2.8	-70.0	-4.1
FY12	-78.2	-4.2	-74.2	-4.0	-66.2	-3.5	-62.3	-3.3	-88.2	-4.7
FY13	-88.1	-4.8	-74.6	-4.0	-73.3	-4.0	-59.8	-3.2	-91.6	-5.0
FY14E	-75.0	-4.0	-75.0	-4.0	-60.0	-3.2	-60.0	-3.2	-89.7	-4.8

Trade data overestimating oil imports

	Oil imports Petroleum Ministry (USD bn)	% yoy	Oil imports Commerce Ministry (USD bn)	% yoy
FY2001	17.0		15.7	
FY2002	14.1	-17.0	14.0	-10.5
FY2003	17.6	24.3	17.6	26.0
FY2004	20.4	15.9	20.6	16.8
FY2005	29.3	43.6	29.9	44.9
FY2006	45.1	54.0	44.0	47.2
FY2007	57.5	27.5	56.9	29.6
FY2008	83.1	44.7	79.7	40.0
FY2009	90.4	8.8	93.7	17.5
FY2010	86.6	-4.2	87.1	-7.0
FY2011	111.4	28.5	106.0	21.6
FY2012	151.0	35.6	154.9	46.2
FY2013	155.8	3.2	169.2	9.2
Apr-12	14.2	-4.4	13.6	4.2
May-12	13.6	13.8	14.5	10.7
Jun-12	11.4	-8.6	11.2	-15.6
Jul-12	11.3	-6.9	13.8	6.6
Aug-12	12.6	4.7	12.8	2.2
Sep-12	13.1	19.9	14.2	31.6
Oct-12	13.7	30.9	15.8	40.3
Nov-12	13.0	1.5	14.2	13.9
Dec-12	13.1	11.5	14.7	25.5
Jan-13	15.0	2.2	16.1	8.2
Feb-13	12.1	-3.3	15.1	15.5
Mar-13	12.7	-12.0	13.3	-16.6

Reduced RBI's FX earnings also impact CAD



Source: BofA Merrill Lynch Global Research estimates.

Source: PPAC, Ministry of Commerce

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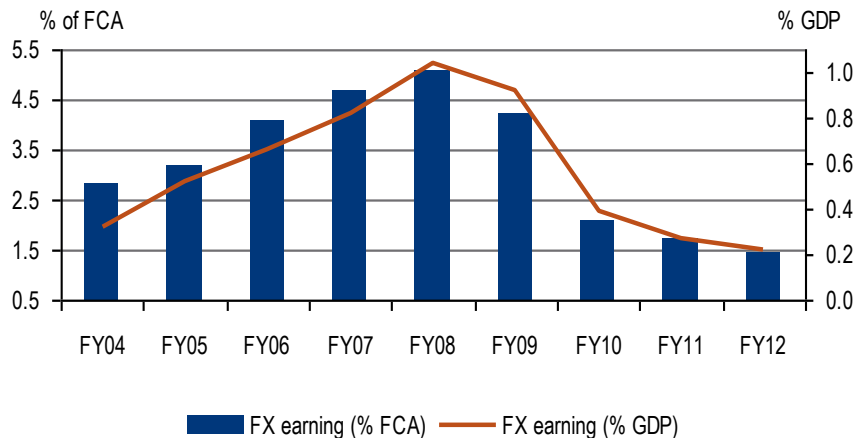
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FY13	-88.1	-4.8	-74.6	-4.0	-73.3	-4.0	-59.8	-3.2	-91.6	-5.0
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Source: PPAC, Ministry of Commerce

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- Corporates to furnish Statutory Auditor's certificate to demonstrate that they are not over- hedging
 - Free cancellation and rebooking of Fx forward contracts disallowed
 - NOOP limits of banks reduced across the board
 - Impact:
 - Total trading volumes of the OTC market fell
 - Many MNCs stopped hedging in onshore market due to the documentary requirements
 - USD/INR moved broadly in reaction to the Equity markets

Steps taken by RBI to support INR – May'13 onwards

Date	Measure	Impact
13 May 13	<ul style="list-style-type: none"> ▪ Restricts Gold imports by banks 	<ul style="list-style-type: none"> ▪ No noticeable impact on USD/INR
20 Jun 13	<ul style="list-style-type: none"> ▪ Foreign banks reduced open positions in USD/INR to almost zero 	<ul style="list-style-type: none"> ▪ INR strengthened by 50p
9 Jul 13	<ul style="list-style-type: none"> ▪ Any proprietary activity by banks in Currency futures banned 	<ul style="list-style-type: none"> ▪ Led to position liquidation and INR gaining by 100p
10 Jul 13	<ul style="list-style-type: none"> ▪ Public Sector Oil companies directed to buy Fx only from one bank (SBI) 	<ul style="list-style-type: none"> ▪ Market started to prejudge SBI's buying ▪ Spot impact was more than the actual oil related Fx demand
15 Jul 13	<ul style="list-style-type: none"> ▪ Raised MSF by 200 bps to 10.25% ▪ Capped LAF funds @ 1% of deposits ▪ OMO sale for INR 12,000 crores 	<ul style="list-style-type: none"> ▪ Liquidity tightened ▪ Bond yields spiked by 50 bps+ ▪ MTM impact on banking stocks
23 Jul 13	<ul style="list-style-type: none"> ▪ Reduced LAF limit to 0.5% of a bank's own NDTL ▪ A daily minimum CRR balance of 99% to be maintained by the banks ▪ CMBs worth INR 6000 crores announced 	<ul style="list-style-type: none"> ▪ Liquidity tightened further ▪ Bond yields fell further ▪ INR reacted positively initially

Steps taken by RBI to support INR – May'13 onwards

Date	Measure	Impact
1 Aug 13	<ul style="list-style-type: none"> ▪ Made it mandatory for FIIs to get mandate to hedge Fx from their sub-account holders and P-Note holders 	<ul style="list-style-type: none"> ▪ Not much impact seen, as other arbitrages still remain
9 Aug 13	<ul style="list-style-type: none"> ▪ Announced weekly CMBs worth INR 22,000 cr 	<ul style="list-style-type: none"> ▪ Short term yields touched 12%
14 Aug 13	<ul style="list-style-type: none"> ▪ Overseas investments by Indian companies reduced to 100% of net-worth from 400% ▪ Individual overseas remittance limit slashed from \$ 200,000 to \$ 75,000 ▪ Prohibited investments in overseas properties ▪ Raised ceiling on NRE deposits to L + 400 bps 	<ul style="list-style-type: none"> ▪ Markets perceived these measures as Capital controls – very negative ▪ FIIs started selling in Equity markets – Sensex fell by 7.5% in 4 days ▪ INR depreciated by 320p in 1 week and 740p in 2 weeks
28 Aug 13	<ul style="list-style-type: none"> ▪ Announced Fx swap window for Oil companies 	<ul style="list-style-type: none"> ▪ INR reacted positive, appreciated by 230p from the lows of 68.80 as large immediate import demand is removed from the market ▪ Confusion prevailed due to lack of clarity on who will bear the MTM and FX risk for such swaps ▪ Oil import related Fx demand only pushed to the future

Steps taken by RBI to support INR – May'13 onwards

Date	Measure	Impact
30 Aug 13	<ul style="list-style-type: none"> FinMin officials commented that India was coordinating with other emerging economies including Brazil to intervene in offshore currency markets 	<ul style="list-style-type: none"> Brazil denied it within a few hours of this announcement USD/INR continued its upward march despite intervention by RBI
4 Sep 13	<ul style="list-style-type: none"> Announced swap facility for FX-denominated FCNRB deposits, of 3+ years, at a fixed hedge cost of 3.5 % p.a. Raised banks' current overseas borrowing limit of 50% of Tier I capital to 100%, which can be swapped with RBI at a concessional rate of 100bp below the market rate 	<ul style="list-style-type: none"> USD/INR reacted in a positive manner, with expectation of inflows of almost USD 10 Bn+
5 Sep 13	<ul style="list-style-type: none"> Announcement of a BRICS currency pool of USD 100 Bn for stabilising emerging market currencies 	<ul style="list-style-type: none"> Details still needs to be worked out, hence impact not measurable

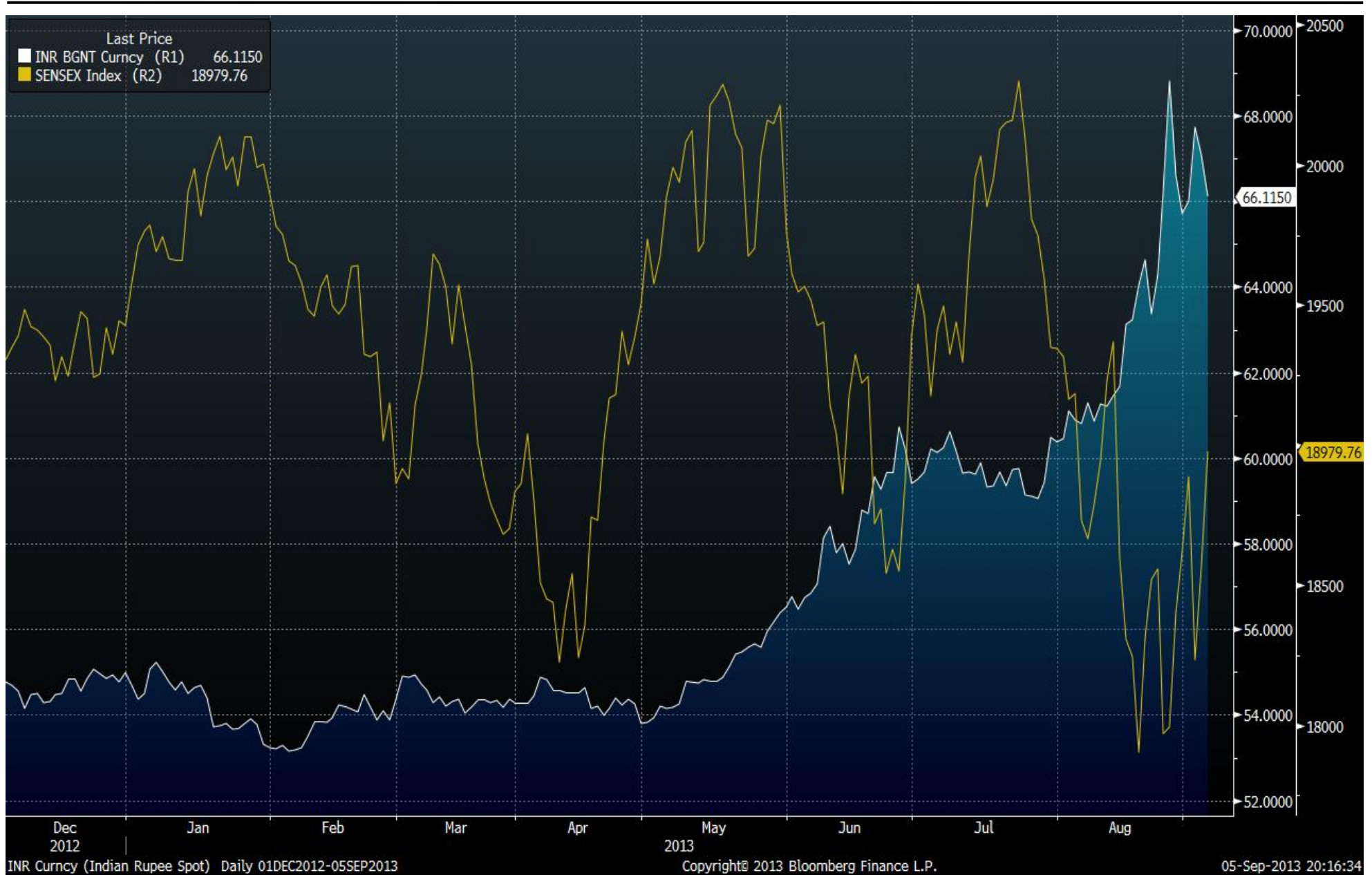
USD/INR vs India 10y G-sec yields



US 10yT vs India 10y GSec

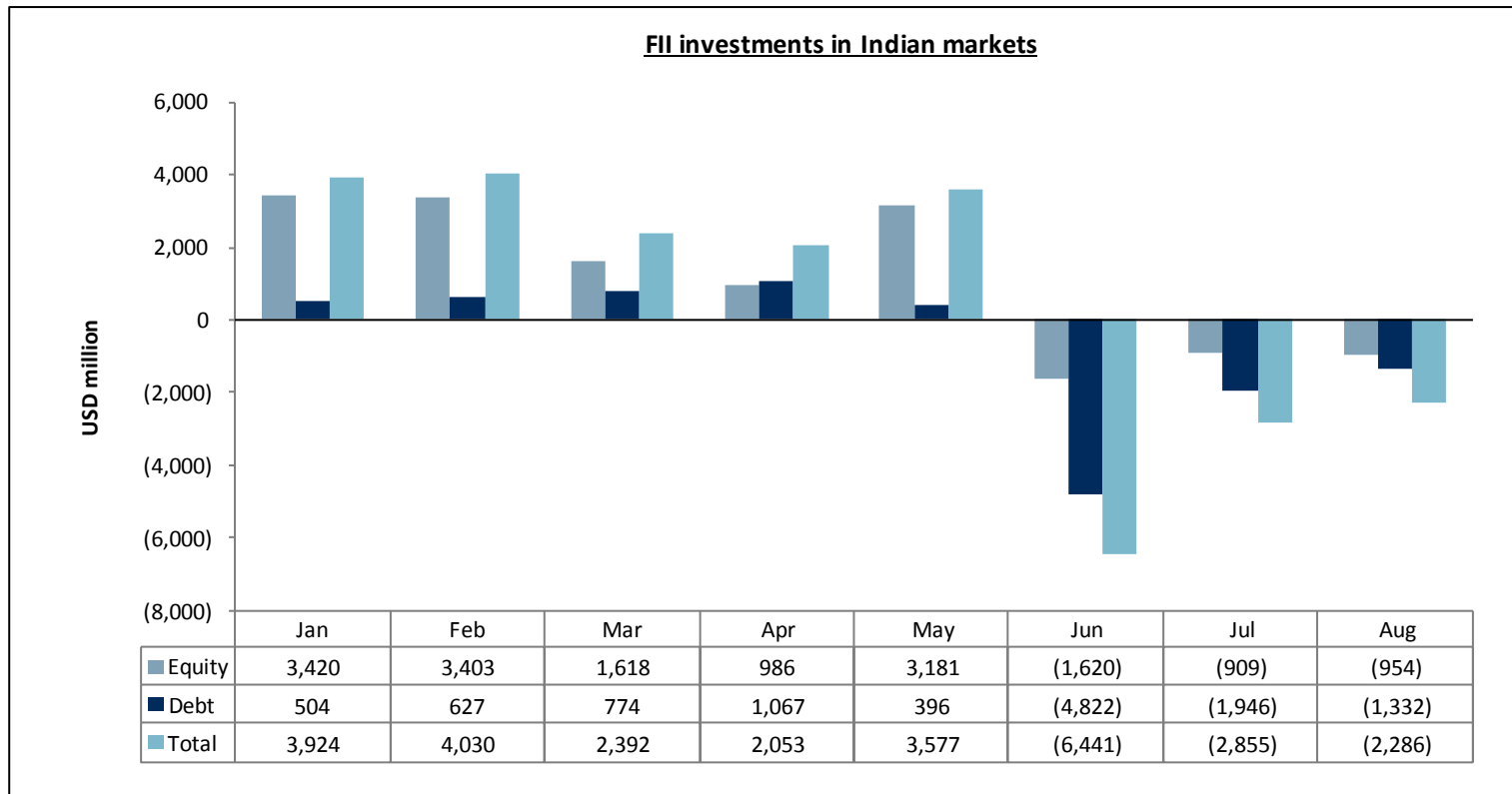


USD/INR vs Sensex in last 2 years



Consolidated Picture in 2013

- YTD India saw total inflow of USD 4.4 Bn with debt outflow of USD 4.7 Bn and equity inflow of USD 9.1 Bn.



Has RBI tightening helped stem FII outflow?

- If we consider average daily outflow in debt, it was USD 180 Mn between 21st May to 15th July whereas it dropped to USD 66 Mn in the period after that, which might indicate so. But on a closer look, we can see that by 15th July, debt FII inflow YTD had turned negative indicating a large portion of the debt investment had already flown out.
- Further the outflow is stronger in dated securities (USD 7.3 Bn) vs. short dated instrument like T- Bills and Commercial Paper (USD 1.5 Bn)

FII Activity in India (cont'd)

FII activity in Equities

- Equities have seen FII outflow consecutively for last three months , in June : USD 1.6 Bn, in July : 0.9 Bn and in Aug : 0.95 Bn . July figures are aberration as USD 9Bn was on a single day on account of HUL buy back.
- USD- INR is closely related to equities inflow rather than debt inflow, as most of debt money is hedged .
- The two strong moves in USD-INR in June 2013 (56.5 to 59.4) and August 2013 (60.37 to 68.80) have coincided with strong equity outflows.



USD-INR move since 1 May 13 to 5 Sep 13

Thank you

