

# The Annual Business Performance Survey: Whither the Rupee – and Hedging Strategies?

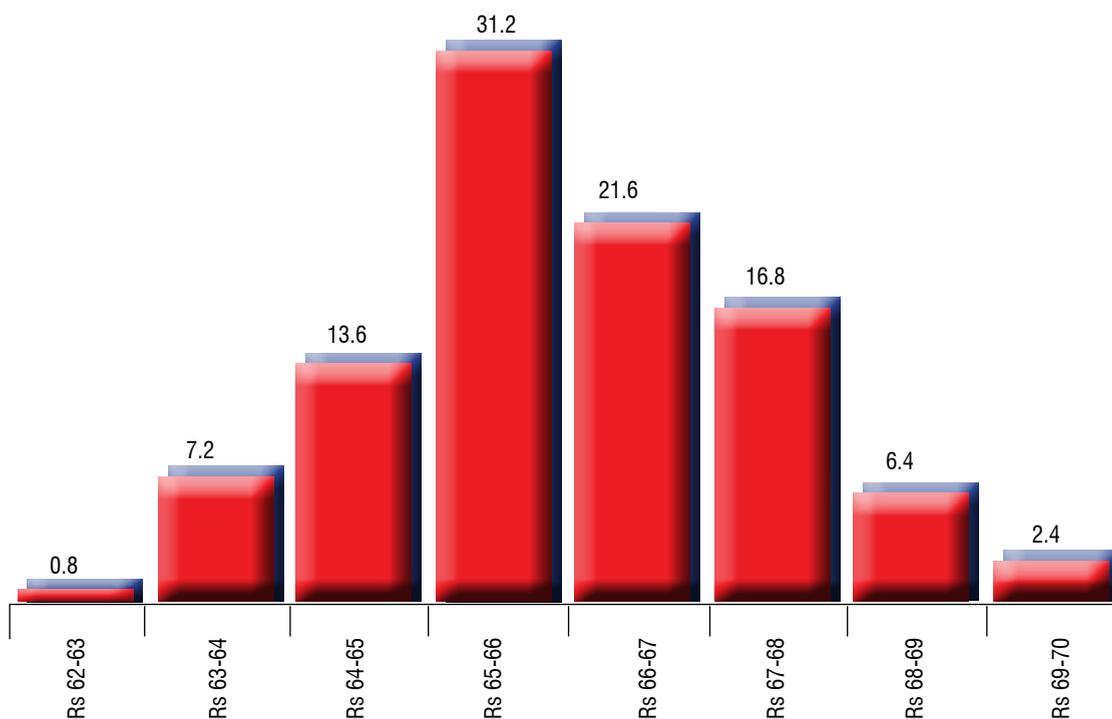
**2**017 has seen the Indian currency go on a roller-coaster ride, with the Rupee gaining as much as 6 per cent against the USD in the first half of the year, but then depreciating by 2 per cent in the second half on the back of falling capital flows. Looking ahead, this turbulence is likely to sustain – a view supported by many of the over 250 companies who responded to

IMA's Annual Business Performance Survey, which was run in November 2017.

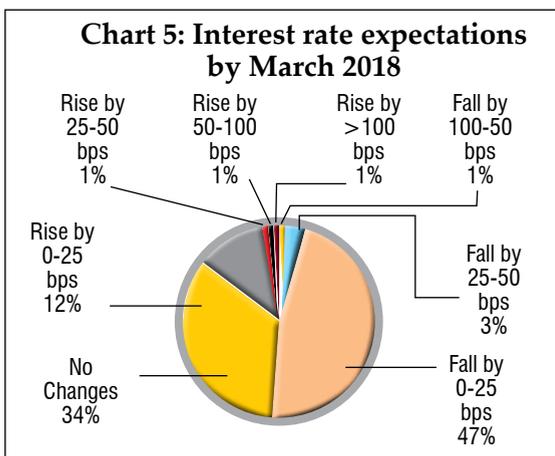
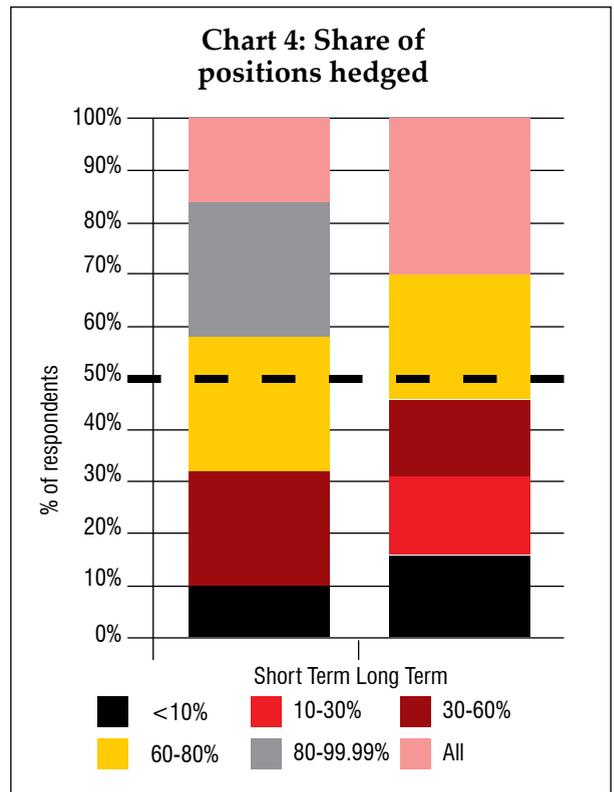
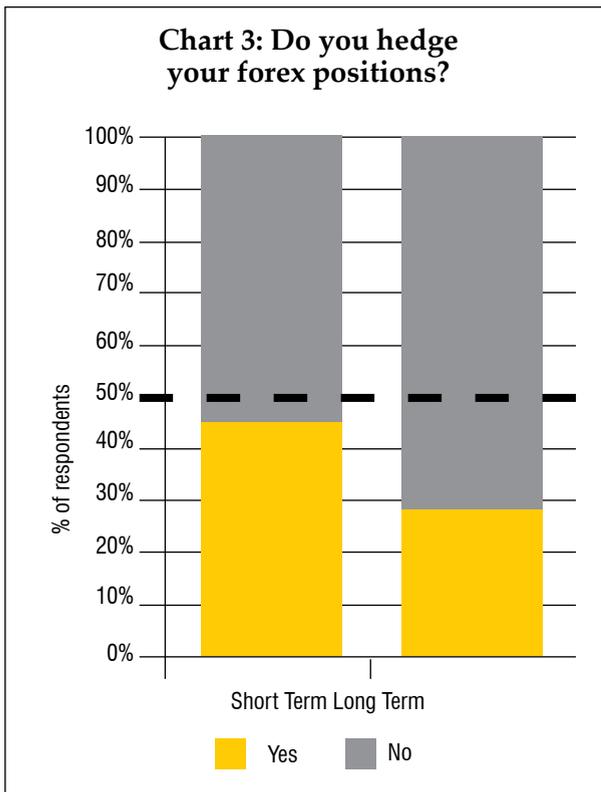
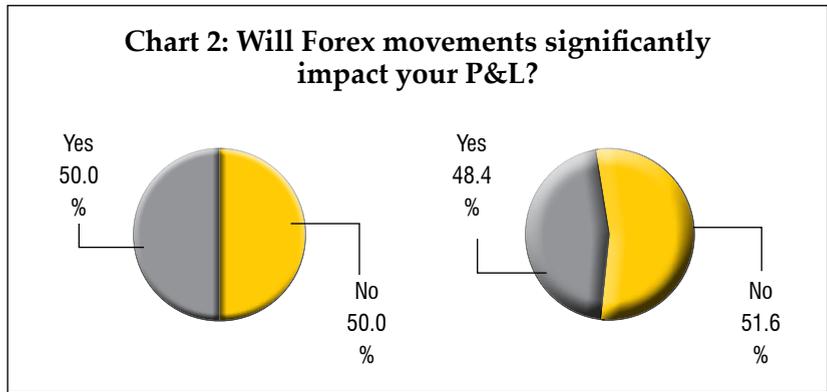
78 per cent of firms expect the Rupee to drop below 65/USD levels by the end of March, 2018 (Chart 1), while only 8 per cent believe it will appreciate to 64/USD or higher. IMA's own expectation is that the currency could see a sharp drop, even briefly going past the 68/USD mark before the RBI steps

in to pull it back up. Underlying this view is the possibility of capital outflows, especially following an expected December rate hike by the US Federal Reserve, as also a rising trade deficit, which will be exacerbated by a recent up-tick in oil prices. Historically, the Rupee tends to 'over-correct' when it faces downward pressures, so a V-shaped short-term trajectory would be par for the course.

**Chart 1: Rupee-USD expectations for March 2018**



How are CFOs responding to this volatility in the forex markets? Exactly half of all Finance Heads report that currency fluctuations had a 'significant' impact on their P&L account last fiscal (FY17), and nearly as many expect this to be the case in FY18 as well (Chart 2). Curiously, though, many businesses choose not to hedge their exposures, in either the short- or the long-term (Chart 3). More curiously still, this is the case even among those



who either saw or expect to see a P&L impact: a full third (33 per cent) of such CFOs do not hedge in the short-term, while even more (57-66 per cent) do not cover their long-term positions. Of those organisations that do hedge, the majority cover at least 60 per cent of their short-term positions, but

a smaller share of their long-term exposures (Chart 4).

In terms of interest rates, the majority of businesses see either no change in the official (Repo) rate, or a small, 25 bps drop (Chart 5). With inflation perking up in recent months, and with global oil prices rising again, the RBI is, indeed, likely to opt for a 'wait-and-watch' strategy. ■

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