

RBI's Regulatory Interventions to Deter Speculators, Not Super-charge Rupee Bulls

- **Undeterred by the short-lived rupee benefit earlier from hard limits on net open positions (NOP)* - the RBI followed up with restrictions on non-deliverable forwards (NDFs)**.**
- This is **not to be misunderstood as kitchen-sink-throwing desperation** *but* rather **appreciated** (no pun intended) **as methodical design**.
- Point being, the two measures in quick succession need to be appreciated as a **“1-2 punch”** that methodically;
 1. *squeeze out onshore capacity for building on speculative short rupee* (via tighter NOP limitations), and;
 2. *further tighten the grip on speculators by closing off offshore arbitrage incentives* (via NDFs).
- The upshot is that the two **NOP-NDF regulatory measures in concert arrest onshore-offshore mechanisms/incentives for speculative rupee shorts**.
- And so, is **a serious warning shot for speculators** pushing the envelope on the pace of rupee depreciation.
- **Nonetheless**, the RBI's measures **fall short of overturning fundamental rupee pressures associated “twin deficits”**, acutely **exacerbated by “Iran-oil shocks”**.
- And so, **fading overdone USD/INR rallies may be a more defensive/prudent bet** than aggressive and sustained **USD/INR shorts**.
- **Unless oil prices capitulate dramatically and durably**, alongside an end to the Iran war, that is. And even then, bullish INR bets out to be a cautious proposition.

Figure 1. Chart of USD/INR



* Capping the daily open long USD positions of onshore banks to \$100mn; thereby crimping scope to bet heavily against the rupee. [RBI Circular link: [Notifications - Reserve Bank of India](#)]

** Prohibiting onshore banks from offering USD/INR NDFs (non-deliverable forwards) to both onshore and offshore banks, effectively unwinding arbitrage to bet against rupee. [RBI Notice

Link: [Notifications - Reserve Bank of India](#)

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