Why a strong dollar should worry you?

The dollar is the world's reserve currency, which means it is used in most international transactions. As a result, changes in its value have implications for the entire global economy. It is the "invoicing" currency of the world and holds the most purchasing power. A strong dollar could hurt the rest of the economy in these likely ways:

Rupee at all time low:- Indian rupee had touched all time low of Rs. 84.30 which means that our imports will become more costly and this would affect our Current Account Deficit in a big way. The rise in crude oil due to the middle east crisis can add fuel to fire and thus create wider CAD from average of 2.5% to more than 5 %.

Affects global trade

A strong dollar often starts to depress global trade growth. This means, when the dollar appreciates, other currencies essentially depreciate, so the world gets engaged in less trade and gets poorer. Moreover, a mighty dollar also makes countries that have dollar-denominated debt less creditworthy, as it makes it harder for them to purchase the US currency to manage their debts.

More inflation

Most commodities such as petrol, timber or metals are usually traded in US dollars. So when the dollar gets stronger, these items cost more in local currency. And when energy and raw materials cost more, prices of many products go up for consumers and businesses, causing inflation around the world. India's latest inflation CPI data is at 6.21% which is at 14 months high due to high food prices which has increased from 5.2 % to 9.2 % which is the main reason. Our inflation index has 50 % weightage of crude oil and 50 % to food items. Rising inflation will cause RBI to think twice for rate cut which has now become need of the hour.

Low-income countries under threat

Most of the developing countries owe their debt in US dollars since it is mostly used in all global transactions. So, when dollar goes up, many will struggle to find an ever increasing amount of local currency to service their debts. The results could be deep recession, hyper-inflation, a sovereign debt crisis or all three together, depending on the path chosen. India's Debt to GDP ratio is at 82 % which is alarming as more debt will create pressure on Balance of payments.

Bigger US deficit

With a strong dollar, other countries will buy fewer US products. The US trade deficit, which is the difference between the amount of exports and imports, already runs close to a mammoth one trillion dollars per year. A strong dollar can put a financial squeeze across the developing world.

FII more exit likely:- FII have already sold Rs 1,14,000 crore of shares in October and Rs. 20,000 crore of shares in November 2024 so far which has brought the Index down from 85000 to 79000 levels. Govt in its statement has told that FII will come back but that is no so easy giving the earning downgrade that we have noticed in this quarterly earning of companies. Our index is down by close to 8 % while the Chinese market is up by 30 %.

SIP book crosses landmark:- SIP book stood at Rs 25,322 crore in October, an all-time high against Rs 24,509 crore in September. The number of SIP accounts stood at its highest ever at 10.12 crore in October 2024 as compared to 9.87 crore in September. Also, during October, net 24.19 lakh SIP accounts were added, showing a bullish stance of retail investors on Indian markets.

China Stimulus:- China approves $ 839 billion refinance of local government debt.

Beijing is attempting to shore up support for a slowing Chinese economy that is facing new threats of tariff curbs after the re-election of Donald Trump as the US President.

AFP News quoted CCTV describing the step as China's "most powerful debt reduction measure in recent years". The move is expected to free up space for local governments "to better develop the economy and protect people's livelihood", it said.

The hidden debt - or off-balance-sheet liabilities of local governments - may come down from 14.3 trillion yuan to 2.3 trillion yuan by the end of 2028 after this measure.

Suggestions:-

RBI should cut Repo Rate immediately:- The market feels that RBI should do the rate cut immediately as 6.5 % Repo Rate cut is biting the economy and slowdown is seen in quarterly earnings and urban consumption has also gone down. Home loan is now at 9.05 % and FD giving 7 % of major banks are hurting both stock market and economy as well. We may surely see low GDP growth in the coming quarter.

MoF should hold conference with FII:- The Ministry of Finance should hold conference with FII and brief them about the strong macro factors of Indian economy and not to get carried away with China promises. Chinese economy is into deep slowdown due to real estate crisis and investment led model.