“It is USD appreciation and not INR depreciation”

Indian Rupee still the best performing currency in a USD BULL RUN								
	Fragile 5 of 2013							
Date	**South African Rand (ZAR)**	**Turkish Lira (TRY)**	**Indonesian Rupiah (IDR)**	**Brazilian Real (BRL)**	**Indian Rupee (INR)**	**Euro (EUR)**	**Japanese Yen (JPY)**	**JPMorgan Asia Dollar Index (ADXY)**
Sep-08	7.7	1.2	9210	1.7	44.5	0.69	109	112
Sep-13	10.0	2.0	11200	2.2	68.7	0.76	99	116
Feb-16	15.8	2.9	13600	3.9	69.0	0.90	117	105
Nov-16	14.3	3.3	13400	3.4	68.9	0.90	111	106
Jan-18	12.5	3.7	13400	3.3	63.0	0.80	113	110
Sep-18	14.5	6.5	15000	4.2	72.5	0.85	112	104

Depreciation versus USD

2008-2013	-29.93%	-69.75%	-21.61%	-32.73%	**-54.43%**	-10.14%	9.17%	3.57%
2013-2018	-45.00%	-221.78%	-33.93%	-92.69%	**-5.50%**	-11.84%	-13.13%	-11.54%

In the past few weeks, I have faced questions from global investors who have been concerned with the INR movement. I was also looking at the foreign inflow data for the calendar year 2018 which shows a negative USD1.9bn for the first 9 months. Is there a serious cause of worry if one looks at INR depreciation and foreign fund outflows?

A look at the above table shows that INR currency fall not in isolation, other global currencies have depreciated versus USD as well. If we look at the last five years period i.e. September 2013 to September 2018, then we see that there has been a mayhem across the board and neither the Japanese Yen nor the Euro nor other Asian currencies been able to hold versus the US dollar. In this period the best performing currency versus US dollar is in fact Indian Rupee which is down mere 5.5%.

If one recalls, in 2013 economists and media created a new club or grouping called “The Fragile Five.” It included - Brazil, Indonesia, Turkey, South Africa and yes, India. Indian Rupee was among the worst performing currencies in the previous five years period i.e. September 2008 to September 2013. Indian rupee depreciated almost 50% versus the USD in those five years.

The data above clearly shows that what we are witnessing right now is <u>USD appreciation and not INR depreciation</u>. There is a vast difference between the two. Strong GDP growth of 8.2% shows economy recovering fine after two major reforms - demonetization and GST. Bankruptcy code and NPA recognition reforms are bringing in cultural change among borrowers and results are quite positive, troubled assets are shifting to stronger hands (Tata Steel’s acquisition of Bhushan Steel is just the beginning). Last but definitely not the least, I think investors need to filter the noise or the gap between India's perception and reality, particularly when India enters major elections season spread over next 6months. It is near impossible to navigate through the political rhetoric, sloganeering and noise that a democratic election throws up in any democracy across the world. And here, we are talking of the world's largest democracy!

I firmly believe that global long term investors need not panic and should not extrapolate the period from 2008 to 2013 when the INR depreciated significantly. The economy is much stronger today (GDP growth is 8.2%) and inflation has remained reasonable. Government has not shied away from passing on rising crude oil prices to the retail consumers (thereby helping its own and also state governments revenue collections). One needs to show patience till the US versus China or US versus the world - trade/currency wars settle.

"…be fearful when others are greedy and greedy only when others are fearful" – Mr.Warren Buffett, 2004 Annual Shareholder Letter.

Best,

Aashish Wakankar
(Views expressed are personal)
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