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Re at 70 per dollar mark: How does a weak rupee impact your finances?

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When the world has chosen currency markets as the new battlefield, the dollar-rupee rate is bound to change. As Indian macro-economic indicators worsen, the greenback is expected to cross 70 mark soon. Here's how a weakening dollar-rupee impacts your finances?

Foreign holidays and overseas education to become costlier

Payments made in dollar terms will hit you the most. For example, if your son is studying overseas and asks for monthly assistance of \$1,000, you will have to pay Rs 1.4 lakh as the dollar touches the Rs 70 mark. A year ago, when the dollar was quoting at Rs 64, one was remitting Rs 1.28 lakh per month. Any further depreciation in the Indian unit, will lead to a bigger hole in your pocket.

If the rupee were to slide further, one will have to shell out more if you are paying in dollar terms. Overseas holidays will get costlier, if paying in dollar terms.

Your US-based kids will remit you more funds

If you are receiving funds in dollar terms, you are getting more bang for your rupee. Each dollar sent to you will earn more rupees. Better times are in store ahead for all those who are living off their remittances received in dollar terms.

Dollar denominated assets including gold shine

Your investments and assets denominated in dollar terms will see higher valuations in rupee terms. For example, if you bought a house by spending \$5 million, the valuation of that house goes up in rupee terms, even if the prices are stable in dollar terms.

If you have invested in a mutual fund that invests in dollar-denominated securities, then the rupee denominated net asset value (NAV) will rise, other things remaining the same.

Investing in mutual fund schemes that focus on investing in stocks listed overseas brings in the much needed diversification to one's portfolio, says Suresh Sadagopan, Founder of Mumbai-based Ladder7 Financial Advisory. Gold makes a lot of sense in your portfolio if you look at it as a strategic asset allocation. It works as hedge against your exposure to risky assets such as equities.

For the uninitiated, other things remaining the same, gold prices should appreciate if the rupee keeps weakening against the greenback.

Inflation and interest rates

The cost of all imported goods such as fuel and mobile phones will rise and we will see higher inflation. This may result in higher interest rates in the near future, says Vishal Dhawan, Founder and Chief Financial Planner at Plan Ahead Wealth Managers.

A point to note is that interest rates have started looking up. The Reserve Bank of India has opted to hike policy rates twice in the last couple of monetary policy reviews. Upward moves in inflation and interest rates will leave less money in the hands of individuals.

Red carpet for investments from NRI

There is a lot of market speculation that the government will announce special schemes to attract dollar inflows. Many individuals are expecting high interest paying bonds for non-resident Indians. However, a word of caution here. India holds sufficient forex reserves and need not hurry to raise dollar bonds. Authorities will decide only after assessing the performance of rupee in light of other emerging market currencies, says Dhawan.

Though the currency wars are expected to increase the volatility in financial markets, it is time to stick to your asset allocation and avoid taking unnecessary risks.