Money Market

Heavy Sales of Sterling

ALONG with New Delhi, the money and exchange markets also do not yet seem to have recovered from the shock of devaluation. On top of the possible consequences of depreciation of the major-currencies of the world, the markets in India have yet to adjust themselves to Pakistan's decision not to devalue her currency.

There are reports of extensive sales of Pakistan rupee against purchases of the Indian currency. Though there is no rigid exchange control between the two countries, currency transfers are indirectly controlled as India notes circulating in Pakistan are not legal tender in India. Despite some restrictions, there are indications that straddle operations have been going on for some time.

Until devaluation, there were, according to reports, some purchases of Pakistan currency against sales of the Indian rupee. It is possible that these operations have been, and are being, reversed now that currency adjustments have been effected. This apart, there are now good reasons for straddle sales of Pakistan rupee against Indian currency.

For, sellers are assured in the knowledge that the Pakistan rupee will not be appreciated further; so, the possible loss from bearing the Pakistan rupee is limited. Whereas, there is the distinct possibility that Pakistan may be forced, sooner or later, to devalue the currency. In the circumstances, sales of Pakistan rupee against purchases of Indian currency are, subject to direct and indirect restrictions on exchange and currency transfers, not unlikely.

Advocates of dearer money, .in the meanwhile, are beating a retreat. That money rates will, or ought to, go up, has been a feeling current for some time. Following devaluation of the major world currencies, a section of the market attempted to popularise the theory that devaluation will have a stiffening effect on money, rates. These pessimists are now eating their words.

During the week the Conversion Loan, which had no buyer for two days following devaluation, have improved materially on the growing realisation that, if anything, devaluation will have a softening effect on .money rates. Foiled in the attempt to confuse the market by engineered reports of a higher bank rate, those who had sold securities short were forced to cover. In consequence, the Conversion Loan steadied up.

Strange as it may seem, the exchange markets do not seem to have settled down to devaluation of currencies. There are two schools of thought in the market. Some still believe that the rupee-sterling ratio will be re-aligned to 1/4. -They are the confirmed devaluationists, those who have, for more than two decades, been agitating for 1/4.

They are so obsessed with the ratio of 1/4 that they do not seem to realise that, within the past two decades, the pound has been thrice depreciated—once in 1931, again at the beginning of the war and now to as low as two dollars and eighty cents. Admittedly, India's economy is unbalanced, 'but her trade balance on current account is not as unfavourable as to justify a rupee-sterling rate of 1/4.

This is, apparently, realised by some exchange brokers who are, reportedly, carrying on a vigorous propaganda that the rupee-sterling ratio will be stepped up from 1/6 to 1/9. In the past few days, there have been extensive sales of sterling in anticipation of an appreciation in the sterling price of the rupee. As the rupee-sterling rate is quoted, it pays to sell low and buy high, and exchange banks, particularly in Calcutta, are reported to have sold sterling heavily to the Reserve Bank at the statutory rate.

That sterling sales are reported mainly from Calcutta may mean, of course, that jute exporters are covering their normal exchange operations. This is the normal jute export season, and there is nothing unusual or surprising in such exchange operations. Or, it may be that those who had bought sterling before are squaring up their books now that devaluation of currencies has occurred.

Yet, it is interesting to note that the exchange market is thick with rumours about a possible appreciation of the rupee in terms of sterling to 1/9. There is sense behind the argument that it will pay India to step up the sterling exchange rate. A major portion of our imports are from the sterling area and a higher sterling exchange rate would cheapen import costs. Whereas, as the demand for India's exports is inelastic, a higher exchange rate may net adversely affect exports.