



The Reserve Bank of India (RBI) has fixed a reference rate of 67.9739 against the US dollar on Friday. (Image: Reuters)

The [Indian rupee](#) on Friday dropped to a three-week low and plunged back to 68 against the US dollar following the ballooning of trade deficit and trade war jitters. The rupee has been on a wild ride in the current year and has been mostly falling after implementation of long-term capital gain (LTCG) tax on equities in the Union Budget 2018. Earlier yesterday, the rupee shed as much as 42 paise to 68.04 against the US dollar in the intraday dealings in the foreign exchange market. The Reserve Bank of India ([RBI](#)) has fixed a reference rate of 67.9739 against the US dollar on Friday.

Finally, the domestic currency (rupee) settled 39 paise lower at 68.01 apiece US dollar at the interbank foreign exchange market on Friday. In the week, the rupee has depreciated by 51 paise against the US dollar.

3 reasons why rupee fell to a 3-week low against US dollar

Trade deficit widens

In the month of May, India's trade deficit widened to a 4-month high even as exports rose higher against the total imports, in relative terms. According to the latest data available,

Indian exports in May surged 20.18% to \$28.86 billion, highest in six months, while imports advanced 14.85% to \$43.48 billion. Following this, the trade deficit for the reporting month escalated to a 4-month high of \$14.62 billion.

FPI sell-off

The foreign portfolio investors (FPIs) have been selling-off domestic bonds and debt securities which seemed to have hurt the strength of Indian rupee. According to a report of the Financial Express, FPIs have dumped Indian bonds worth more than \$5.3 billion in the last two months. Dealers have said that the sales in the equity and debt markets are hurting the rupee, the report said. The weakness in the Indian currency on Friday was in sync with the fall in a host of other emerging market currencies during the day such as the Indonesian rupiah, the Financial Express report added.

Trade war fears

Over the time, the rupee has lost its strength against the US dollar on trade tariffs uncertainties between the United States and China. Yesterday only, the domestic currency ended the day on a weak note ahead of US' decision on trade tariffs on Chinese goods. Later in the day, US President Donald Trump imposed tariffs of 25% on about \$50 billion Chinese imports following which China responded in a stiff manner and raised import duties on \$34 billion worth of American goods.

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