India’s rupee plummeted the most in two decades to a record as a surge in oil prices threatened to worsen the current account and push the economy toward its biggest crisis since 1991. Stocks and bonds plunged.

The U.S., France and the U.K. are considering limited military action against Syria after concluding the regime used chemical weapons against civilians, fanning concern unrest will disrupt Middle East oil supplies. The tension has worsened a rout that’s seen global funds pull $8.7 billion from local debt since end-May on bets the Federal Reserve will pare stimulus. An 8.9 percent jump in Brent crude this month is set to boost costs for India, which imports almost 80 percent of its oil.

“The markets are down on the imminent possibility of a U.S.-led strike on Syria,” said Samir Lodha, senior partner at QuantArt Market Solutions Pvt. in Mumbai. “The Indian market is in a super-panic stage.”

The rupee slumped 3.1 percent to 68.31 per dollar as of 11:52 a.m. in Mumbai, according to prices from local banks compiled by Bloomberg. The currency dropped as much as 3.9 percent to an unprecedented 68.7550 earlier, the biggest intraday drop since 1993. It has lost 13.1 percent this quarter and 19.5 percent this year, headed for the worst annual loss since a balance of payments crisis in 1991 forced the nation to pawn gold to pay for imports.

The yield on the benchmark 7.16 percent government bonds due May 2023 jumped 10 basis points, or 0.1 percentage point, to 8.96 percent, according to the central bank’s trading system. The rate surged 52 basis points yesterday. The S&P BSE Sensex of local shares slid 1.6 percent to 17,684.45, after touching the lowest level since September 2012.

‘Crisis Proportions’

“India’s macro muddle is fast approaching crisis proportions,” Richard Iley, an economist at BNP Paribas SA in Singapore, wrote in a research report today. “Downward pressure on asset prices is unlikely to abate until the rupee becomes decisively cheap, maybe weaker than 70, or the authorities deliver ‘shock and awe’ tightening.”

India’s budget and current-account deficits are responsible for the rupee’s slide, Finance Minister Palaniappan Chidambaram said in New Delhi yesterday. The government is taking steps to contain the shortfall in the broadest measure of trade to within $70 billion in the year through March 2014, he added, compared with an unprecedented $87.8 billion the previous period.

Prime Minister Manmohan Singh won a rare victory by passing a landmark bill through the lower house of parliament yesterday that expands the world’s biggest food program, a key plank of his party’s re-election strategy. The plan involves spending about 1.25 trillion rupees ($18.3 billion) in subsidies each year, potentially worsening the fiscal gap.

Oil, Economy

The nation’s petroleum imports averaged $14.2 billion in the first seven months, compared with $13.9 billion a year earlier, official data show. The government will devise by mid-September a plan to cut energy imports, Oil Minister Veerappa Moily said in New Delhi today.

India’s gross domestic product probably rose 4.6 percent in the three months ended June 30, the least since the first quarter of 2009, according to the median of 41 estimates in a Bloomberg survey before official data due Aug. 30. BNP Paribas today cut its growth forecast for India for this fiscal year to 3.7 percent from 5.2 percent, after the Reserve Bank of India engineered a cash crunch last month to shore up the rupee. That would be the slowest pace since 1992.

Indian stocks may fall further as the nation’s external deficits and the capital flight from emerging markets threatens the
India Rupee Falls Most in 20 Years to Record; Stocks, Bonds Dr...  http://www.bloomberg.com/news/print/2013-08-28/india-s-rupee-falls-most-in-20-years-to-record-stocks-bonds-dr...

currencies of developing nations, according to Goldman Sachs Group Inc.

**Rising Risk**

“We are not yet prepared to say we have hit the lows and therefore it’s time to go and turn more positive” on Indian shares, Timothy Moe, Chief Asia Pacific Equity Strategist at Goldman Sachs, said in an interview with Bloomberg TV India.

One-month implied volatility in the rupee, a measure of expected moves in the exchange rate used to price options, jumped 349 basis points to 20.82 percent, the highest since January 2009.

Credit-default swaps insuring the debt of State Bank of India, considered a proxy for the sovereign, against non-payment climbed 111 basis points this month to 371 as of Aug. 27, CMA prices show. The contracts jumped 64 basis points last quarter, the most since the three months to Sept. 30, 2011. MCX gold futures climbed to a record today, as investors sought a store of value.

Three-month onshore rupee forwards fell 3.6 percent to 70.00 per dollar, data compiled by Bloomberg show. Offshore non-deliverable contracts dropped 3.6 percent to 70.45. Forwards are agreements to buy or sell assets at a set price and date. Non-deliverable contracts are settled in dollars.

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