

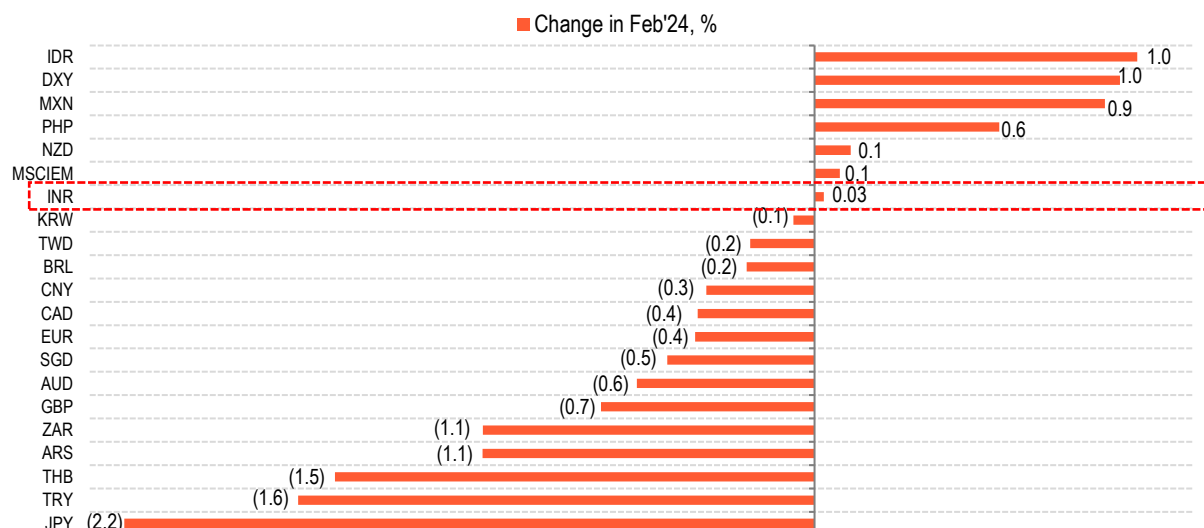
Currency update

INR has continued to trade in a thin trading range in the fortnight ending 16 Feb 2024, appreciating marginally by 0.03%. This is notwithstanding an increase in the dollar index of more than 1%. While the possibility of Fed rate cuts has been pushed back to Jun'24 which is bolstering the dollar, INR has held its ground. The domestic currency continues to benefit from steady debt inflows, range-bound oil prices, comfortable twin-deficits, continued economic momentum and a strong growth momentum. As a result, we continue to believe that INR is likely to appreciate slowly in an orderly manner and end FY24 at ~82.5/\$. For the fortnight, we expect INR to trade in the range of 82.85-83.15/\$.

Movement in global currencies

In Feb'24, DXY rebounded and rose by 1%. Robust data from the US has led to expectations of a delay in Fed rate cut cycle which was anticipated to begin from Mar'24. Fed officials too have been favouring a wait and watch mode before starting the monetary policy easing cycle. As per the CME FedWatch tool, the probability of rate cut in Mar'24 has fallen to just 10%, compared with over 50% just a month ago. The possibility of a rate cut has been pushed back to Jun'24 (probability of 53.7%). Major currencies have depreciated against the dollar, with JPY leading the pack. JPY depreciated the most by more than 2%, and slipped below the 150/\$ mark. Japan's economic woes, coupled with its ultra-dovish stance continue to weigh on JPY. Amongst other major currencies, both GBP and EUR depreciated by 0.7% and 0.4% respectively. Within EM currencies, the performance was mixed with IDR and MXN appreciating, and BRL and TWD falling against the dollar.

Figure 1: Global currencies in February 2024



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 16 Feb 2024 | Figures in brackets indicate depreciation against the dollar

How has INR fared?

INR remained largely range-bound this month and appreciated a tad by 0.03% or 2 paise. This is particularly important since INR gained despite a stronger dollar. The strength in INR is underpinned by India's robust macro-fundamentals such as strong domestic growth as well as manageable external trade deficit. Apart from this, debt inflows into India have been accelerating for the last few months, ahead of India's inclusion in the JP Morgan global bond index which is also contributing to the strength in the domestic currency. Range-bound oil prices too have benefitted the rupee. We believe the trend is likely to continue in the near-term. INR is likely to trade in the range of 82.85-83.15/\$ in the next fortnight.

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