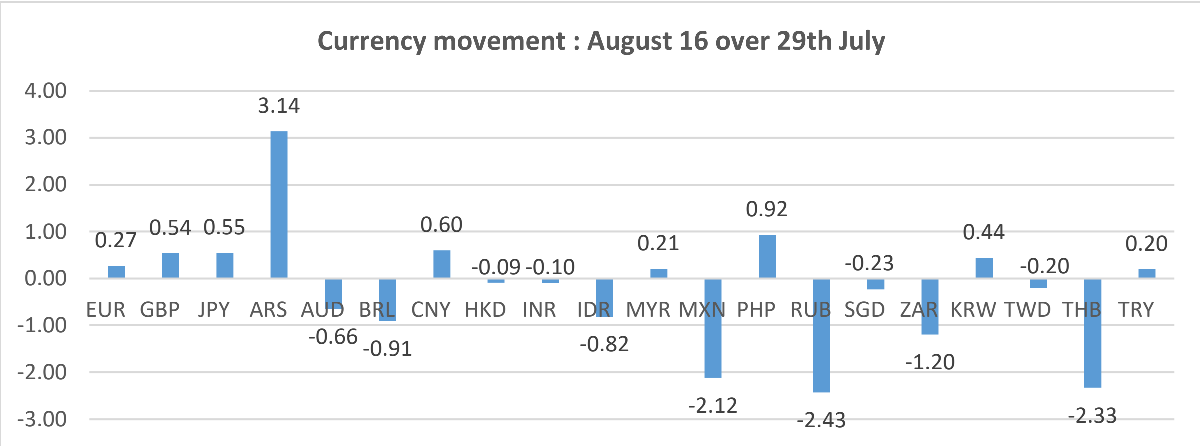
17 August 2022

Currency Outlook: Have tables turned?

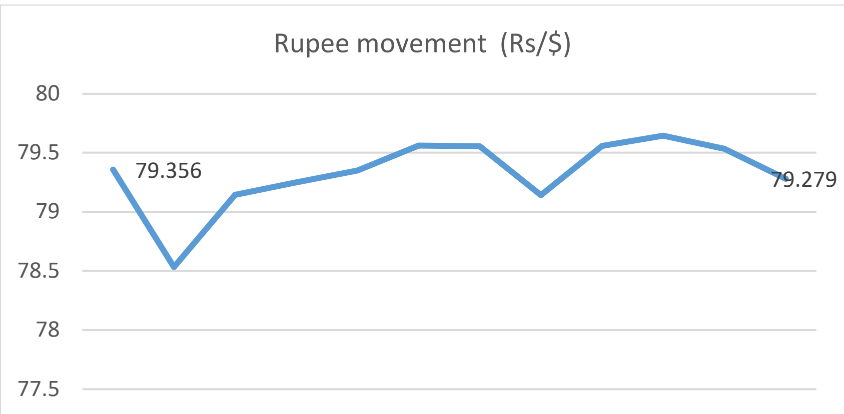
After a rather volatile period of 2 months, the global currency markets attained some semblance of stability in the first fortnight of August. The dollar had come close to the parity level and the question asked was whether this level would be broken. Intuitively the Fed hardening interest rates to slow down the economy automatically reduces the strength of the dollar and this has lent a hand to other currencies. The dollar effect which played a major role in guiding the rupee past the 80 mark, is now more moderate and we can keep watching our fundamentals for further direction.

How has this played out?



The rupee has been largely stable on a point to point basis which has been the case with other currencies too. Depreciation of above 0.5% was witnessed for the pound and yen while the euro went down by 27 bps. The Australian dollar, real, rupiah, Mexican peso, ruble, rand and baht appreciated with the ruble going up by 2.4%.

The Indian story was largely driven by the FPI movements which turned positive for equity on all days while aggregating positive for debt over this period. Hence the net inflows were positive which made up for the shortfall on trade which was impacted with imports rising faster than exports.



There was also a brief phase of the rupee appreciating as exporters rushed in to bring back their dollars which supported the currency.

View for the rest of the month

Going forward, we may expect the rupee to trade in the Rs 79.25-79.75/$ range. The global oil price has come down now to less than the $ 100 mark which is good news as it will automatically lower the trade deficit besides potential inflationary pressures. The Ukraine war though largely unresolved has probably played out the darker side with the global economy adjusting to the supply dynamics. The shock has been absorbed in a period of 6 months. Taiwan did ring a scare, but seems to be behind us now. The focus will be on what global central banks do in the coming months and though the direction is clear and a slowdown imminent, the approach will provide further clues to the currency markets.

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