

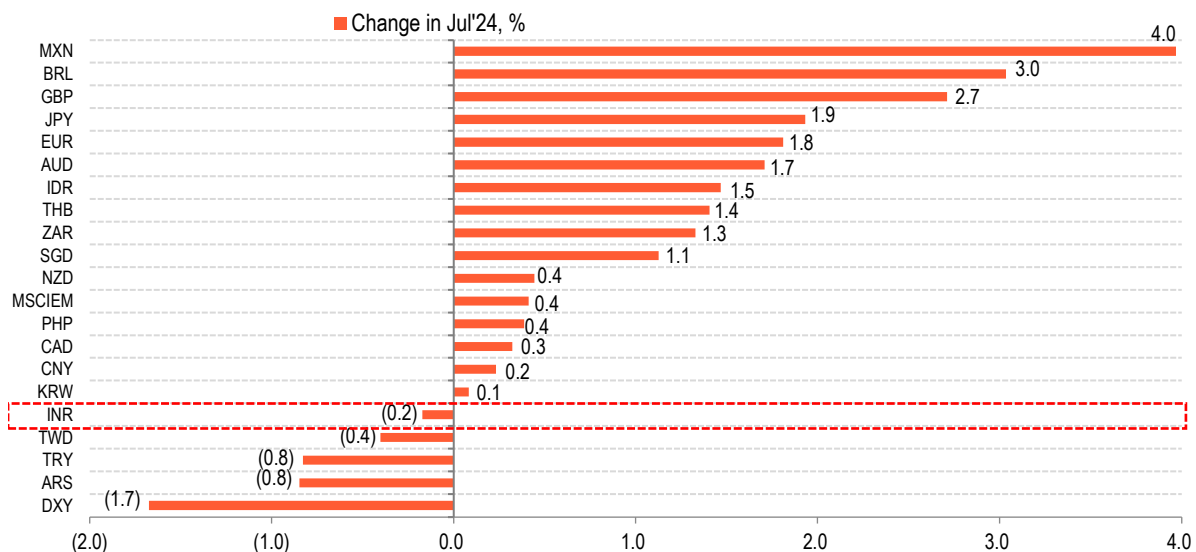
Currency update

INR remained range bound in the 1st fortnight of Jul'24 (till 12 Jul) and depreciated by 0.2% to currently trade at 83.54/\$, closer to its lifetime low of 83.65/\$. This was despite weakening US\$. The factors that impacted Rupee include: rise in average international oil prices in Jul'24 (till 12 July) compared with Jun'24, and increased dollar demand by importers. However, the volatility in the domestic market was cushioned by sustained momentum seen in FPI inflows (debt + equity). As a result, INR traded in the range of 83.45-83.57/\$. In the next fortnight, we expect INR to strengthen, in the wake of continued FPI inflows, Union Budget announcement, softening global yields and moderation in international oil prices. We expect INR to trade in the range of 83.40-83.60/\$. Weakness in US\$ is also expected as probability of Fed cutting rates in Sep'24 has significantly increased.

Movement in global currencies in Jul'24 so far

In Jul'24 (as of 12 July), major global currencies appreciated against the dollar. The movement in global currencies was led by weakness in dollar. DXY index, measuring the dollar's value against a basket of currencies was 1.7% lower in Jul'24, reversing the 1.1% gain it made last month. This weakness in USD can be attributed to recent macro data pointing towards higher probability of a rate cut by Fed in Sep'24 meeting. For instance, unemployment rate in the US rose to 4.1% in Jun'24 (4% in May'24)—highest since Oct'21. Average wage growth also slowed, to 0.3% from 0.4%. More significantly, CPI inflation fell in Jun'24 (MoM basis) by (-) 0.1% versus est.: 0.1% increase and following flat (0%) growth in May'24. This is the first time inflation has decline since May'20. In addition, Fed officials have also signalled that a rate cut seems to be on the cards, as inflation is following projected trajectory. As a result, probability of Fed rate cut (as per CME FedWatchTool) has increased from ~58% at the end of Jun'24 to ~92% currently. Amongst major economies, GBP, JPY and EUR gained the most. Decisive election results in the UK also supported its currency. In case of Japan, rising PPI in Jun'24 has pushed up hopes that BoJ may hike rates soon, thus providing much needed support to the currency.

Figure 1: Movement in global currencies in Jul'24



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 12 Jul 2024 | Figures in brackets indicate depreciation against the dollar

Performance of rupee

In contrast to most global currencies which rose against the dollar, INR declined. It was down by (-) 0.2% in Jul'24 (as of 12 Jul) hovering at 83.54/\$, close to its lifetime low of 83.65/\$. Amongst our sample of 19 currencies, other currencies which performed worse than INR were, Taiwanese Dollar, Turkish Lira and Argentine Peso. Overall MSCI-EM currency index appreciated by 0.4%, led by gains made by currencies such as Brazilian Real, Indonesian Rupee, Thai Baht, and Korean Won. One factor which impacted domestic currency's performance was increase in average Brent price in Jul'24 (US\$ 86/bbl) compared with Jun'24 (US\$ 83/bbl). In addition to this, dollar demand from importers also pressured the currency. So far, FPI inflows (following the inclusion in JP Morgan EM Bonds Index) have maintained pace with US\$ 3bn (debt + equity) in Jul'24 (till 12 July), versus US\$ 5bn in Jun'24. As a result, the decline in rupee has been only marginal.

Outlook

We believe, pressure on INR is likely to ease in the next fortnight, amidst dip in US 10Y yield and sustained FPI inflows (debt + equity). In addition, oil prices are also expected to cool down, as cracks appear in China's growth momentum (Q2CY24 GDP growth was less than expected). High probability of a 25bps rate cut by Fed in Sep'24 will also lead to softening global yields, and increase risk appetite of the investors. However, certain risks still remain. Recent assassination attempt on former US President Trump has heightened political tensions in the country and further complicated the election scenario. In addition, parliamentary election results of the European Union and France will continue to have an impact on investor sentiments for some more time. Uncertainty around BoE's timing of rate cut is another critical factor impacting global markets. Domestically, upcoming budget announcements will be closely watched. RBI's all-time high forex reserves (~US\$ 657bn as of 5 Jul 2024) may also be used to cushion the impact on INR, if any drastic changes take place in the global market. On balance, we expect INR to trade the range of 83.40-83.60/\$ in the next fortnight Jul'24.

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