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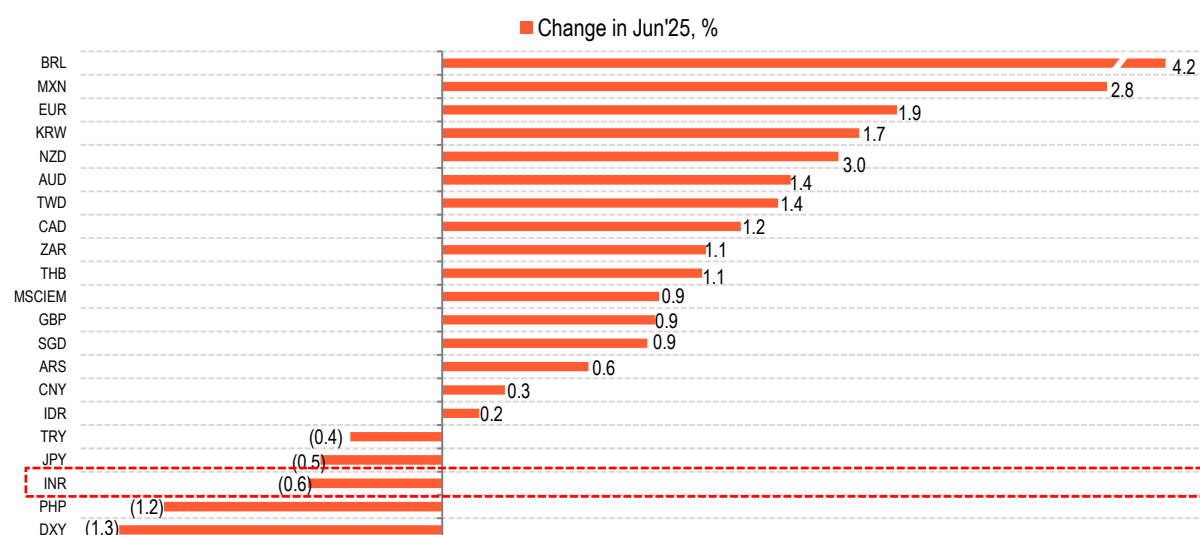
Currency update

INR depreciated by 0.6% in Jun'25, as escalating tensions in the Middle East and the resulting hike in oil prices dented investor sentiments. However, after an initial shock, the global currency market seems to have stabilised, with investors expecting a cease-fire deal to be put in place soon. Iran has already indicated that it is ready for negotiations. INR too has stabilised, but bouts of volatility can be expected tracking the evolving situation. Strong domestic macros along with robust external buffers are likely to prevent any sharp depreciation in the INR. We expect INR to trade in the range of 85.25-86.25/\$ in the near-term. Risks remain from a significant escalation in geo-political tensions as well as adverse US tariff newscast.

Movement in global currencies:

Global currencies majorly appreciated in Jun'25. This was at the cost of the dollar, which declined by 1.3%. US data, particularly inflation and labour market, indicated that despite tariff driven uncertainty, underlying price pressures in the economy remain contained, even as labour market continues to hint at mixed trends. As a result, investors have ramped up expectations of Fed rate cuts in the latter part of the year, which weighed on DXY. The probability of a rate cut in Sep'25 stands at ~60% currently, compared with ~50% a month earlier. Amongst major currencies, EM currencies such as Brazilian Rial (BRL), Mexican Peso (MXN) and Korean Won (KRW) posted significant gains. The euro (EUR) also strengthened by close to 2%, to climb a 4-year high against the dollar, before retracting in the last couple of days.

Figure 1: Movement in global currencies in Jun'25



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 16 Jun 2025 | Figures in brackets denote depreciation against the dollar

In fact, there has been a significant change in the direction of global currencies in the present week. Escalation in geo-political tensions in the Middle East has led to a flight towards safety, with investors seeking the comfort of traditional safe haven, particularly the dollar.

INR performance:

INR has depreciated by 0.6% in Jun'25 so far, building up on a decline of 1.3% in May'25. However, a large part of the downward pressure on the currency manifested itself towards the end of the week, after the news of Israel-Iran conflict spread. Prior to this, INR traded almost stable with a narrow trading range of 85.39-85.63/\$ between 2 Jun 2025 to 12 Jun 2025. With reports of Israel's attack on Iran, INR closed sharply lower by 0.6% on 13 Jun 2025, marking its largest single-day decline in a month. However, the domestic currency has since stabilized but continues to trade above the 86/\$ mark.

Outlook:

Despite the volatile global trading environment, the depreciation pressure on INR has remained largely contained. This is consistent with the movement in other global currencies as well, which saw an initial blip but has since stabilised. In fact, the movement in global currencies in response to the evolving crisis in the Middle East has been largely subdued as investors do not expect a significant step-up in hostilities between the two nations and a gradual de-escalation seems much more likely. Going ahead, global headwinds can lead to some volatility in the domestic exchange rate in the near-term. Another headwind for the USD/INR pair can emerge as we move closer to the end-date of the US tariff pause. However, RBI's ample forex cover will ensure that the movement in the domestic currency is measured and orderly. Domestic macros still remain favourable for the INR. Overall, we expect INR to trade in the range of 85.25-86.25/\$ in the near future. This is based on the assumption of a possible cease-fire deal between Israel and Iran as well as an extension of US tariff pause.

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