

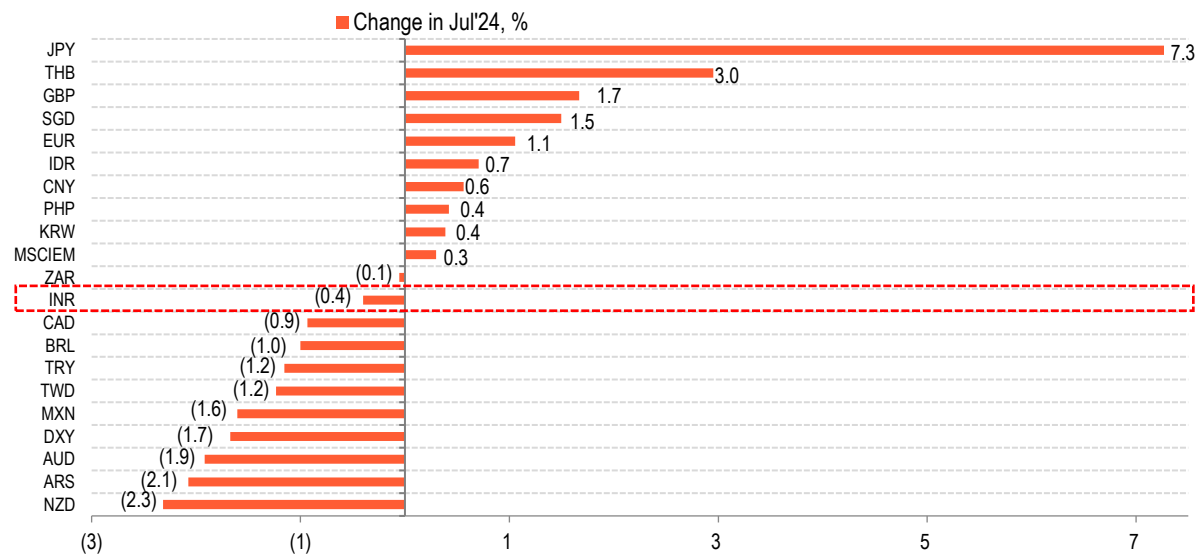
## **Currency update**

*INR depreciated by 0.4% in Jul'24 to currently trade at 83.73/\$, close to its lifetime low of 83.74/\$. This was despite weakening US\$. The factors that impacted Rupee include: rise in average international oil prices in Jul'24 compared with Jun'24, and increased dollar demand by gold importers after the budget announcement. However, the decline was not as steep as it was in case of other currencies, mainly due to steady FPI inflows. While inflows into equity were impacted by increase/rationalisation of capital gain taxes, debt inflows held ground. As a result, INR traded in the range of 83.45-83.74/\$. In the next fortnight, we expect pressure on INR to remain, in the wake of increased dollar demand, and renewed volatility in international oil prices. However, weakness in US\$ and softer global yields may help cushion the downward bias. We expect INR to trade in the range of 83.70-83.85/\$.*

### **Movement in global currencies in Jul'24**

In Jul'24, 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. Much of the weakness was noted in the first fortnight of Jul'24 when it fell by 1.6%, compared with 0.2% decline noted in the second fortnight. However downward pressure on US\$ has regained momentum towards the end of the month, following Fed's recent policy statement and tracking other major macro data points. Fed Chair Powell in his statement clarified that there exists a possibility of rate cut in Sep'24, in the wake of "moderation in job gains" and "some progress" made towards achieving the inflation objective (2% mark). The PCE price index (Fed's preferred gauge of inflation) eased to 2.5% in Jun'24 from 2.6% in May'24. The JOLTS report showed that there were 8.18mn job openings in Jun'24, compared with 8.23mn in May'24. Further retail sales data suggests moderation in consumer spending, as sales came in flat (0% MoM), following 0.3% increase in May'24. Tracking these signs of slowdown in US economy, as per CME Fed WatchTool, majority of the investors are now expecting 3 rate cuts by Fed this year (25bps each). Amongst major economies, JPY made most significant gains. It fell the most towards the end of the month, when BoJ announced a more than expected rate hike of 15bps, taking the overnight call rate to 0.25% from 0-0.1% earlier. This helped lift pressure off JPY.

**Figure 1: Movement in global currencies in Jul'24**



**Performance of rupee**

In contrast to most global currencies which rose against the dollar, INR declined. It was down by (-) 0.4% in Jul'24 hovering at 83.73/\$, close to its lifetime low of 83.74/\$. This is also in contrast to the performance of MSCI EM index, which gained (0.3%) due to dip in DXY index. However, amongst the set of 11 currencies, which fell against the US\$, it fell the least, along with South African Rand (-0.1%). New Zealand Dollar performed the worst (-2.3%), followed by Argentine Peso (-2.1%) and Australian Dollar (-1.9%). One of the factor which impacted domestic currency's performance was slight increase in average Brent price in Jul'24 (US\$ 83.9/bbl) compared with Jun'24 (US\$ 83/bbl). Apart from this, dollar demand from importers also pressured the currency. Post the announcements made in the Union Budget, gold importers increased the purchase of dollar. Also, equity inflows were impacted as capital gain taxes were increased/rationalised. Incremental debt inflows outpaced equity inflows (following the inclusion into JP Morgan EM Bonds Index) in Jul'24 when compared with Jun'24. Overall (debt + equity), FPI inflows stood at US\$ 5.8bn in Jul'24 versus US\$ 5bn in Jun'24. As a result, the decline in rupee has been only marginal.

**Outlook**

Given the fact that rupee has touched its record low levels in Jul'24, at a time when US\$ was still weak, we believe, pressure on INR is likely to remain in the next fortnight as well. Higher dollar demand from gold importers and revived volatility in oil prices due to ongoing geo-political tensions in the Middle East, will add to strains on the domestic currency. However, as we inch closer towards Fed rate cut in Sep'24, we might see pressure coming off the INR. Further, in case RBI decides to use its all-time high forex reserves (~US\$ 671bn as of 19 Jul 2024), then that may also give INR an upward bias. On balance, we expect INR to trade the range of 83.70-83.85/\$ in the next fortnight.

## **Disclaimer**

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at [www.bankofbaroda.com](http://www.bankofbaroda.com)



---

**For further details about this publication, please contact:**

Economics Research Department  
Bank of Baroda  
[chief.economist@bankofbaroda.com](mailto:chief.economist@bankofbaroda.com)