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Currency update

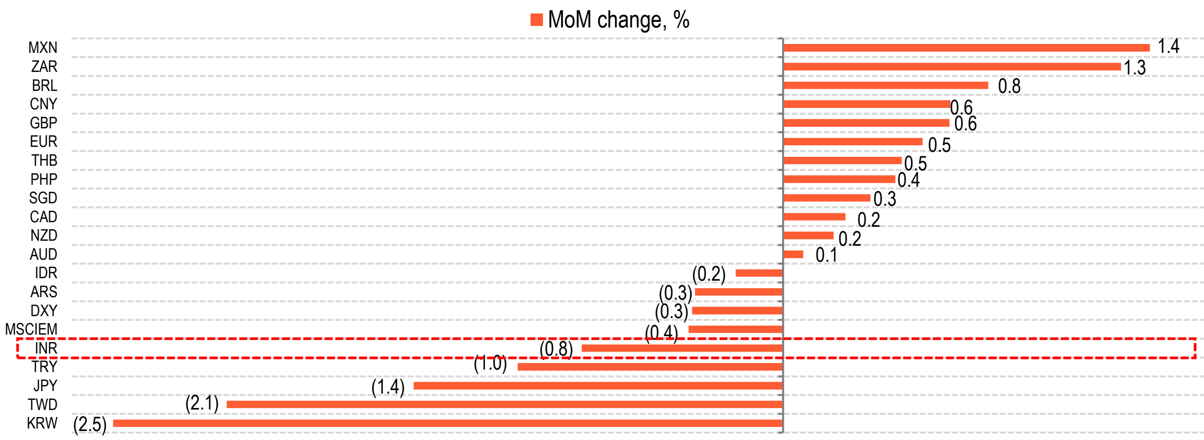
INR depreciated by 0.8% in Nov'25 to close at a record low of 89.46/$. The depreciation in INR was more pronounced if we consider the fact that the dollar weakened in the same period. Strong demand from importers, low foreign inflows, uncertainty over US trade deal and an elevated trade deficit, weighed on the domestic currency. A surprisingly good GDP print did not quite help lift sentiments, with the currency currently trading at a fresh low of 89.76/$. We expect the currency to trade with a depreciating bias in the near-term, with news about US-India trade deal being a major catalyst for any sharp movement in either way. We expect USS/INR to trade in the range of 89-90/$ this month.

Movement in global currencies:

Performance of global currencies varied in the last month, even as the dollar softened. In Nov'25, DXY dipped by 0.3% as investors reassessed the Fed rate path. For context, there was a widely held belief that the Fed is unlikely to cut rates in Dec'25, as crucial macro data was not available due to the government shutdown. Fed officials also largely advocated a cautious approach regarding further rate cuts, awaiting more information about the impact of tariffs on inflation, employment and growth. Even with the shutdown formally over, the flow of data remained largely disrupted with some key official data releases such as jobs, retail sales and inflation, available only till Sep'25. As a result, markets dismissed the possibility of a rate cut in Dec'25, with the CME FedWatch placing the probability of a rate cut at just ~30%.

However, bets of a rate cut were once again on the table as reports by private agencies with more updated data, casted a shadow over the state of the economy and labour market. At the same time, Fed chatter also turned dovish. Several key members of the FOMC, including the New York Fed President John Williams and Fed Governor Christopher Waller made a strong case for a rate cut in Dec'25, tilting the odds towards a possible rate cut in Dec'25. Markets too readjusted their expectations, with the CME FedWatch now projecting the probability of a Dec'25 rate cut at close to 90%.

Figure 1: Movement in global currencies in Nov'25



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 28 Nov 2025| Figures in brackets denote depreciation against the dollar

An important thing to note here is that, even though the dollar declined, the movement in global currencies was not entirely unidirectional. While a majority of currencies (12 out of 18) in the given basket of currencies appreciated, a few depreciated despite the relief from a weaker dollar. A key factor which stands out is that several EM (Emerging Market) currencies such as the Mexican Peso (MXN), South African Rand (ZAR) and Brazilian Real (BRL) made smart gains against the dollar and were the best performing currencies last month. At the same time, others such as the Taiwanese Dollar (TWD) and Indian Rupee (INR) could not benefit from a weaker dollar. Amongst Advanced Economies (AEs) as well, barring the Japanese Yen (JPY) and Korean Won (KRW), other major currencies appreciated. Most notably, the British Pound (GBP) and the Euro (EUR) appreciated by 0.6% and 0.5% respectively.

INR performance:

INR depreciated by 0.8% in Nov'25, closing the month at a record low. In the context of a weaking dollar, this appears puzzling. In Nov'25, the movement in INR showed two distinctive phases. In the first phase, lasting between 1-20 Nov 2025, INR held largely steady and traded in a narrow range of 88.57-88.78/$. Thereafter, INR slipped sharply by 0.8% in a single day to decline to a record low of 89.41/$. This was significant as the 89/$ mark was deemed to be a crucial point in the defence of the rupee. Since then, INR remained firmly above 89/$, before slipping to another record low of 89.46/$ on 28 Nov 2025. Unsurprisingly, the annualised daily volatility in INR was considerably low at 1.4% in the first part of the month but increased to 4.9% in the second half.

Several reasons contributed to the decline in INR this month. At the fundamental level, India's trade deficit surged to a record high in Oct'25, as imports rose to an all-time high which raised some concerns over the country's external position, especially given the tariff situation. However, a greater impact on the currency seems to be driven by sentiment, particularly due to uncertainty over US-India trade deal, which is also limiting a sizeable improvement in FPI inflows. In particular, FPI inflows have remained lacklustre in Nov'25. Talks about India's possible inclusion in Bloomberg Global Aggregate index did lead to some inflows into FAR securities, but other categories, in particular equity segment has not been able to attract much interest from foreign investors. At the same time, strong dollar demand from importers is also keeping the currency weaker.

Outlook:

There are a number of factors which will need to be monitored in the coming days. Rate cut by the Fed has been fully priced in by the markets and as such, the dollar is likely to remain range-bound barring any surprise in the tonality of the Fed. On the domestic side, we do not expect the RBI to cut rates this meeting. In either case, this is unlikely to have a significant impact on the currency as the rate differential will be maintained. More importantly, markets are looking for cues on the progress in US-India trade deal. Some impact of the higher tariffs is visible in the trade numbers for Oct'25, and a continued impasse can have a negative impact on both the external position as well as investor sentiments.

Overall, we expect INR to trade in the range of 89-90/$ this month.

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