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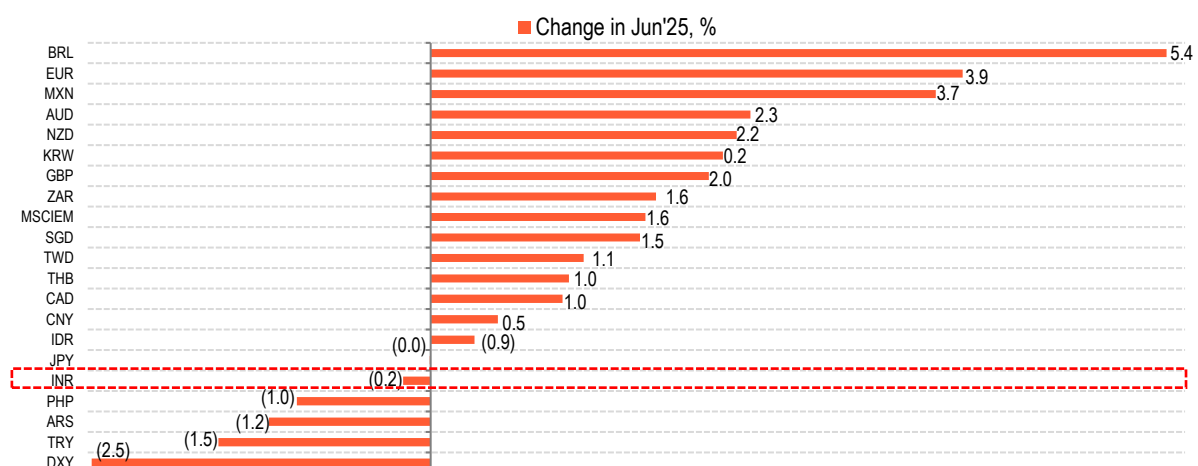
Currency update

INR depreciated by 0.2% in Jun'25, following 1.3% depreciation registered in May'25. Rupee's performance rebounded (0.4% appreciation) in the second fortnight of Jun'25, as tensions in the Middle East eased. This resulted into softer oil prices and improvement in risk appetite of investors. Equity flows remained positive for the third consecutive month in Jun'25, while debt outflows accelerated. Weakness in US\$ also helped, which is mainly led by concerns surrounding fiscal policies, stagflation risks and Fed's independence. Although we expect some amount of volatility as we near the US tariff pause deadline (9 Jul), overall we believe weakness in US\$ will persist considering its domestic factors. Domestically, strong domestic macros along and sufficient external buffers are likely to prevent any sharp depreciation in INR. We expect INR to trade in the range of 85.25-86.25/\$ in the near-term. A trade deal between India and US will be positive for the rupee.

Movement in global currencies:

Global currencies mostly appreciated in Jun'25, as US\$ weakened. DXY was down by (-) 2.5%. In the Jun'25 meeting, US Fed held rates steady at 4.25-4.5%, and the dot plot continued to signal 2 rate cuts this year. However, a noteworthy shift was that now 7 members expect no change in rates, up from 4 members earlier. Risk of stagflation appears to be mounting as the latest core PCE data rose (2.7%) more than expected (2.6%) in May'25. Even on MoM basis it was higher (0.2%) than expected (0.1%). In contrast, consumer spending declined by (-) 0.1% and incomes fell by (-) 0.4% in May'25. In addition, policy uncertainty regarding trade deals, looming 9 Jul deadline for tariffs, spending bill introduced by the Trump administration, and concerns regarding Fed's independence, has dragged dollar demand even lower. Labour market data also indicates a slowdown as continuing jobless claims (4-week average) rose by 16,750 to reach 1.94mn—highest since Nov'21. There is now 75% chance (as per CME Fed Watchtool) of 25bps rate cut by Fed in Sep'25 and 60% chance of cut in Oct'25. Amongst major currencies, EM currencies such as Brazilian Real (BRL), Mexican Peso (MXN) and Korean Won (KRW) posted notable gains. The Euro (EUR) also strengthened by 3.9%, to reach at highest since mid-Sep'21.

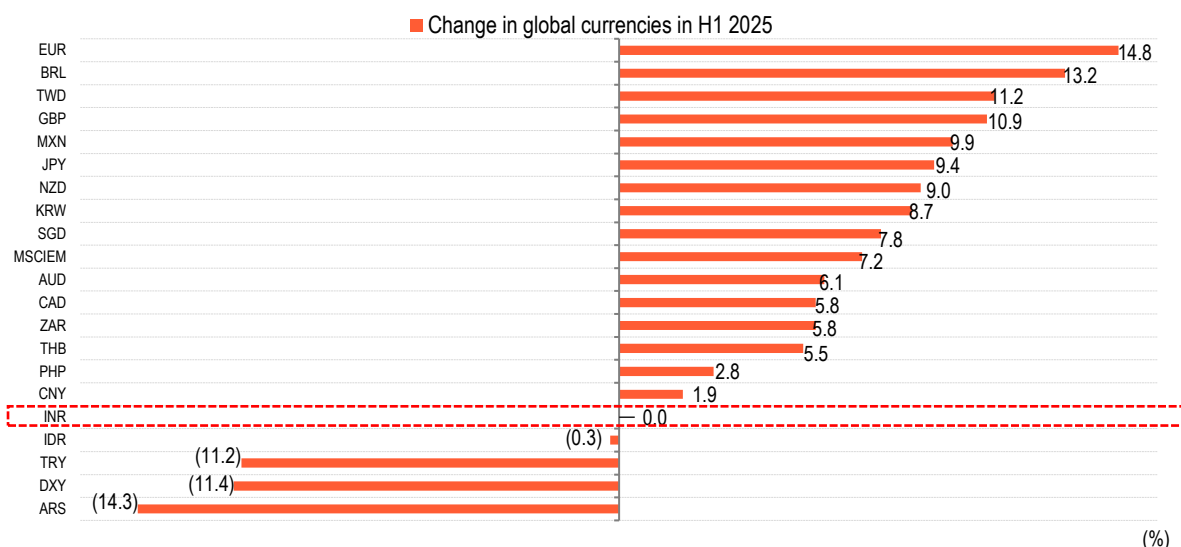
Figure 1: Movement in global currencies in Jun'25



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 30 Jun 2025 | Figures in brackets denote depreciation against the dollar

In H1 2025 (between Jan and Jun 2025), US dollar weakened considerably as it posted (-) 11.4% decline. At the behest of a weaker dollar, Euro (EUR), Brazilian Real (BRL), Taiwanese Dollar (TWD) and British Pound (GBP) recorded double-digit appreciation. Out of a sample of 20 currencies, 11 noted gains higher than the median level (6.1%). Even towards the end of Jun'25 pressure on US\$ remains, as market participants await more clarity on fiscal health of the federal government. Easing geo-political tensions in the Middle-East have also led to improvement in risk-appetite of investors.

Figure 2: Movement in global currencies in H1CY25



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 30 Jun 2025 | Figures in brackets denote depreciation against the dollar

INR performance:

INR depreciated by 0.2% in Jun'25, with improvement seen in the second fortnight when it appreciated by 0.4% versus (-) 0.6% decline in the first fortnight of Jun'25. This was smaller than (-) 1.3% decline seen in May'25. It also traded in a less volatile range of 85.39-86.75/\$ last month. Apart from dollar weakness, pick up in FPI inflows towards the end of the June quarter (helped by IPO listings), and declining oil prices due to easing geo-political tensions, supported INR in the second fortnight. In H1CY25, rupee's performance was steady (0%), despite FPI outflows of US\$ 7.52bn so far. While INR's performance was weaker than the median appreciation of 6.1%, it was better than steep declines noted by Turkish Lira (TRY), and Argentine Peso (ARS).

Outlook:

INR has so far held ground, despite multiple global shocks (tariff uncertainty, geo-political tensions). Due to persistent weakness in US dollar, and lower oil prices, rupee began its recovery in the second fortnight of Jun'25. Going ahead, as US tariff deadline looms (9 July 2025), volatility in the currency market is expected to increase. In addition to this, investors also keenly await if Trump administration's spending bill will get passed in the Senate or not. This will have an impact both treasury yields and confidence in US\$. Domestically, macros remain favourable. FPI inflows are expected to resume as risk appetite of investors improve. Overall, we expect INR to trade in the range of 85.25-86.25/\$ in the near future. A trade deal between India and US before the tariff deadline will be positive for the rupee.

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