4 Mar 2025

Aditi Gupta
Economist

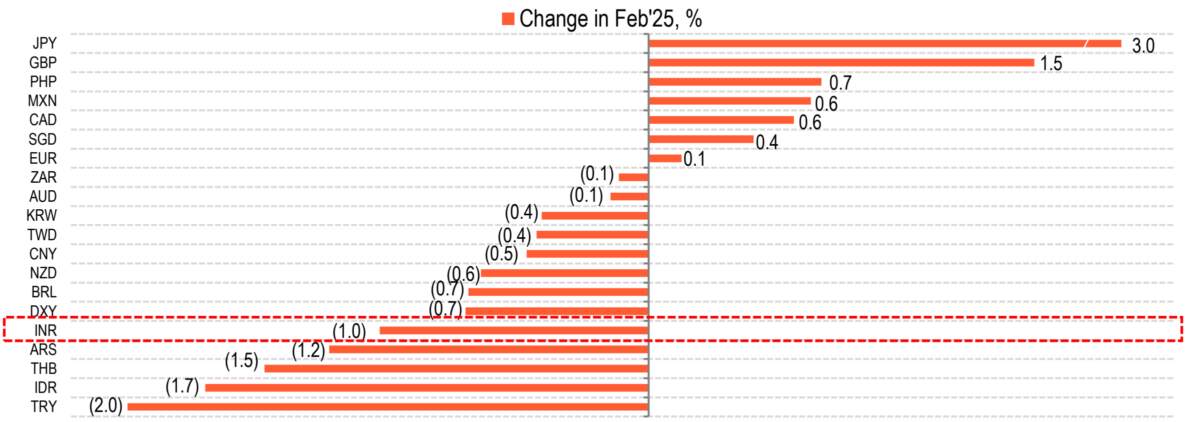
Currency update

INR depreciated by 1% in Feb'25, marking its 5th straight monthly decline. Persistent FPI outflows and uncertainty over US tariffs have kept INR under stress. Since Oct'24, domestic markets have witnessed outflows of over US$ 22bn. An expected rebound in domestic GDP growth, range bound oil prices and strong external buffers are positive for INR. However, given the continued volatility in global financial system, the scope of INR appreciation looks limited. US tariff policies and hence the dollar, will play a greater role in where the INR goes from here. We expect a range of 86.75-87.75$ (and could also touch Rs 88 before reverting to this range) in the coming month.

Movement in global currencies:

Global currencies showed mixed movements in Feb'25 as uncertainty over US tariffs continued to impinge on investor sentiments. Despite a 0.7% decline in the DXY index, a majority of currencies were weaker against the dollar. JPY was amongst the most notable exception, rising by 3%. Expectations of rate hikes by the BoJ as well as its safe-haven appeal contributed to the increase. Currencies of both Mexico and Canada also gained despite looming US tariff deadline. On the other hand, major EM currencies were lower against the dollar as the constant back and forth on US tariff policies led to a capital flight from EM markets. Both CNY and EUR depreciated, as the threat of US tariffs continued.

Figure 1: Movement in global currencies in Feb'25



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

INR performance:

INR depreciated by 1% in Feb'25. This followed a depreciation of 1.2% in Jan'25. The pressure on INR has stemmed largely from external factors with the US tariff policies and Fed stance working against the rupee. Fears of higher tariffs on India by the new US government, along with a broader escalation in tariff tensions, continue to weigh on investor sentiments. In fact, foreign investors have pulled out close to US$ 12bn in 2025. Most of this has been concentrated in the equity market, even though there has been some support from the FAR segment. Despite the extent of FPI outflows, a benign dollar and RBI's deft intervention has kept a lid on INR's slide.

Outlook:

A number of factors will be at play in the coming days which will determine the trajectory of INR. While the pickup in growth in Q3, and projection of optimistic growth in Q4 bode well for INR, it is likely to provide only a temporary relief. An improvement in global risk-sentiment and a reversal in FPI exodus, holds the key for a meaningful recovery in INR. The recent USD/INR swap will provide support to RBI's dwindling forex buffers by US$ 10bn. This will give it some firepower in case there is an escalation in US tariff salvo. Overall, we can expect INR to trade in the range of 86.75-87.75/$ in the near-term, however there are upside risks.

For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com