

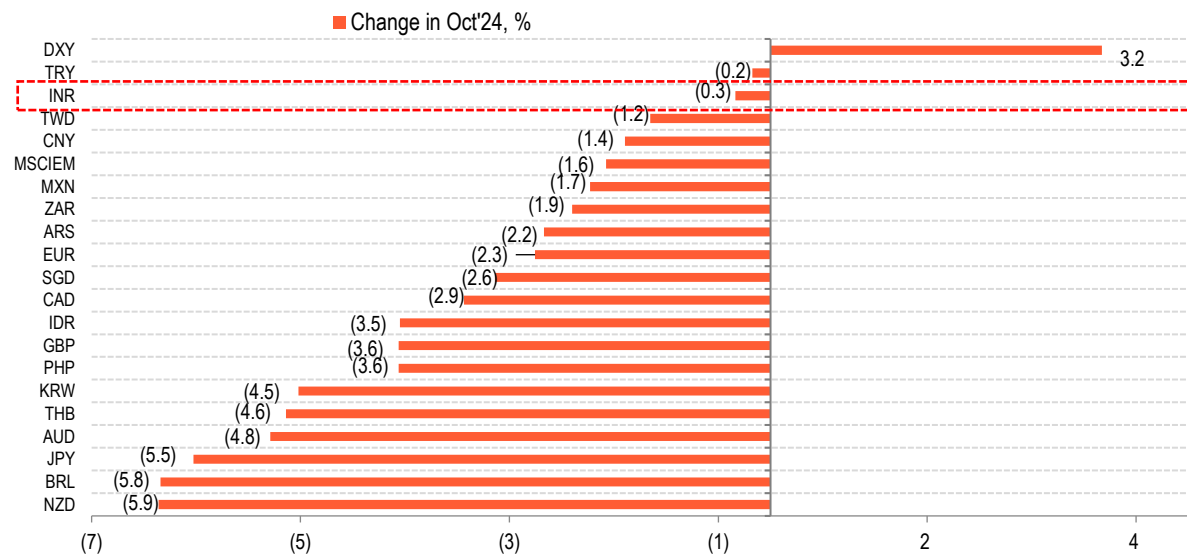
Currency update

INR depreciated by 0.3% in Oct'24 (0.1% appreciation in Sep'24) and even fell to its lifetime low of 84.09/\$. Currently, it is trading around a new low of 84.12/\$. However, this decline was only marginal, when compared with bloodbath witnessed in other major currencies, as US\$ strengthened sharply during the month (+3.2%). The factors that led to stronger US\$ were: rising uncertainty around US Presidential race outcome, and trimmed US Fed rate cut outlook in view of mixed macro data points. Labour market is still perceived to be resilient, when accounted for temporary/seasonal shocks. Consumer confidence is on the rise, and input prices are noting a comeback (US ISM manufacturing sub-index). Domestically, sharp decline in equity indices have led to FPI outflows in this segment. In addition, narrowing spread between US10Y and India 10Y has impacted debt segment FPI outflows. As a result, INR traded in the range of 83.82-84.09/\$. In the next fortnight, we expect pressure on INR to remain, but the movement will be range bound. Geo-political developments (US elections, tensions in the Middle East) and domestic inflation trajectory will be closely watched events. We thus expect INR to trade in the range of 83.9-84.2/\$ in the current fortnight.

Movement in global currencies in Oct'24

In Oct'24, all major global currencies depreciated against the dollar. The movement in global currencies was led by strengthening US dollar. DXY index, measuring the dollar's value against a basket of currencies rose by 3.2% in Oct'24 (nearing highest levels seen since end Jul'24), following the 0.9% decline in Sep'24. Much of the gains were noted in the first fortnight of Oct'24 when it rose by 2.5%, compared with 0.4% increase noted in the second fortnight. DXY's performance has been driven by steep jump in US10Y yield. In Oct'24 alone, US 10Y yield rose by 50bps (~4.3%) to hover at early Jul'24 levels. This comes largely in the wake of rising political uncertainty ahead of a closely fought US Presidential election and mixed macro indicators. On one hand, ADP employment report showed that private sector employment rose by 233k in Oct'24. Conference board consumer confidence shot up to 108.7 in Oct'24 from 99.2 in Sep'24, as consumer turned more optimistic about economic situation in 6 months ahead. This was helped by rising stock prices and falling gasoline cost. On the other hand, BLS data showed that non-farm payrolls rose by mere 12k versus estimated 113k. This data appears to be distorted by seasonal shocks (two major hurricanes) and worker strikes (Boeing/Textron). US ISM manufacturing index also signalled fastening pace of contraction in manufacturing activity (46.5 in Oct'24 versus 47.2 in Sep'24), dragged by lower production. Input prices are beginning to see upside pressure. Analysts also expect inflationary pressures to return if President Trump comes back to power. As a result, Fed is expected to tread cautiously for now, and lower rates by only 25bps in the meeting this week. In contrast, currencies which suffered the most were- New Zealand Dollar, Brazilian Real, Japanese Yen, Australian Dollar, and Thai Baht. Apart from strengthening US\$, JPY touched its 3-month low, dented by domestic political uncertainty (loss of parliamentary majority for ruling coalition). GBP was jolted, following latest budget presentation by FM Rachel Reeves. Policies announced are expected to be stagflationary.

Figure 1: Movement in global currencies in Oct'24



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 31 Oct 2024 | Figures in brackets indicate depreciation against the dollar

Performance of rupee

In contrast to most global currencies which fell sharply against the dollar, INR depreciated only marginally. It was down by (-) 0.3% in Oct'24, falling to its record low (84.09/\$) towards the end of the month. However, the decline was much lower than what was registered by MSCI EM index, which fell by 1.6%, due to rise in DXY index. One of the key factor which impacted domestic currency's performance was increase in FPI outflows (-US\$ 11.5bn in Oct'24), following US\$ 11.2bn inflows seen in Sep'24. This was mainly seen in case of equity outflows (-US\$ 11.2bn versus +US\$ 6.9bn) than debt outflows (-US\$ 0.43bn versus +US\$ 3.9bn). This could be due much steeper decline in Sensex (-5.8%) and Nifty (-6.2%), than S&P (-1%) and Dow Jones (-1.3%), and narrowing spread between US 10Y and India 10Y. Higher dollar demand to meet the month end requirements also impacted the currency. The limited volatility in the forex market could be due central bank intervention.

Outlook

Indian rupee continues to head towards its record low level at the start of Nov'24 (84.12/\$), as US\$ strengthens further. We thus believe, that INR is expected to remain under pressure in the current fortnight. The factors that will adversely impact the currency include US Presidential race outcome, and Fed's policy tone, both due this week. Any escalation in geo-political tensions in the Middle East will also increase the demand for safe haven currencies, which in turn may support US\$ and add pressure on INR. India's inflation numbers are also awaited to gauge RBI's rate cut trajectory. Pressure on FPIs is also likely to remain. However, in case RBI decides to use its elevated forex reserves (~US\$ 685bn as of 25 Oct 2024), then volatility that INR may suffer can be reduced. On balance, we expect INR to trade the range of 83.9-84.2/\$ in the current fortnight.

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