

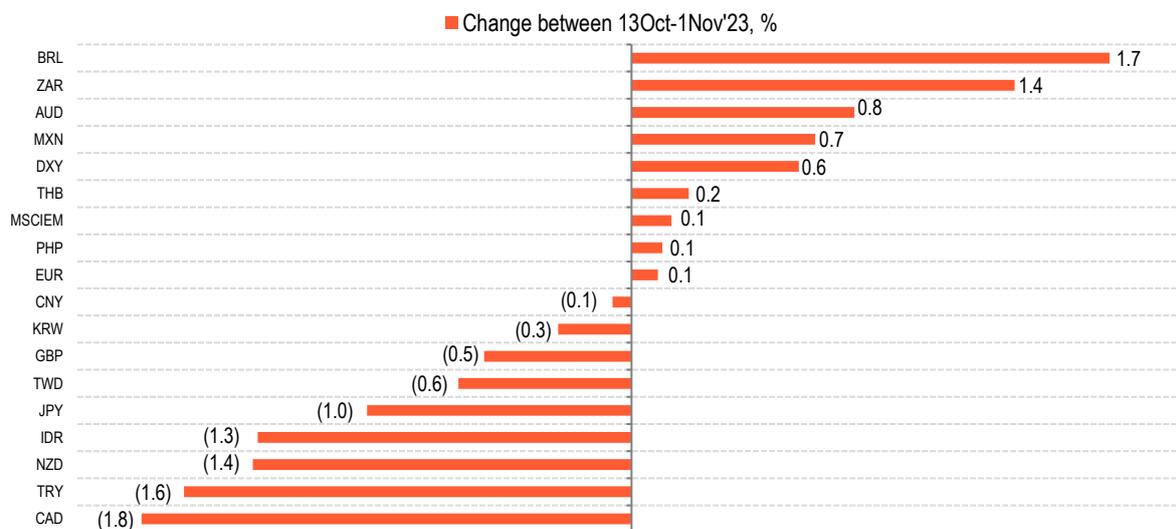
## Fortnightly forex review

INR slipped to a fresh record-low of 83.29 to the dollar in the last session, after the FOMC kept rates steady. Even so, INR has remained largely range-bound in the last fortnight supported by active currency management by the RBI. While the commentary from the Fed was mixed, markets largely believe that Fed rates have peaked, with expectations of rate cuts in the second half of CY2024. This will be positive for INR. Apart from this, while FPI outflows have continued, oil prices have eased significantly and further upside looks limited as the war in Middle-East has so far remained contained. Based on this, we expect INR to continue to trade in a narrow range in the next fortnight. We see a range of 83-83.5/\$.

### Movement in global currencies

Global currencies closed mixed in the last fortnight as investors assessed a slew of factors such as the war in Middle-East and policy decisions of major central banks. DXY was 0.6% higher as US data continued to reinforce the underlying economic strength of the economy. Fed kept policy rates steady, even though the commentary on future policy action was mixed. While acknowledging that the substantial progress has been made in the fight against inflation, the Fed Chair reiterated that inflation is still high. The Fed Chair also alluded to the tightening financial conditions which “can have implications for the path of monetary policy”. Market participants believe that the Fed rate has likely peaked. This will limit the gains in DXY going forward. The rupee remained unchanged in this period.

**Figure 1: Currency movement in the last fortnight**



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 1 Nov 2023

Separately, BoJ kept its policy rate unchanged but made minor changes to its yield control curve policy. Even so, JPY depreciated and traded above the 150/\$ mark in the last few sessions. ECB too held rates steady, after 10 consecutive rate hikes.

### **How did INR fare?**

INR ended the last trading session at a record-low of 83.29/\$, ahead of the Fed policy decision. Post the announcement, INR is trading stronger today at ~83.26/\$. INR has maintained a tight range over the course of the last few sessions. In fact, the annualized daily volatility in INR was down to just 1% in Oct'23 compared with 2.6% in Sep'23. This is notwithstanding the fact that FPI outflows from India gained significant traction in Oct'23 at over US\$ 17bn compared with US\$ 13.8bn in Sep'23. Oil prices too were volatile, tracking developments in the Middle-East. The relative stability of INR relative to other currencies can be attributed to RBI's effective intervention. Incidentally, India's forex reserves have fallen by around US\$ 3bn in the first three weeks of Oct'23.

### **Where do we expect INR in the near-term**

Possibility of a peak in Fed rates, and more importantly, expectations of rate cuts by Fed in the second half of 2024 are likely to keep a lid on the dollar upside seen recently. Oil prices have seen correction after an initial knee-jerk reaction to the developments in the Middle-East. Upside risks on this front look limited for now. This is positive for INR. On the other end of the spectrum, FPI outflows and continued weakness in India's exports will weigh on the INR. We believe that RBI intervention will likely dictate the trajectory of the rupee in the near term.

We expect a range of 83-83.5/\$ in the next fortnight.

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