

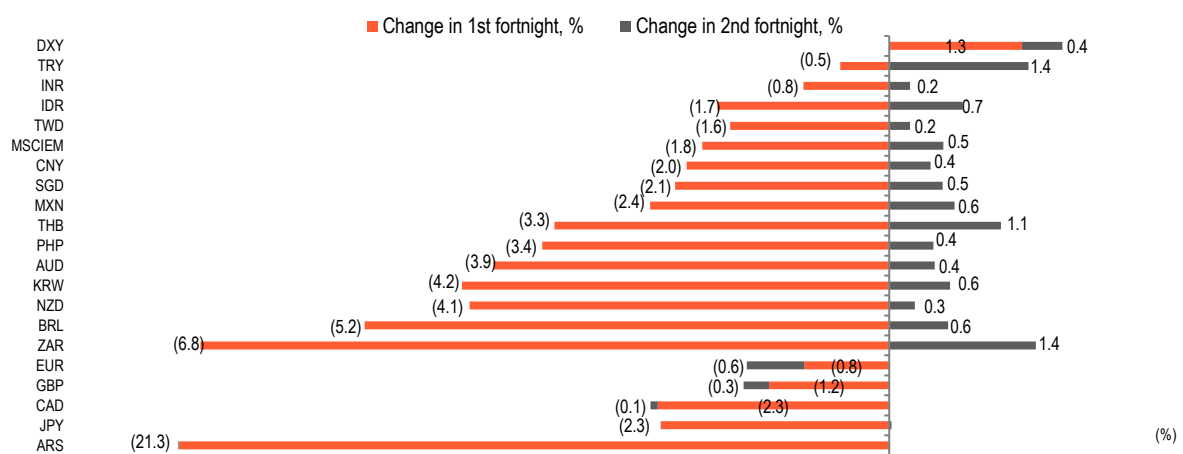
Fortnightly forex review

After depreciating to a record-low during the month, INR made a smart recovery to end the month only marginally lower. Pressure on the currency has come from worsening global backdrop of a strengthening dollar and elevated oil prices. RBI intervention helped the currency pair to limit losses. Unsurprisingly, INR was amongst the best performing Asian currency in Aug'23, despite a 1.7% increase in DXY. Elevated oil prices and a moderation in FPI inflows are likely to weigh on INR in the near-term. Fed rate trajectory will be contingent on incoming data and the US jobs report due later in the day will shed more light on the same. Against this backdrop, we expect INR to trade in the range of 82.5-83/\$ in the next fortnight.

Movement in global currencies

After a tumultuous start to the month, the second half was marked by relative calmness in the global forex market. The sudden and unexpected wave of dollar rally pushed global currencies lower in the first fortnight of the month. Stronger than expected US macro data has reinforced views of possibly more rate hike(s) by the Fed. This was also reiterated by the Fed Chair and other Fed officials. However, data released since then has shown that claims about the resilience of the US economic strength may have been exaggerated. Downward revision to Q2 growth estimates, weak private payrolls, sluggishness in housing sector etc. have reinforced views that previous rate hikes may have percolated into the real economy. With incoming data painting a mixed picture, the future trajectory of Fed has become uncertain. While DXY gained 1.3% in the first fortnight of Aug'23, its gains in the second half of the month were more modest at 0.4%.

Figure 1: Fortnightly currency movement in Aug'23



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 31 Aug 2023

Despite some reversal in the second fortnight, most global currencies ended the month lower against the dollar. Amongst major currencies, JPY continued to be the worst hit as the policy divergence between Fed and BoJ is unlikely to correct anytime soon. The rapid depreciation in JPY has kept market participants on a wait and watch mode for any intervention by the government or BoJ. Pressure also mounted on both EUR and GBP as growth concerns reemerged after weak flash PMI readings. Other indicators also paint a grim picture. Hence, expectations of more rate hikes have been realigned, putting pressure on the exchange rate. Emerging market currencies such as ARS, ZAR and BRL remained under pressure.

How did INR fare?

INR depreciated to a record-low of 83.15/\$ on 17 Aug 2023. However, it has since stabilized. In fact, despite the sharp depreciation in the second-half of the month, INR has managed to gain 0.2% in this period. For the month, INR is 0.6% lower. When compared with other EM and Asian currencies as well, INR has performed much better. Volatility in INR has also remained low at just 2.5% in Aug'23, compared with 2.9% last month. Intervention by the RBI has helped keep the currency pair range-bound.

We expect INR to trade in the range of 82.5-83/\$ in the next fortnight amidst elevated oil prices and a weakening momentum in FPI inflows. On the positive side, stronger than expected domestic GDP print and correction in oil prices due to weak demand will work in favor of INR.

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com

aditi.gupta3@bankofbaroda.com