

Currency Outlook

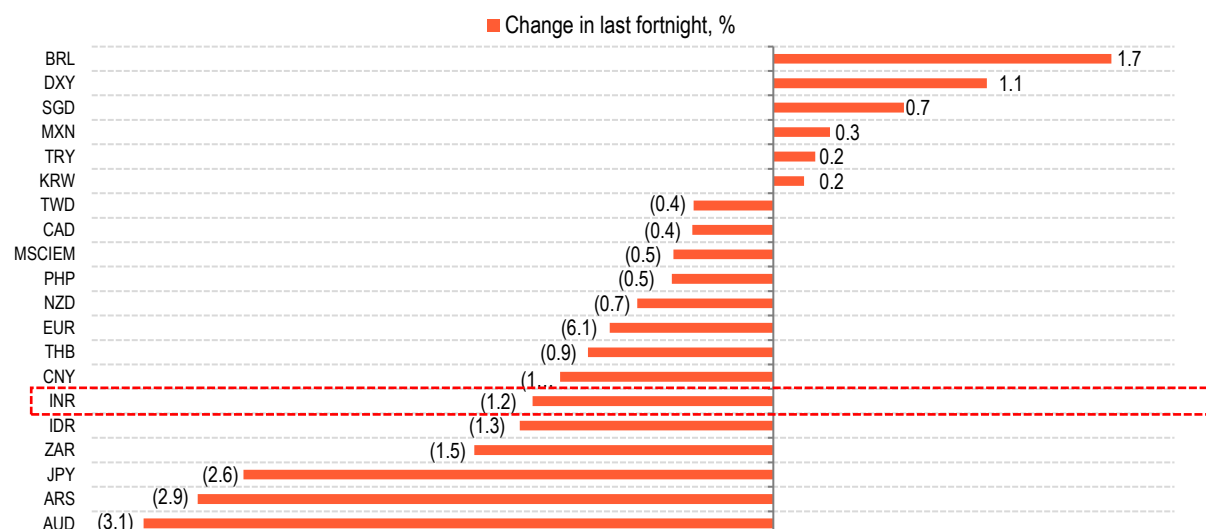
INR finds support

Macro data from the US reinstated market expectations of a 75bps rate hike by Fed in the next meeting. Strong job growth along with an elevated inflation print justify this move. As a result, DXY rose further and traded near a 20-year high. Most currencies were under pressure, with AUD, JPY and CNY falling the most. INR too depreciated to a fresh historic low. However, supported by RBI intervention, INR has since remained range bound. The outlook for INR is marred by global headwinds (stronger dollar) as well as weakening domestic fundamentals. Even so, intervention by RBI is likely to keep INR in the range of 82.25-82.75/\$ in the near-term. Fed minutes and US Q3CY22 GDP scheduled to be released later in the month will determine the course of the forex market.

Currency movement in the last fortnight

Dollar continued to strengthen further supported by expectations of another 75bps rate hike by Fed in its next policy. Stronger than expected additions in the non-farm payrolls, along with a hotter than anticipated inflation print bolstered investors' expectations that the Fed may not reduce the pace of its rate hikes in the next meet. DXY index surged by another 1.7% in the month, building on its 17% increase in CYTD22 (upto Sep'22).

Figure 2: Global currencies depreciated in Sep'22



Source: Bloomberg, Bank of Baroda | Data as of 30 Sep 2022 | Note: Figures in bracket denote depreciation against USD

Barring a few exceptions, most global currencies depreciated against the dollar. Amongst these, AUD depreciated the most by 3.1% to its lowest since Apr'20, as Reserve Bank of Australia (RBA) hiked policy rates by only 25bps against expectation of a 50bps rate hike. JPY too slid further by 2.4% to a 32-year low amidst increasing policy divergence with the Fed. Resurgence of Covid-19 cases in some

parts of China amidst the government's strict Covid zero policy further dampened the economic prospects. As a result, CNY slipped by 1.1%.

On the other hand, after a sharp sell-off last fortnight, GBP ended flat supported by BoE's emergency gilt buying program as well as reports that the government may reverse some of the fiscal measures announced in the "mini-budget". BRL rose by 1.7% supported by positive election outcome.

What about INR?

INR depreciated by 1.2% in the last fortnight, breaching the psychological level of 82/\$ on 7 Oct 2022. Since then it has been range bound supported by active intervention by the RBI. While the depreciation seen in INR was higher than the median depreciation of 1% in the above sample, when compared with the MSCI EM index, INR performed relatively better.

Outlook for INR

With the dollar strength showing no signs of abating, INR may continue to remain under pressure. Apart from pressure from a stronger dollar, factors such as high domestic inflation as well as rising risks on the external front due to a moderation in exports will also weigh on the INR. Oil prices too have begun rising again supported by announcement of output cuts by OPEC+. FPI outflows too have increased in pace in Oct'22. RBI has stepped in the market in the last few days to prevent a sharp slide in the currency. Given the above backdrop, we foresee a range of 82.25-82.75/\$ in the near-term.

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