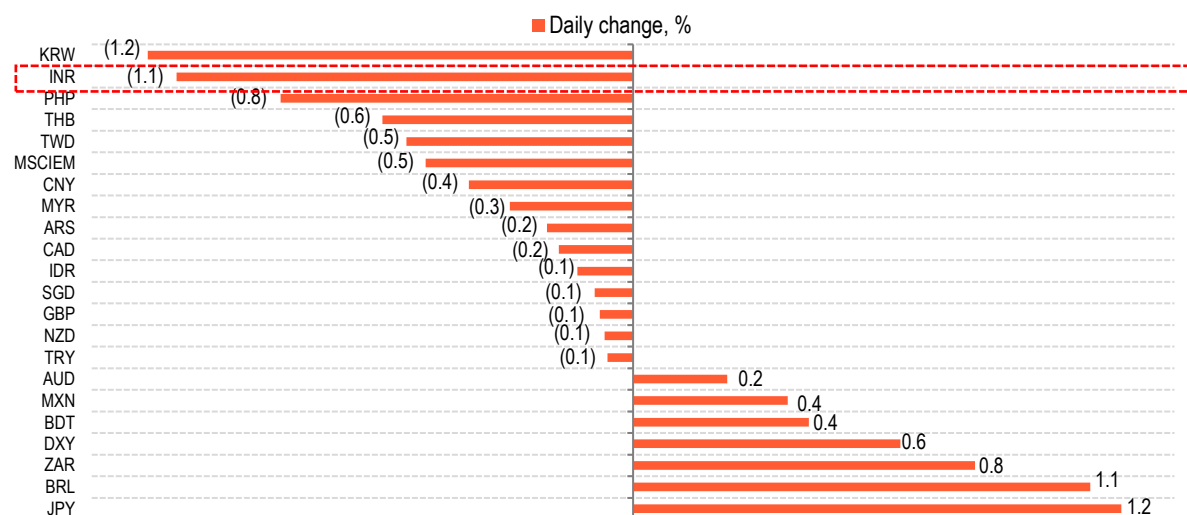


INR falls to a record low: From being best to worst performing currency

Global currencies depreciated sharply yesterday amidst a hawkish commentary from Fed. While the 75 bps rate hike was already priced in, the forward guidance was much more aggressive than anticipated. Fed’s projection for median fund rates was revised sharply upwards to 4.4% for CY22 (3.4% in Jun’22) implying a cumulative 125 -150 bps rate hike in the next two meetings. Even in CY23, the median projection for the Fed rate stands at 4.6% versus 3.8% expected in Jun’22, suggesting that rates are likely to remain higher for longer. The overall stance of Fed was much more hawkish than expected which explains the market movement since. Stock indices slid, global yields rose and currencies have declined since.

DXY edged up by 0.6%, and continues to hover around a 20-year high putting pressure on other currencies. Most global currencies ended lower, with the median depreciation in the sample of 22 currencies at 0.1%. However, INR was amongst the worst performing currencies against the dollar. This is in contrast to the time period before the Fed meet where the rupee was one of the best performing currency. Only the Korean Won (KRW) depreciated more than INR. In fact, the 1.1% depreciation seen in INR was its largest single-day decline since Feb’22.

Figure 1: Global currencies have depreciated sharply



Source: Bloomberg, Bank of Baroda | Data as of 22 Sep 2022 | Note: Figures in bracket denote depreciation against USD

The fall by 1.1% is significant with won being higher at 1.2%. Currencies of Australia, Mexico, South Africa, Brazil and Japan appreciated.

What does this mean for INR?

INR is trading weaker against the dollar even today. In fact, INR opened above the 81/\$ mark in the morning but has since settled only marginally below that level. This marks a significant shift in the RBI’s forex intervention strategy as in the past RBI had showed a strong intent to defend the 80/\$

mark. Given the global backdrop of a strong dollar and continued weakness in other currencies, it seems likely that the RBI may not be as aggressive as in the past to curb the decline in the exchange rate. Hence, we may see the rupee depreciating further, and a move closer to 82/\$ cannot be ruled out. Everything depends on what the RBI does and absence of active intervention will be interpreted as the present range around 81/\$ being acceptable.

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