

2 Sep 2025

Aditi Gupta
Economist

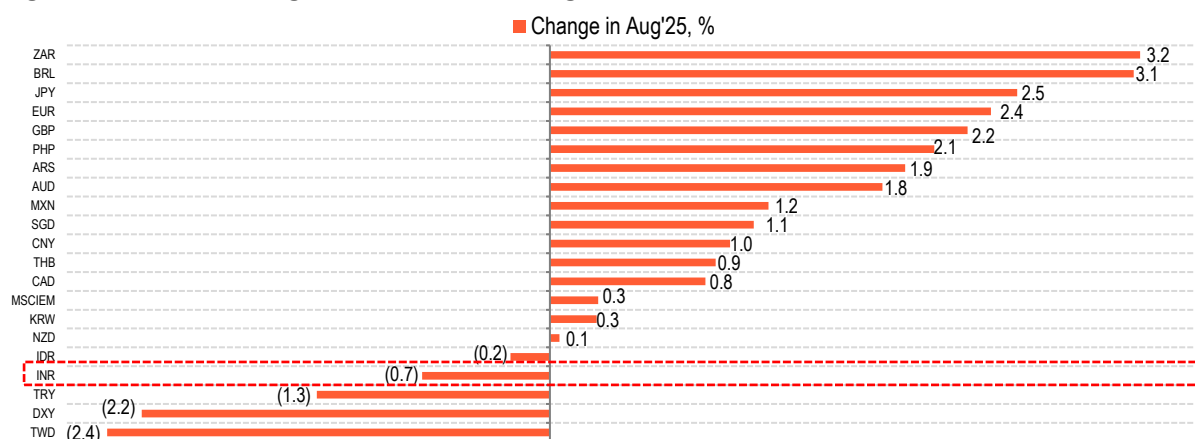
Currency update

INR depreciated to a record low in Aug'25 as the additional US tariffs took effect. Month end demand from importers and sustained FPI outflows from the domestic equity markets also contributed to the decline in the domestic currency. INR declined by 0.7% in Aug'25; however if seen in the context of a weaker dollar, the loss appears more pronounced. We expect some pressure on the rupee in the near-term as investors continue to seek clarity on impact of tariffs and developments surrounding trade negotiations. RBI intervention is likely to be limited to preventing sharp volatility in the exchange rate, with a higher tolerance for a weaker domestic currency. We are anticipating a range of 87.5-88.5/\$ in the near-term. Over the longer-term, we continue to believe that robust macro-fundamentals should support the domestic currency.

Movement in global currencies:

Global currencies gained against a weaker dollar. The dollar has been under pressure as investors have ramped up expectations of a 25bps rate cut in the Sep'25 meeting. This was supported by dovish comments from Fed officials, including the Fed Chair. At the same time, questions over Fed's independence and legal disputes related to President Trump's tariffs also weighed on investor sentiments. As a result, US yields dropped sharply, with short-term yields declining at a much sharper. DXY slipped by 2.2%. Major currencies ended higher, with EM currencies such as South African Rand (ZAR) and Brazil Real (BRL) gaining over 3%. Amongst AEs, the Japanese Yen (JPY) strengthened the most, amidst growing policy divergence with the US, with investors expecting a hawkish tilt from the BoJ soon. Currencies in Europe and UK also gained, despite political and fiscal concerns respectively, in each of these countries.

Figure 1: Movement in global currencies in Aug'25



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 29 Aug 2025 | Figures in brackets denote depreciation against the dollar

INR performance:

INR depreciated by 0.7% in Aug'25, following a 2.1% decline in Jul'25. The domestic currency continued to trade in a narrow range for most part of the month, despite the announcement of additional 25% penalty on India's exports by the US President. In fact, USD/INR traded in the range of

86.96-87.81/\$ during the period 1 Aug-28 Aug 2025. The pressure on INR intensified after the additional tariff took effect, with the domestic currency slipping to a record low of 88.21/\$ on 29 Aug 2025. Apart from tariff related uncertainty, continued FPI outflows from the domestic markets, particularly in the equity segment also weighed on INR.

Outlook:

INR has remained under pressure ever since the additional penalty of 25% was imposed by the US. More recently, INR depreciated to a record low, crossing the 88/\$ mark. This largely reflects a deterioration in investor confidence amidst tariff driven uncertainty. Purely in numerical terms, a 50% tariff rate has a psychological impact on investor sentiments. The worry here is that a 50% tariff on exports, could dampen growth, particularly since US is a major market of India's exports (US accounts for 20% of India's exports). Hence, in the short-term some pressure on INR cannot be ruled out. While low by historical standards, RBI intervention in the forex market is likely to ensure that the movement in the domestic currency is orderly and gradual. Based on this, we expect INR to trade in the range of 87.5-88.5/\$ this month.

However, beyond the noise, it must be recognised that India is a domestic driven economy with exports accounting for only a small fraction of GDP, with goods exports constituting an even smaller share. GST rationalisation, coinciding with the festive season is likely to provide substantial lift to the economy, which will offset a large part of the hit of higher tariffs. India's macro fundamentals remain strong, with robust GDP growth, low inflation, strong external buffers and a well-managed fiscal deficit. Hence, over a longer-term, the pressure on INR is likely to dissipate with the currency pair expected to trade in the range of 86-88/\$.

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

chief.economist@bankofbaroda.com