

**RESEARCH**
**BOB Economics Research | Currency Outlook**

Rupee slips to a record-low: What to make of it?

**BOB Economics Research | WPI**

WPI remains elevated

**SUMMARY**
**India Economics: Currency Outlook**

Indian rupee slipped to a fresh record low of 78.04/\$ yesterday amidst a resurgence in dollar strength. Other global currencies also ended sharply lower as DXY index surged to a 20-year high ahead of the US Fed meet. EM currencies depreciated sharply by 0.8%. Brazilian Real (BRL) fell the most by 2.5%. Australian and New Zealand dollar were also lower by 2% and 1.6% respectively, in the day. It must be noted that while INR did slip to a record-low against the dollar, it performed relatively well compared to other EM peers. In fact, while the median depreciation in the basket of 15 currencies was 0.9%, INR depreciated by only 0.3%.

[Click here for the full report.](#)

**India Economics: WPI**

Slightly higher than our expectations (forecast of 15%), WPI for May'22 has come in at 15.9%, up from 15.1% in Apr'22. This implies that inflation continues to remain at its highest in the current (2011-12) series. Barring manufacturing, other sub-heads such as food and fuel, registered an acceleration in inflation in May'22. However, on a MoM basis, WPI print has eased (1.4% versus 2% last month), with all sub-heads witnessing further deceleration in May'22 after peaking in Mar'22.

[Click here for the full report.](#)

**Daily macro indicators**

Indicator	10-Jun	13-Jun	Chg (%)
US 10Y yield (%)	3.16	3.36	20bps
India 10Y yield (%)	7.52	7.60	8bps
USD/INR	77.84	78.04	(0.3)
Brent Crude (US\$/bbl)	122	122.3	0.2
Dow	31,393	30,517	(2.8)
Hang Seng	21,806	21,068	(3.4)
Sensex	54,303	52,847	(2.7)
India FII (US\$ mn)	09-Jun	10-Jun	Chg (\$ mn)
FII-D	(0.6)	(215.9)	(215.3)
FII-E	(180.1)	(408.7)	(228.6)

Source: Bank of Baroda Economics Research



## CURRENCY OUTLOOK

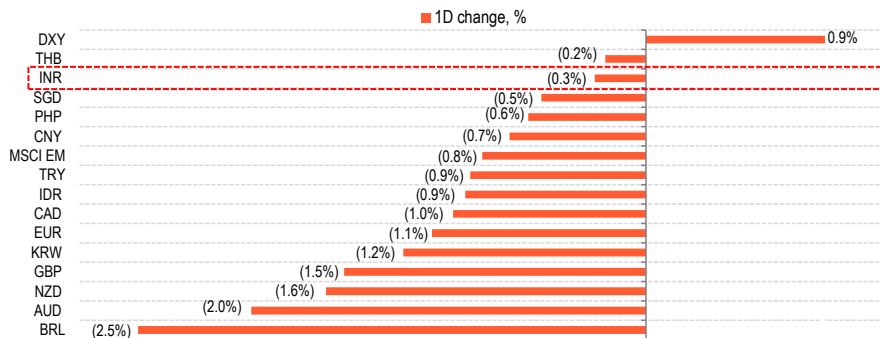
14 June 2022

**Rupee slips to a record-low: What to make of it?**

Indian rupee slipped to a fresh record low of 78.04/\$ yesterday amidst a resurgence in dollar strength. Other global currencies also ended sharply lower as DXY index surged to a 20-year high ahead of the US Fed meet. EM currencies depreciated sharply by 0.8%. Brazilian Real (BRL) fell the most by 2.5%. Australian and New Zealand dollar were also lower by 2% and 1.6% respectively, in the day. It must be noted that while INR did slip to a record-low against the dollar, it performed relatively well compared to other EM peers. In fact, while the median depreciation in the basket of 15 currencies was 0.9%, INR depreciated by only 0.3%.

**Aditi Gupta**  
Economist

Figure 1: Currency movement



Source: Bloomberg, Bank of Baroda | Data as of 13 Jun 2022 | Note: Figures in bracket denote depreciation against USD

There are several reasons underpinning the dollar strength.

First, expectations of aggressive policy tightening by US Fed this week. US inflation surged to a 41-year high of 8.6% in May'22 from 8.3% in Apr'22 on a YoY basis. This was against the widely held market view that inflation in US has peaked. In fact, analysts had expected CPI inflation in May'22 at 8.3% (Bloomberg estimate). As a result, expectations that the Fed may aggressively hike rates have resurfaced.

Markets are now even expecting a 75bps rate hike by Fed on Wednesday (biggest rate hike since 1994), even as Fed Chair had explicitly ruled out such a move in the last policy. Some investment banks expect the Fed rate to end at 3.25-3.5% by this yearend. Hence it would be well ahead of Bank of England which is expected to increase rates by 25 bps this Thursday.

Second, US 10Y yield rose by 20bps in the last trading session. This is also contributing to the dollar strength as funds move towards dollar assets thus making it stronger.



## WPI

14 June 2022

## WPI remains elevated

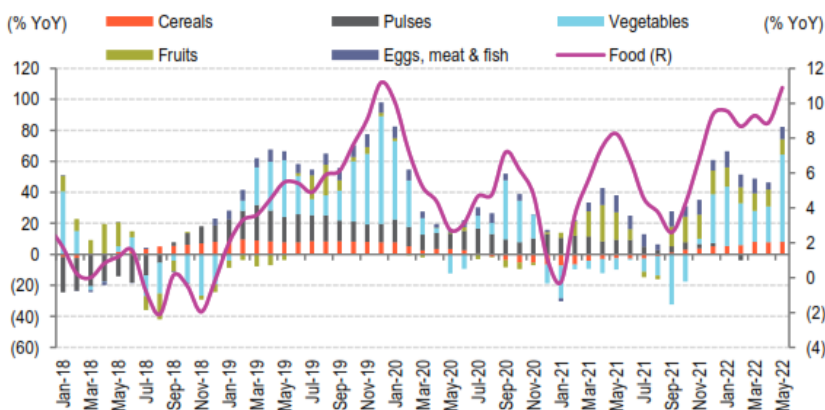
Slightly higher than our expectations (forecast of 15%), WPI for May'22 has come in at 15.9%, up from 15.1% in Apr'22. This implies that inflation continues to remain at its highest in the current (2011-12) series. Barring manufacturing, other sub-heads such as food and fuel, registered an acceleration in inflation in May'22. However, on a MoM basis, WPI print has eased (1.4% versus 2% last month), with all sub-heads witnessing further deceleration in May'22 after peaking in Mar'22.

**Sonal Badhan**  
Economist

Food inflation continues to hurt: Food inflation in May'22 is at its highest (10.9%) since Dec'19 (11.2%) and has moved up from 8.9% in Apr'22. This is led by significant increase in prices of vegetables (56.4% in May'22 versus 23.2% in Apr'22), followed by milk (5.8% versus 5.1%), eggs, meat and fish (7.8% versus 4.5%) and spices (18.4% versus 14.6%). Within vegetables, prices of tomato (219% versus 39%), potato (24.8% versus 19.8%), Brinjal (46.6% versus 32.2%), beans (20.9% versus 0.5%) and drumstick (46.2% versus 26.6%) rose significantly. On the other hand, price of onions contracted more sharply (-20.4% versus -4%). Food grain prices too witnessed moderation (5.7% versus 6.1%), mainly owing to dip prices of pulses (-3.7% versus -0.3%). However, prices of cereals continued to inch up (8% versus 7.8%), led by paddy. Wheat prices eased.

On a MoM basis too, price pressure is visible in case of primary articles (2.8% versus 2.3%). This is owing to higher prices of vegetables, milk, protein based items, and spices. Cereal prices can be seen moderating in May'22, while prices of pulses is seen to be declining.

**Fig: 1 Food inflation contributing to rise in WPI**



Source: CEIC, Bank of Baroda Research



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**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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