

RESEARCH
BOB Economics Research | Currency Outlook

INR finds support

SUMMARY
India Economics: Currency Outlook

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.

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Daily macro indicators

Indicator	13-Oct	14-Oct	Chg (%)
US 10Y yield (%)	3.94	4.02	7bps
India 10Y yield (%)	7.42	7.47	4bps
USD/INR	82.35	82.34	0.0
Brent Crude (US\$/bbl)	94.6	91.6	(3.1)
Dow	30,039	29,635	(1.3)
Hang Seng	16,389	16,588	1.2
Sensex	57,235	57,920	1.2
India FII (US\$ mn)	12-Oct	13-Oct	Chg (\$ mn)
FII-D	13.8	(3.6)	(17.4)
FII-E	(43.4)	(134.3)	(90.9)

Source: Bank of Baroda Economics Research

BOBCAPS Research

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CURRENCY OUTLOOK

17 October 2022

INR finds support

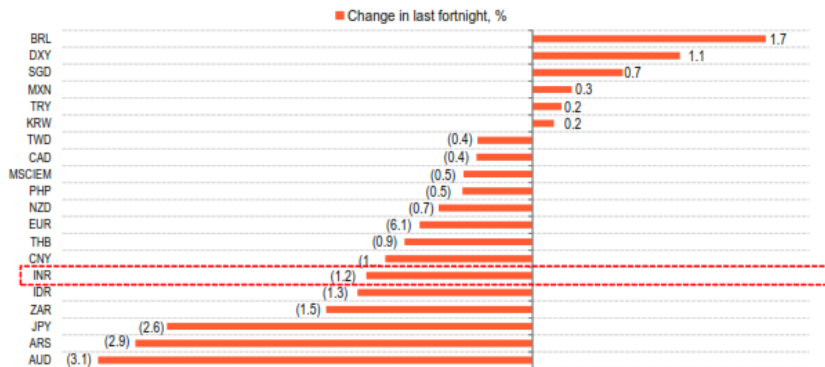
Macro data from the US reinstated market expectations of a 75bps rate hike by Fed in the next meeting. Strong job growth along with an elevated inflation print justify this move. As a result, DXY rose further and traded near a 20-year high. Most currencies were under pressure, with AUD, JPY and CNY falling 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.

Aditi Gupta
Economist

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%.



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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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