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Daily Forex Insight

KEY HEADLINES:

The Indian rupee spot against the US dollar end straight 7th day record closing low on Wednesday, pressure by dollar demand from importer banks added by expected gain in dollar index and widening trade deficit in India. Rupee mark 7th straight yearly fall in 2024 with most of its downside seen in last quarter of the year due to overseas factors like US new elected president expected policy, rally in dollar index as well US Bond yield while local factors also pressure few of them like slowing domestic growth, wider trade deficit and outflow concern after constant FPI selling in equities. However, likely RBI intervention at every lower level support rupee from sharp fall and manage to one of least affected currency against Asian peers.

The rupee at NSE Future 29 Jan-25. ended gain by 4 paise at 85.84 against previous close of 85.88 and after make low of 85.68 and high of 85.92. Global cues were muted on the day, with most markets shut for the New Year holiday.

The rupee Spot dropped 2.8% in 2024 to end the year at 85.6150 per U.S. dollar. It fared better than many of its Asian peers, which declined between 3% and 12% due to the dollar's strength and multiple twist and turns in the outlook on U.S. policy rates. The rupee was only marginally weaker at the end of September. But it slid nearly 2.2% in the last quarter and hit multiple record lows, with the lifetime low of 85.8075 coming just few days ago on Dec. 27.

Foreigners have taken out $11.7 billion from Indian equities in the December quarter, compared with inflows of about $12 billion in the first nine months. Tepid capital flows have also been a pain point for the rupee, foreign investors logged net purchases of only $124 million of Indian equities in 2024, down from $20.7 billion in 2023. As the rupee slid, the forex reserves reflect the RBI's efforts to support the currency. India's forex reserves are now down $60.5 billion from their record-high levels.

In 2025, traders will keep an eye on potential U.S. trade tariffs which may dampen the outlook for emerging market currencies, especially the Chinese Yuan. India's growth trajectory and FPI funds flow will be the other key variable alongside any potential changes in RBI's forex strategies under the new governor.

India's benchmark 10-year bond yield posted its steepest decline in four years in 2024 as the government's fiscal discipline and inclusion of debt in global indexes boosted demand, while investors awaited start of the domestic rate easing cycle in 2025. The yield ended at 6.7597% on Tuesday, dropping 42 basis points on-year after easing 15 bps in 2023. This is the biggest fall since the 66 bps decline in 2020. India aims to reduce its fiscal deficit to 4.9% of gross domestic product (GDP) for this financial year, with gross borrowing pegged at 14.01 trillion rupees. Foreign investors net bought bonds worth 1.2 trillion rupees in 2024, with more than half of the purchases after June.

Bonds were also boosted by their inclusion in JPMorgan's emerging market debt index in June, with their weightage rising to 7% as of end-December. Indian bonds will be included in two more global indexes in 2025 - the Bloomberg Index Services from January and FTSE Russel from September - and this could lead to an aggregate inflow of $7 billion to $10 billion, traders said.

Looser business regulations and tax cuts are expected to help propel U.S. growth next year while that a clamp-down on illegal immigration and the prospect of new tariffs on trading partners could increase price pressures, and weigh on the economy longer term. That has boosted the dollar against its peers, though there remains a lot of uncertainty over exactly what policies will be introduced and what their impact will be.

For India, between now and the next rate meeting in February, the new Governor's views on liquidity, currency management and macro-prudential measures will be watched closely.

The U.S. dollar was on track to post an annual gain against almost all major currencies on Tuesday, while the Japanese yen was among the biggest losers, as the prospect that the Federal Reserve will hold interest rates higher than peers led the U.S. currency to dominate rivals.

Traders are pricing in 33 basis points of rate cuts next year, shy of the two 25-bp rate cuts the Fed projected last week. The market is not pricing in more than a 50% chance of a rate cut from the Fed until its May meeting, according to CME's FedWatch Tool.

Economic Indicators to be released.

Indicator	Currency	Forecast	Previous	Impact
Unemployment Claims	USD	220K	219K	HIGH

Support Resistance Levels – Currency Future: (NSE CUR - 29 Jan 25)

Currency	LTP	S1	S2	R1	R2	Trend
USDINR FUTURE	**85.84**	**85.45**	**85.10**	**86.10**	**86.60**	**BULLISH**
EURINR FUTURE	**89.10**	**88.65**	**88.0**	**89.70**	**90.50**	**BEARISH**
GBPINR FUTURE	**107.57**	**107.0**	**106.40**	**108.35**	**109.0**	**BULLISH**
JPYINR FUTURE	**54.86**	**54.50**	**54.0**	**55.20**	**55.75**	**BEARISH**

Technical Research Analyst

Vibhu Ratandhara

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M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063 Web site: https://www.bonanzaonline.com

SEBI Regn. No.: INZ000212137

BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 |

NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186