

KEY HEADLINES:

The Indian rupee spot against the US dollar end consecutive 8th day record closing low on Thursday, pressure by gain in dollar index, widening arbitrage between non-deliverable and outright forward markets added by dollar demand from importer banks and widening trade deficit in India all makes rupee fall. However, likely RBI intervention at lower level support rupee in today's trade.

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 down by 10 paise at 85.94 against previous close of 85.84 and after make low of 85.84 and high of 86.0. The widened gap between NDF and outright forwards also sparked a surge in dollar-rupee forward premiums with the 1-year implied yield touching its highest level since October 2022.

India's manufacturing activity grew in December at its weakest pace for the year amid softer demand and despite easing cost pressures and strong jobs growth, a survey showed, dulling the outlook for the start of 2025. The HSBC final India Manufacturing PMI, compiled by S&P Global, fell to 56.4 - the weakest since December 2023, a little changed from November's 56.5 but below expected a rise to 57.4.

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.

Indian 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 hit a two-year high on Thursday in the first day of 2025 trading, building on last year's strong gains on expectations U.S. growth will beat peers and keep U.S. interest rates relatively elevated. Policies by U.S. President-elect Donald Trump are also expected to boost growth and potentially add to upward price pressures.

The dollar index was last up 0.29% on the day at 108.85. The euro fell as low as \$1.0306, its lowest since November 2022, and was last down 0.4% on the day. Sterling, which held in better than most major currencies against the greenback last year, fell 0.98% to \$1.2394, its lowest since April. The dollar gained 0.03% to 156.92 Japanese yen.

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. Traders anticipate deep interest rate cuts from the European Central Bank in 2025, with markets pricing in at least four 25-basis-point cuts, while not being certain of even two such moves from the Fed.

In cryptocurrencies, bitcoin gained 2.05% to \$96,723.

Economic Indicators to be released.

Indicator	Currency	Forecast	Previous	Impact
ISM Manufacturing PMI	USD	48.2	48.4	HIGH

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

Currency	LTP	S1	S2	R1	R2	Trend
USDINR FUTURE	85.94	85.45	85.10	86.10	86.60	BULLISH
EURINR FUTURE	88.87	88.65	88.0	89.70	90.50	BEARISH
GBPINR FUTURE	107.0	109.90	106.10	108.35	109.0	BEARISH
JPYINR FUTURE	54.77	54.50	54.0	55.20	55.75	BEARISH

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