

KEY HEADLINES:

The Indian rupee against the US dollar end slight lower on Thursday despite recovery in Asian peers due to dollar outflow in absence of central bank intervention while expected funds flow after record high equity market and fall in crude oil prices offer support for sharp fall in domestic currency.

The rupee at NSE Future 29 May. ended fall by 3 paise at 83.53 against previous close of 83.50 and after make low of 83.48 and high of 83.56.

The U.S. Federal Reserve held interest rates steady on Wednesday and signaled it is still leaning towards eventual reductions in borrowing costs, but put a red flag on recent disappointing inflation readings and suggested a possible stall in the movement towards more balance in the economy. Indeed, Fed Chair Jerome Powell said it was likely to take longer than previously expected for U.S. central bank officials to gain the "greater confidence" needed for them to kick off interest rate cuts.

Fed fund futures traders are now pricing in 35 basis points of easing this year, up from 29 basis points before the Fed statement.

The recent sharp foreign investor selling in Indian government bonds in April, marking the highest monthly sales since the Covid-19 pandemic, is only an aberration, with inflows likely to continue in the coming months, according to various analyst expectations. Foreign investors sold bonds worth 149.5 billion rupees (\$1.79 billion) on a net basis in April, the highest in the four years, after net purchases of bonds worth 816 billion rupees between October and March.

India's improving trade deficit, inflows into bonds and reduced pressure on the rupee in the offshore market has lowered the need for the Reserve Bank of India (RBI) to intervene aggressively in the foreign exchange market. The RBI's interventions eased significantly earlier this year, with the RBI buying \$8.5 billion in February and not making any sales, its latest monthly bulletin showed. Its gross FX intervention in February was the lowest in six months and about an eighth of the average monthly intervention during October-December.

Growth in India's manufacturing sector slowed marginally in April but remained robust thanks to strong demand, prompting firms to ramp up purchases of raw materials at a near-record pace, a business survey showed on Thursday. The HSBC final India Manufacturing PMI, compiled by S&P Global, dipped to 58.8 in April from a 16-year high

of 59.1 in March, below a preliminary estimate for no change from the previous month.

The dollar index is up 4.2% so far this year, while the Indian rupee has dipped by close to 0.3%. Fading hopes of deep rate cuts by the Fed have boosted U.S. bond yields and the dollar.

Bloomberg Index Services said it will include 34 Indian government bonds that are open for investment under the country's fully accessible route in its emerging market local currency indexes from January 2025. The announcement follows JP Morgan's decision to add Indian government bonds in its Government Bond Index-Emerging Markets from June 2024.

The yen gained on Thursday, following a sudden rally late on Wednesday that traders and analysts attributed to intervention by Japanese authorities, while the dollar was broadly lower before key jobs data on Friday. The dollar eased, however, due to the Fed not adopting a more hawkish tone that included the potential for further rate hikes.

The dollar was last down 0.9% at 153.09 yen. The dollar index fell 0.38% to 105.31, while the euro gained 0.17% to \$1.0728.

The next major economic indicator will be Friday's jobs report for April, which is expected to show that employers added 243,000 jobs during the month.

Economic Indicators to be released.

| Indicator | Currency | Forecast | Previous | Impact |
|----------------------------|----------|----------|----------|--------|
| Non-Farm Employment Change | USD | 238K | 303K | HIGH |
| ISM Services PMI | USD | 52 | 51.4 | HIGH |
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Support Resistance Levels – Currency Future:

| Currency | LTP | S1 | S2 | R1 | R2 | Trend |
|---------------|--------|--------|--------|--------|--------|----------|
| USDINR FUTURE | 83.53 | 83.25 | 82.80 | 83.85 | 84.50 | BULLISH |
| EURINR FUTURE | 89.34 | 88.95 | 88.20 | 89.65 | 90.80 | SIDEWAYS |
| GBPINR FUTURE | 104.53 | 104.15 | 103.65 | 104.65 | 105.75 | BULLISH |
| JPYINR FUTURE | 53.71 | 53.10 | 52.50 | 54.35 | 55.0 | BEAERISH |

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