

**KEY HEADLINES:**

The Indian rupee spot against the US dollar made biggest daily gain over a month on Tuesday, thanks to fall in dollar index towards 1-week low & easing US Bond yield supported by bounce back in Asian peers and recovery in domestic equity market makes rupee on sweet spot. However, lower GDP growth projection & widening trade deficit in India and outflow concern after sharp fall in equities last days restrict gain at higher level.

The rupee at NSE Future 29 Jan-25. ended gain by 2 paise at 85.91 against previous close of 85.93 and after make low of 85.82 and high of 85.95. But relief for the local unit is likely to be temporary amid growing anticipation of weakness among speculators and hedgers, indicated in market activity data covering options and forwards.

India forecast annual growth of 6.4% in the year ending in March, the slowest in 4-years and below the lower end of government's initial projection, dragged by a weaker manufacturing sector and slower corporate investments. India's had initially projected a growth rate of 6.5%-7%. The forecast by the National Statistics Office (NSO) follows several disappointing economic indicators in the second half of 2024 – including low growth, high inflation, anaemic capital flows and a record trade gap - that cast doubt on the robustness of the country's growth.

India is the world's third-largest consumer and importer of oil, fuel consumption in December rose 2.1% year on year to 20.67 million metric tons, its highest level since last May, oil ministry data showed on Tuesday. On a monthly basis, fuel demand was up over 1% from 20.46 million tons in November, data from the Petroleum Planning and Analysis Cell's (PPAC) website showed. Sales of gasoline, or petrol, were 10.8% higher from a year earlier at 3.31 million metric tons. Diesel consumption saw a rise of 6% year-on-year to 8.1 million tons in December. It was down 1.3% month-on-month.

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.

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 gained on Tuesday after economic data showing a generally stable jobs market and a still robust services sector suggested that the Federal Reserve will likely slow the pace of its current rate-cutting cycle.

The greenback rose to a near six-month peak after the U.S. data. It was up 0.4% at 158.195 yen . Earlier in the global session, the dollar hit its highest since July of 158.425 yen. The euro, on the other hand, slipped 0.1% to \$1.0378 , extending its fall after the data. the U.S. dollar index , which gauges the currency against major rivals rose 0.2% to 108.48, after dropping to as low as 107.74 overnight, its weakest since Dec. 30.

Data showed that U.S. job openings unexpectedly increased in November, although hiring slowed during the month. Job openings, a measure of labor demand, rose 259,000 to 8.098 million by the last day of November, according to the Bureau of Labor Statistics JOLTS report. Hires, however, dropped 125,000 to 5.269 million in November. Layoffs were little changed at 1.765 million.

The U.S. rate futures market has priced in a 93% chance of a pause in rate cuts this month, and a 6.9% probability of easing, according to LSEG estimates. Rate futures have also implied just one rate cut this year of 25 basis points. 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.

### **Economic Indicators to be released.**

Indicator	Currency	Forecast	Previous	Impact

ADP Non-Farm Employment Change	USD	139k	146k	HIGH
Unemployment Claims	USD	214k	211k	HIGH

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

Currency	LTP	S1	S2	R1	R2	Trend
USDINR FUTURE	85.91	85.45	85.10	86.10	86.60	BULLISH
EURINR FUTURE	89.50	88.90	88.30	89.70	90.50	SIDEWAYS
GBPINR FUTURE	107.73	106.40	105.70	108.35	109.0	SIDEWAYS
JPYINR FUTURE	54.59	54.0	53.50	55.20	55.75	BEARISH

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