Forex Market Update

November 22, 2023

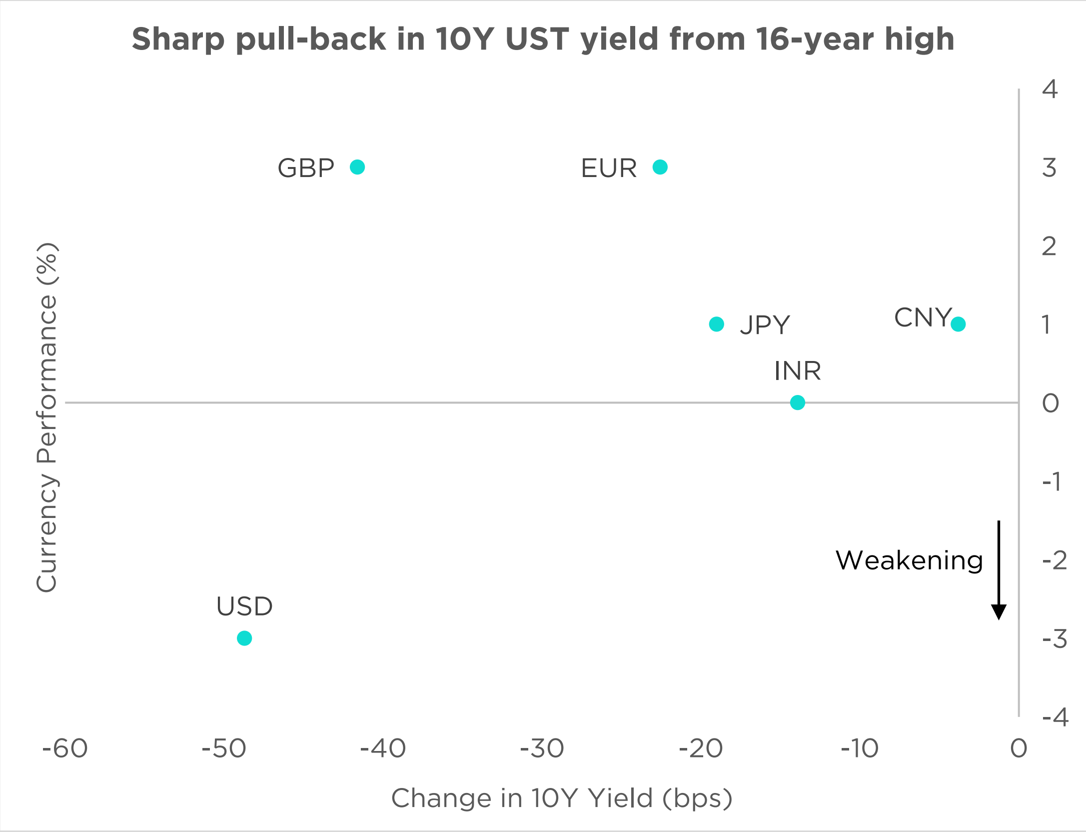
Global: Inflation Eases; Growth Concerns Arise

CareEdge RATINGS

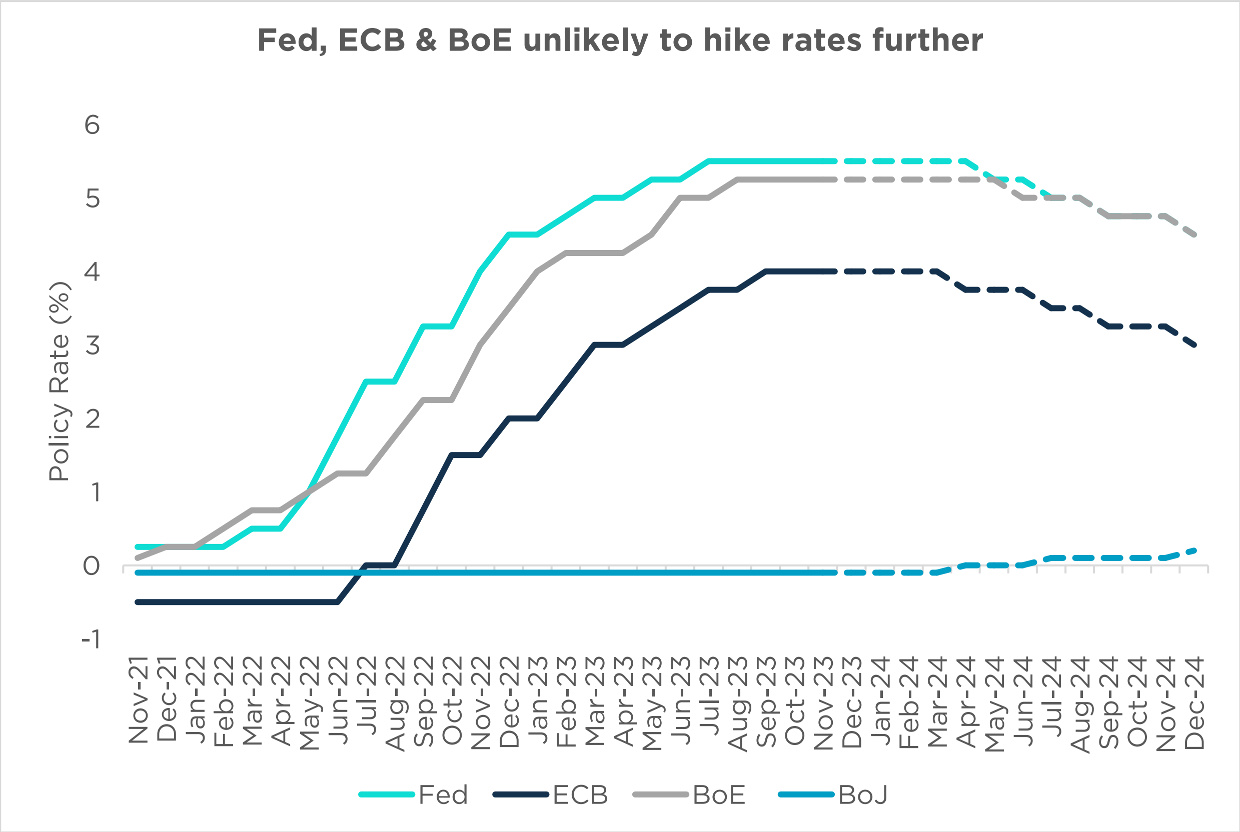
Latest Economic Data Releases & Monetary Policy Outcome					
	U.S.	**Euro Area**	**U.K.**	**Japan**	**China**
PMI Manufacturing	**46.7** (implied contraction for 12th consecutive month)	**43.1** (implied contraction for 16th consecutive month)	**44.8** (implied contraction for 15th consecutive month)	**48.7** (implied contraction for 5th consecutive month)	**49.5** (implied first contraction since Jul 23)
PMI Services	**51.8** (lowest in 5 months)	**47.8** (implied contraction for 3rd consecutive month)	**49.5** (implied contraction for 3rd consecutive month)	**51.6** (lowest since Dec 22)	**50.4** (implied 10th consecutive month of expansion)
Headline Inflation (YoY)	**3.2%** (vs 3.7% in previous month and slightly lower than market expectations)	**2.9%** (slightly lower than market expectations)	**4.6%** (lowest since Oct 21)	**3%** (lowest in one year but remains above BoJ's target for 18th consecutive month)	**-0.2%** (lower than market expectations of 0.1% fall)
Core Inflation (YoY)	**3.7%** (lowest since May 21)	**4.2%** (lowest since Jul 22)	**5.7%** (lowest since Mar 22)	**2.8%** (lowest since Aug 22)	**0.6%** (lowest in four months)
Unemployment Rate	**3.9%** (highest since Jan 22 and slightly above market expectations)	**6.5%** (slightly higher than market expectations)	**4.2%** (slightly lower than market expectations)	**2.6%** (slightly lower than 2.7% in previous month)	**5%** (same as in previous month but lowest since Nov 21)
Monetary Policy	Fed kept fed fund rate at 22 year high of 5.25-5.5% for a second consecutive time in Nov. Policymakers remained focused on returning inflation to the 2% target while avoiding excessive monetary tightening. However, they did not rule out a future rate hike.	ECB kept its deposit facility rate at a record of 4% in Oct, following 10 consecutive rate hikes. Policymakers reflected a cautious stance amidst gradual easing of inflation and rising recession concerns.	BoE kept its benchmark interest rate at a 15 year high of 5.25% for the second consecutive time in Nov amidst recent signs of economic slowdown in UK and stubbornly high inflation relative to peers.	BoJ kept interest rates unchanged in Oct (short term: -0.1%; 10Y bond yields: around 0%). However, it tweaked its YCC policy by redefining 1% as a loose upper bound rather than a rigid cap and removed a pledge to defend the level.	PBOC injected net liquidity of CNY 600bn via a one-year medium term lending facility (MLF) – the biggest such injection since 2016. However, it left interest rate unchanged at 2.50%.

Source: Refinitiv, CareEdge. Note: We have reported latest data available which is typically for Oct 23/Sep 23. For U.S., ISM PMI Manufacturing and Non-Manufacturing has been reported. For U.S., Core PCE inflation has been reported, as it is Fed's preferred inflation measure.

Global: Markets Expect Policy Rates have Peaked in the West



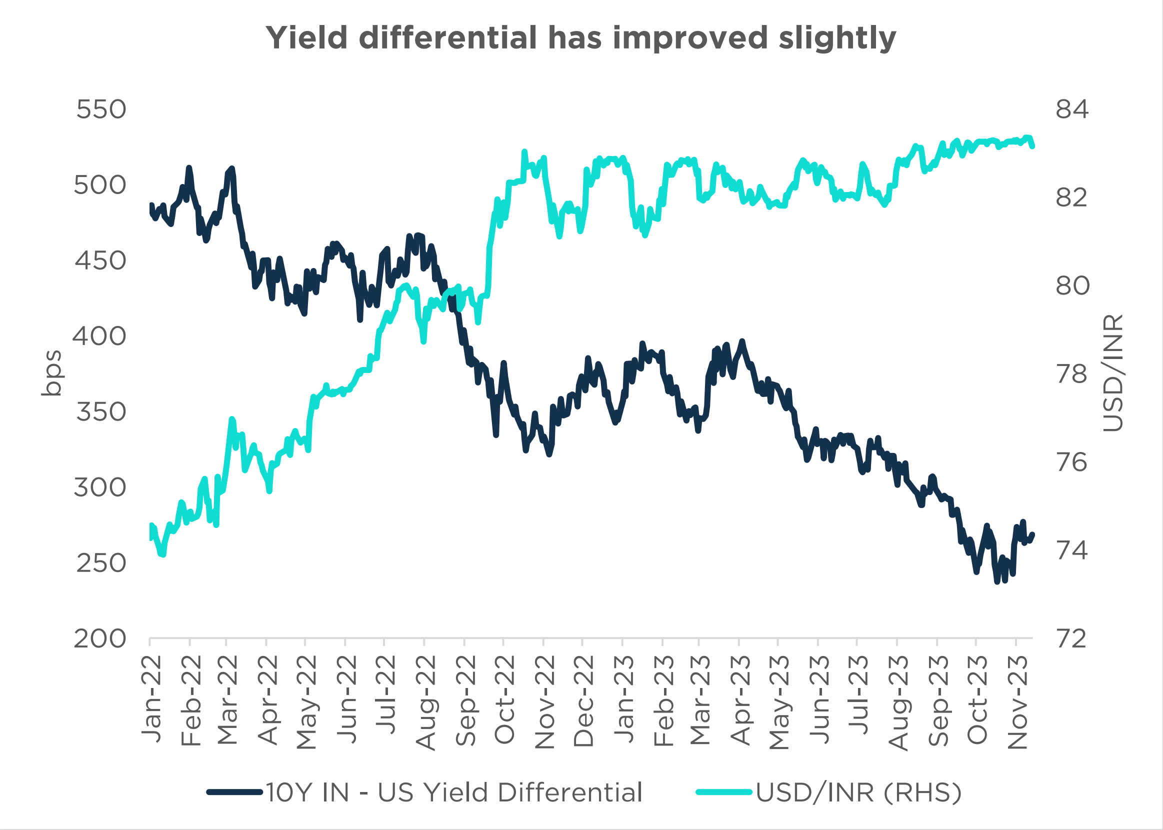
Source: Refinitiv, CareEdge. Data represents change/performance b/w Nov 01 to 17, 2023.



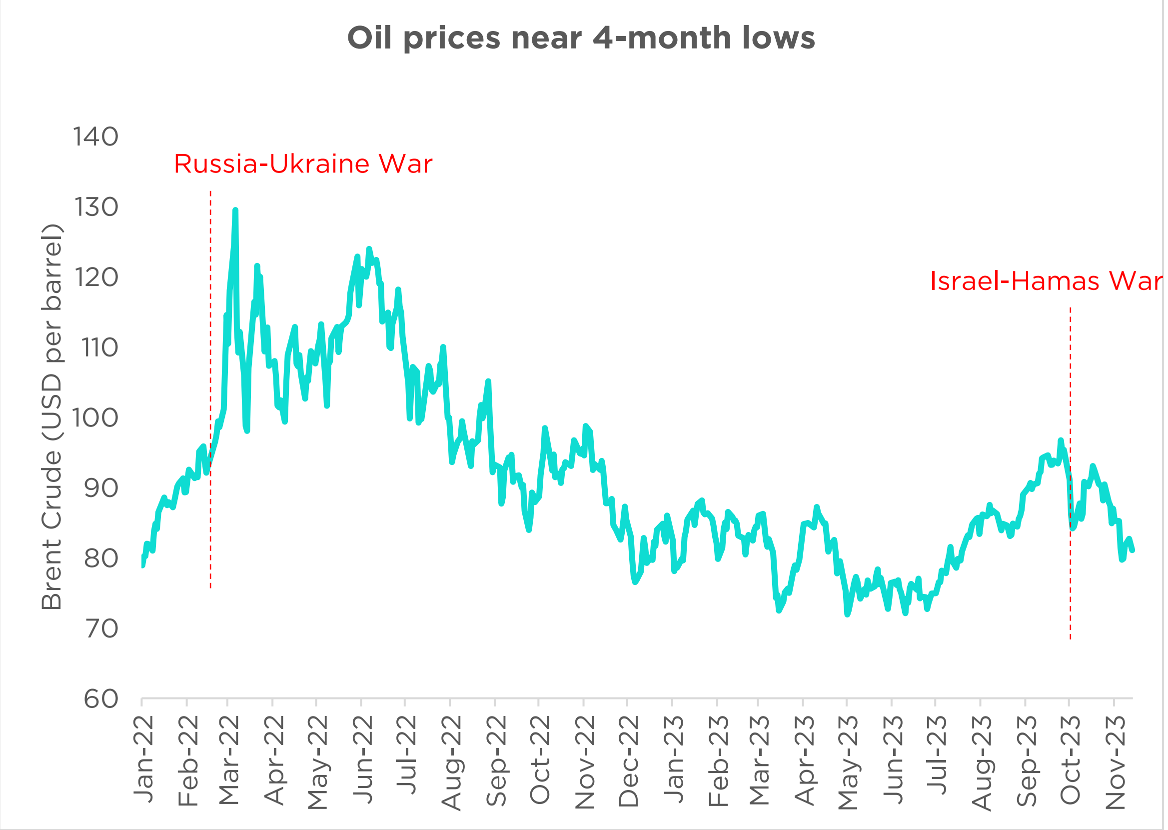
Source: Refinitiv, CareEdge. Data as on November 16, 2023 and reflects market expectations of most probable outcome for future interest rate trajectories.

- 10Y UST yields have retreated on account of less hawkish policy outlook from Fed, moderate bond issuance plan by Treasury for Q4 and emerging signs of softness in the U.S. economy (such as cooling in labour markets and inflation and lower than expected PMIs). Markets now expect Fed to begin rate cuts sooner i.e. in May 24 vs Jun 24 expected earlier.
- ECB is expected to begin rate cuts in Apr 24, followed by Fed (May 24) and BoE (Jun 24). Both ECB and Fed are expected to cut rates by 100 bps in 2024, while BoE is expected to cut by only 75 bps on account of stubborn inflation relative to peers. In contrast, BoJ is expected to hike rates by 30 bps in 2024 starting Apr.

India: Rupee Remains Rangebound



Source: Refinitiv, CareEdge. Data as on November 15, 2023.



Source: Refinitiv, CareEdge Data as on November 15, 2023.

- Oil prices have retreated post initial jitters from Israel-Hamas war on account of emerging global demand concerns along with record high crude oil output in the U.S.
- RBI interventions have helped mitigate rupee volatility.
- OPEC+ meeting in November and geopolitical tensions will remain key monitorables in the near-term..
- India has adequate forex reserves (~USD 590 bn and equivalent to an import cover of 10 months) to support RBI interventions to contain rupee volatility.

India: External Sector Outlook Remains Favourable

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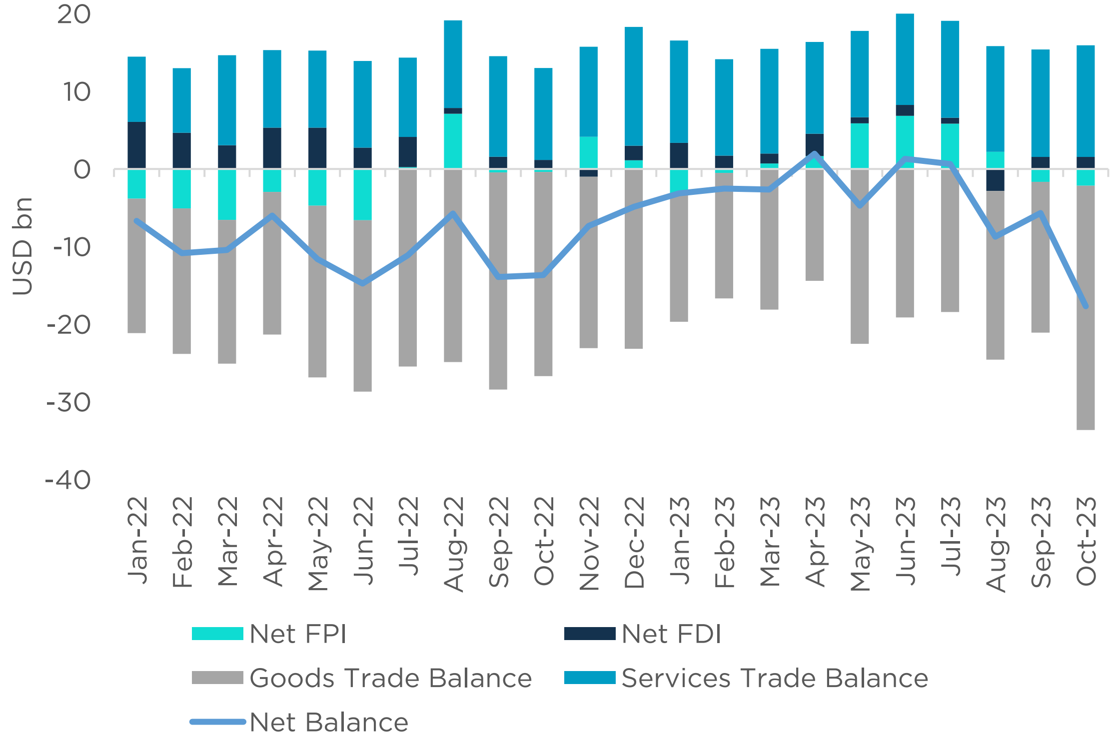
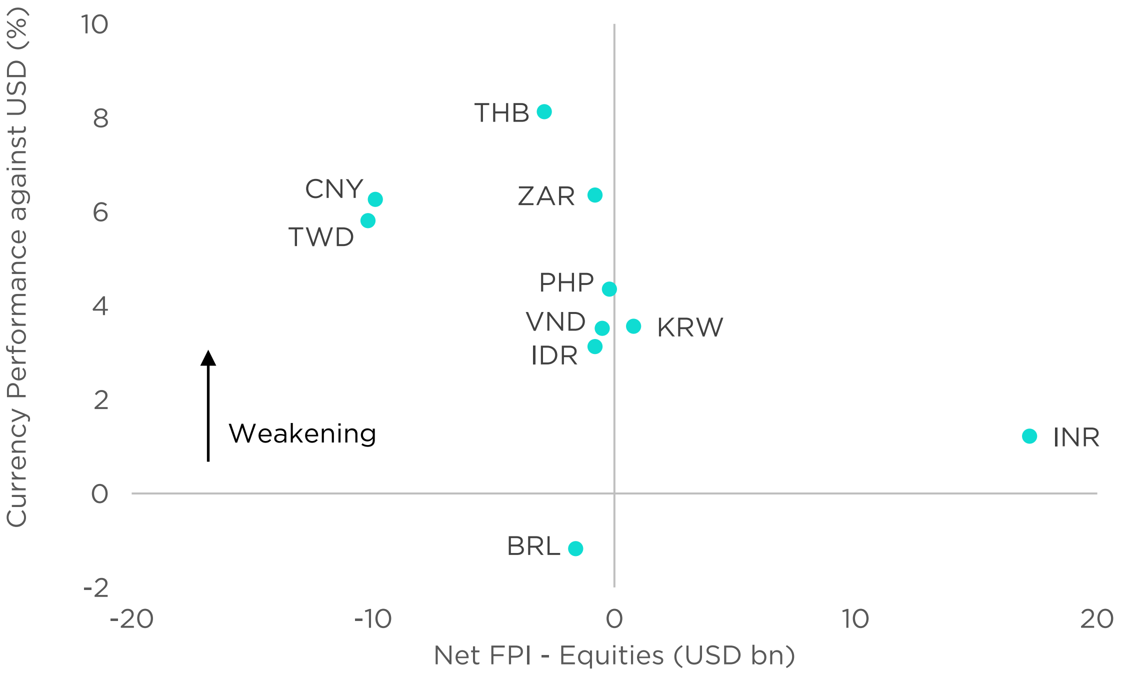
Deterioration in net balance in Oct unlikely to sustain



Source: CMIE, CareEdge. Note: Net Balance = Net FPI + Net FDI + Goods Trade Balance + Services Trade Balance. Net FDI Oct 23 data is based on assumption.

Rupee has performed better than peers



Source: RBI, Institute of International Finance, Refinitiv, CareEdge. Data is for Apr-Sep 2023.

- Surge in imports amidst festive demand primarily weighed on goods trade balance in Oct. However, going ahead, imports are likely to moderate as festive demand fades.
- Services trade balance is expected to remain steady around current levels. However, risks are skewed to downside amidst a gradual slowdown in developed economies.
- Net FPI flows have turned positive so far in November following two consecutive months of outflows. Going ahead, moderation in UST yields should support FPI inflows.
- FDI flows are expected to remain moderate amidst uncertainties in global economic and business environment.

Forecasts

	10Y Yield (%)	Spot	1M Change (%)	3M Change (%)	6M Change (%)	CYTD Change (%)	Q4 CY23 View	Q1 CY24 View
Dollar Index*	4.44	103.92	-2.2%	0.3%	0.7%	0.4%	103-106	102-105
EUR/USD*	2.58	1.09	3.3%	0.3%	1.0%	2.3%	1.06-1.09	1.09-1.12
GBP/USD*	4.10	1.25	2.0%	-2.2%	0.1%	3.5%	1.22-1.25	1.23-1.26
USD/JPY	0.76	149.62	0.1%	2.6%	8.5%	14.4%	148-152	144-148
USD/CNY	2.67	7.21	-1.4%	-1.1%	2.9%	4.5%	7.20-7.25	7.15-7.20
USD/INR	7.21	83.24	0.1%	0.1%	0.4%	0.6%	83.0 – 83.5	82.75-83.0

Source: Refinitiv, CareEdge. Data as on November 17 2023. *(+ change) currency strengthened / (- change) currency weakened. Views are for end period.

- We expect 10Y UST yields to moderate further once Fed signals policy rate has peaked.
- We expect USD to weaken gradually, and other currency pairs to benefit from favorable yield differentials.
- Heightened geopolitical risks and global uncertainty may add to forex market volatility going ahead.
- India's headline inflation (4.9% in Oct 23) remains above RBI's medium-term target of 4%. Risks to inflation outlook persist given the weak prospects for kharif harvest and expected hit to rabi sowing amid lower reservoir levels. We expect RBI to hold status quo and start rate cuts later than Fed in H1FY25.

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