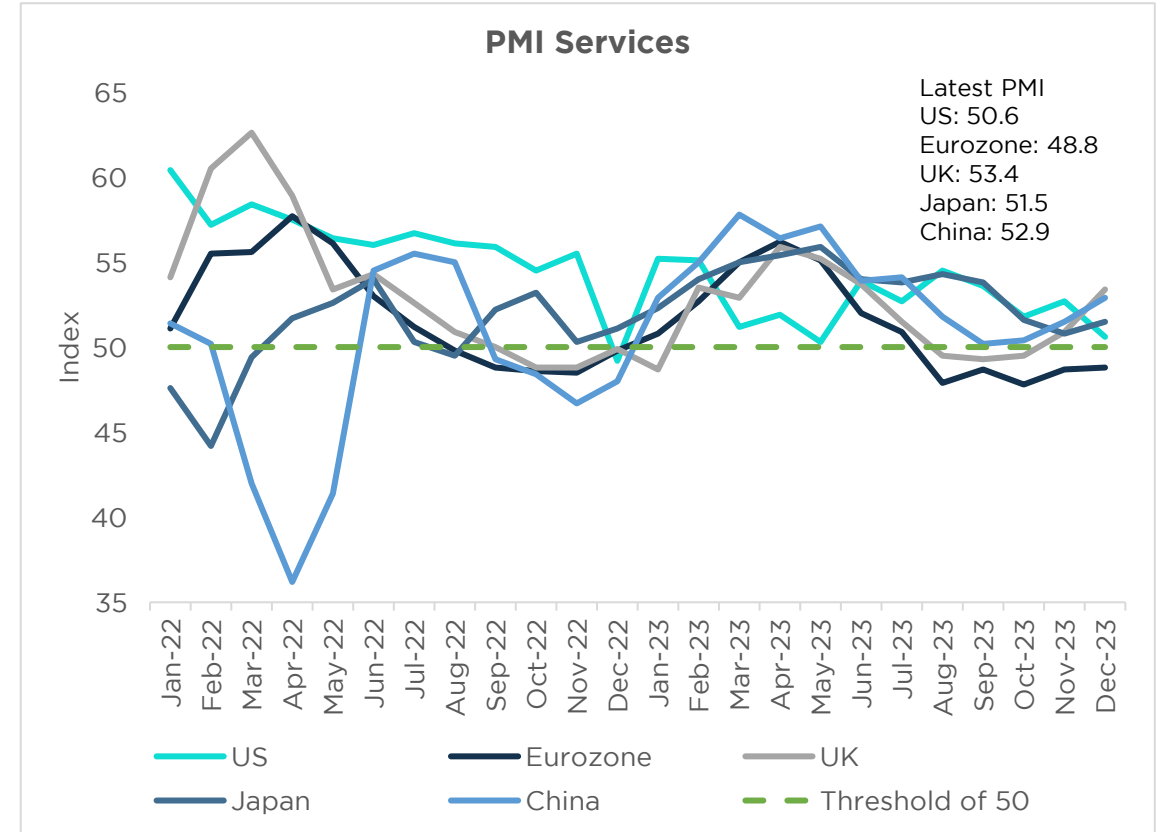
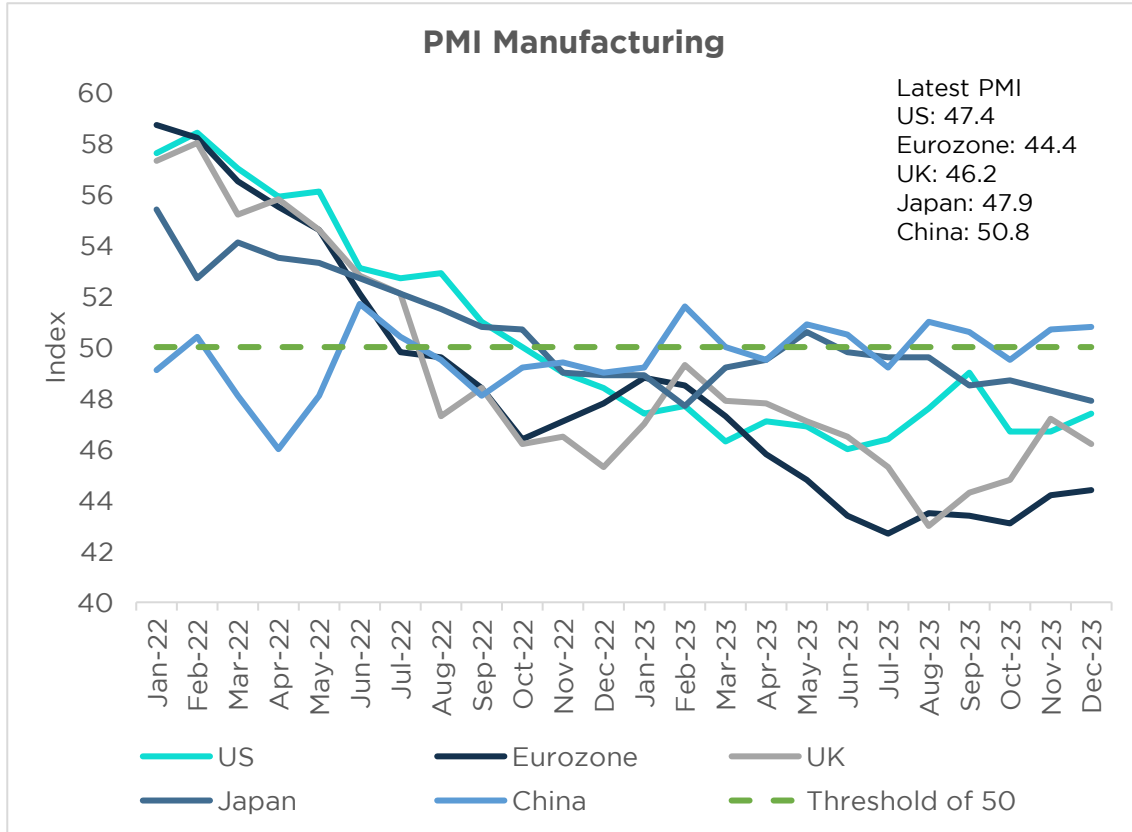


Forex Market Update

January 2024

Global: Growth Concerns Linger

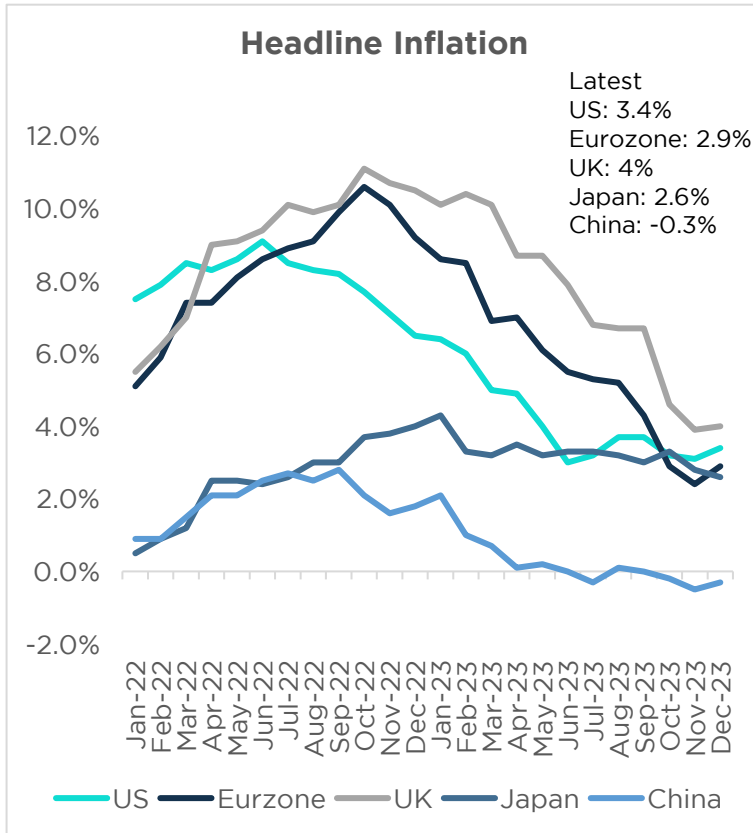


Sources: Refinitiv, CareEdge.

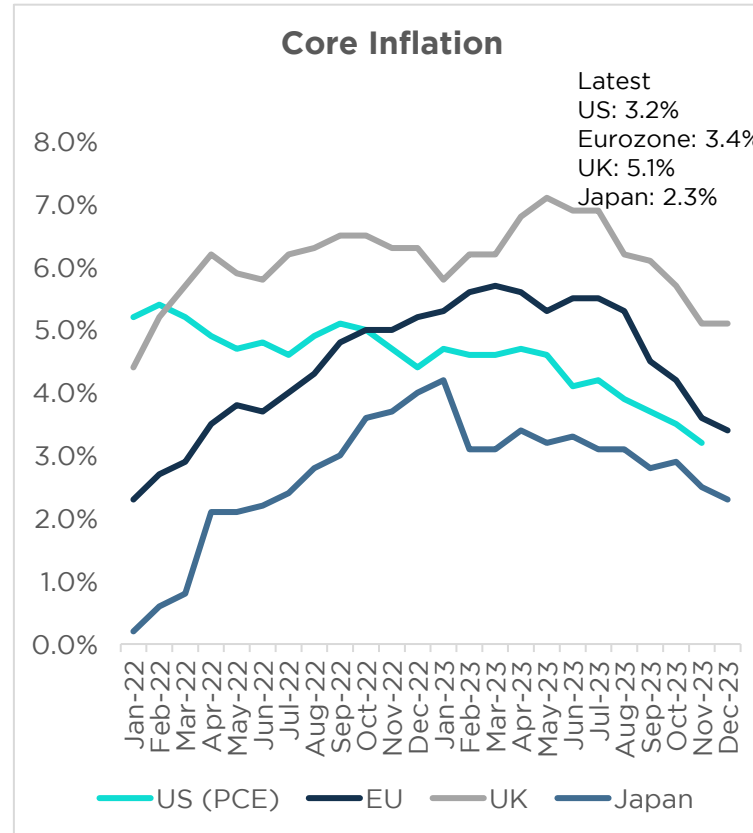
Sources: Refinitiv, CareEdge.

- PMI manufacturing has been in contractionary zone for more than a year in US, Eurozone and UK and for seven months in Japan.
- While PMI Services remains in expansionary zone in US, it was the lowest in seven months.
- Growth concerns are more pronounced for Eurozone, with contraction in both manufacturing and services activity.
- China is an outlier as both manufacturing and services activity continue to expand.

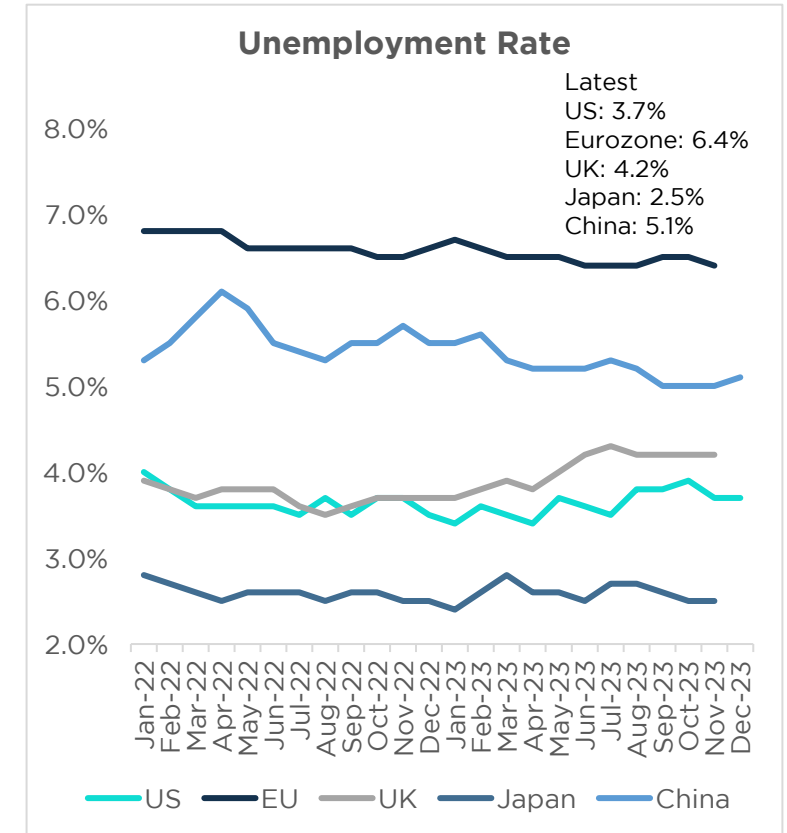
Global: Headline Inflation Inches Up in the West



Sources: Refinitiv, CareEdge.



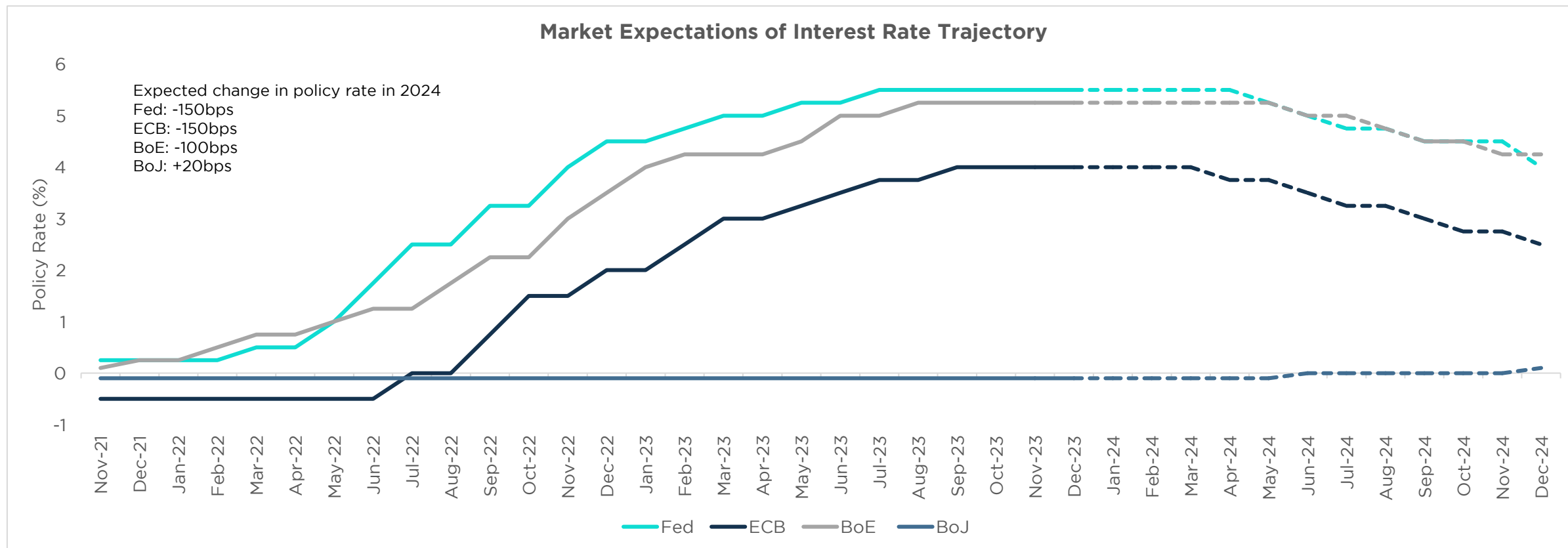
Sources: Refinitiv, CareEdge.



Sources: Refinitiv, CareEdge.

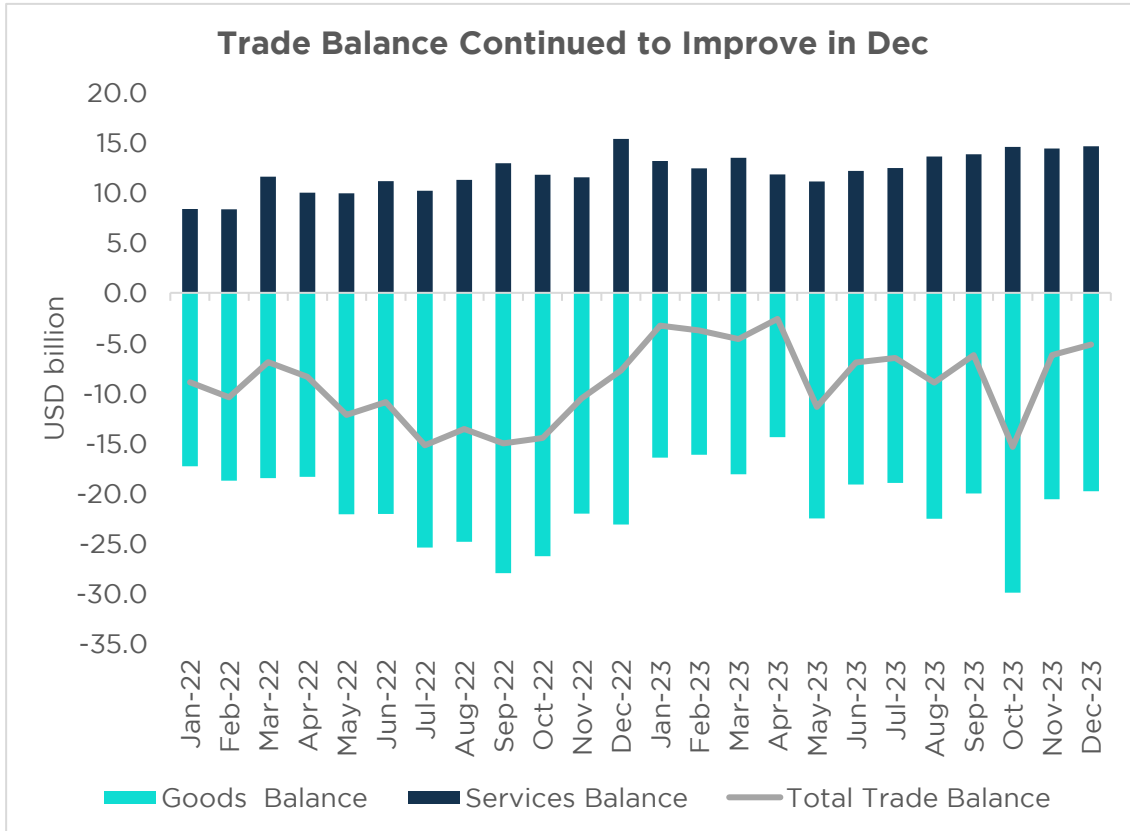
- US: Headline inflation rose mainly due to higher rents and exceeded market expectations of 3.2%. However, core PCE inflation continues to decline, and is the lowest since May 21.
- Eurozone: Headline inflation increased as energy support schemes expired. Core inflation, while higher than headline, continues to trend downwards and is the lowest since Mar 22.
- UK: Inflation remains stubborn. Headline inflation exceeded market expectations of 3.8% and marked a first increase in 10 months, largely due to a sharp rise in tobacco duty. Core inflation remained flat but was above market expectations of 4.9%.
- Japan: Inflation remains above BoJ's 2% target but continues to decline.
- China: Dec marked the third straight month of deflation.
- Labor markets broadly remain tight.

Global: Markets Adjust Rate Cut/Rate Hike Bets

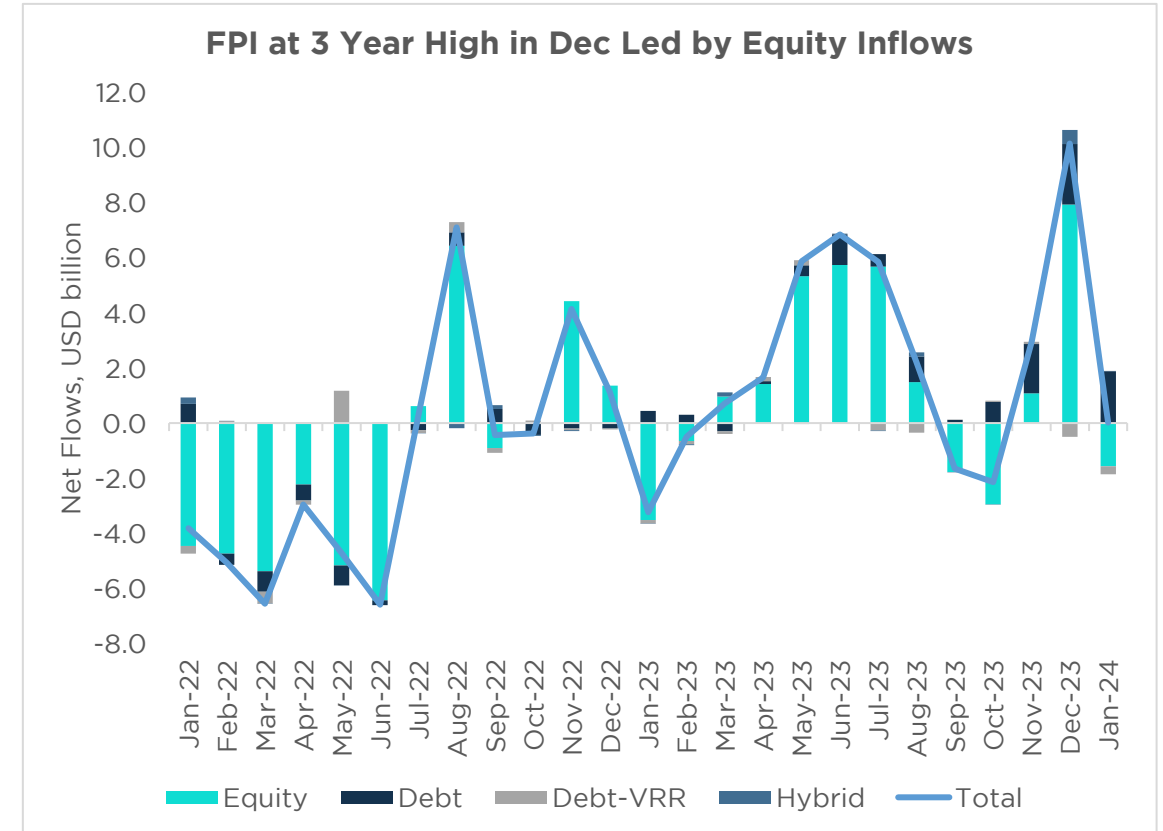


Sources: Refinitiv, CareEdge. Data as on January 19, 2024, and reflects market expectations of most probable outcome for future interest rate trajectories.

- Markets have revised their expectations of interest rate trajectories following higher inflation, resilient labour market and hawkish commentary from central bank officials.
- Markets expect Fed to begin rate cuts in May 2024 (shift from earlier March 2024 expectation). However, they still anticipate Fed to cut policy rate by 150bps in 2024.
- US 2Y yield has increased by 4bps to 4.39% and US 10Y yield has increased by 24bps to 4.13% over the last month, in response to the shift in market expectations.
- Markets expect BoE to cut policy rate by 100bps in 2024. Previous expectation was of a 125bps cut.
- In contrast, markets expect BoJ to begin rate hikes in June 2024 (shift from earlier April 2024 expectation) as inflation cools further in Japan.



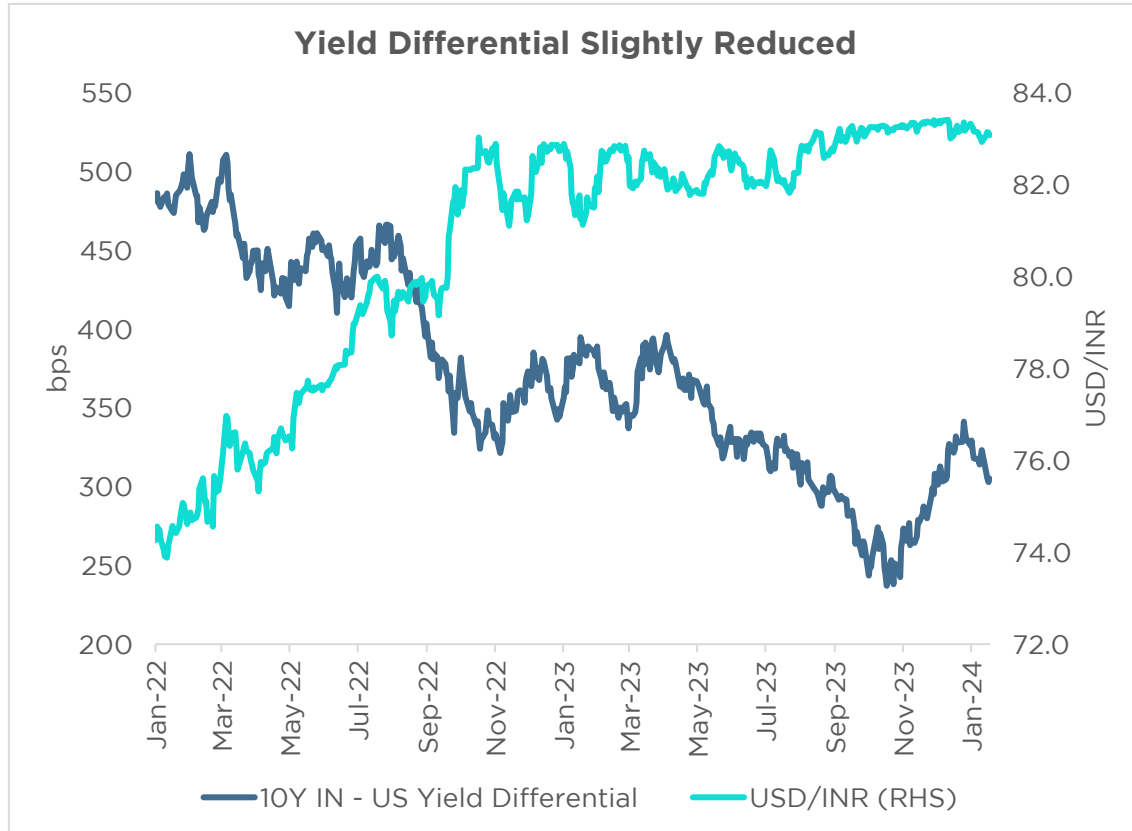
Sources: CMIE, CareEdge. Note: Total Trade Balance = Goods Balance + Services Balance



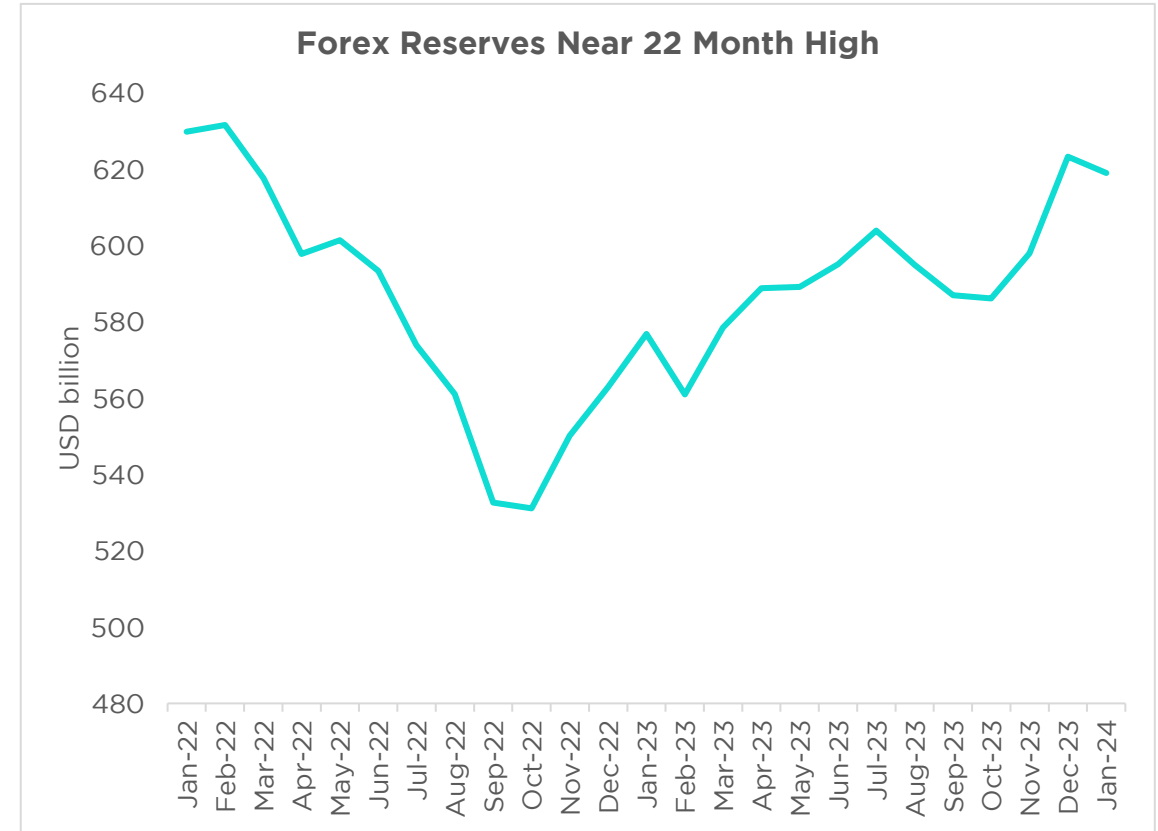
Sources: NSDL, CareEdge. Data as on January 19

- Goods deficit narrowed to a 5-month low of USD 19.8 billion in Dec on account of higher non-oil exports and largely unchanged oil imports.
- Services surplus remained steady at USD 14.6 billion in Dec.
- So far in Jan, equities experienced FPI outflows as investors exercised caution on EMs, partly in response to rise in US yields.
- However, FPI inflows in debt have sustained, supported by India's inclusion in JP Morgan bond index and potential inclusion in Bloomberg EM Local Currency indices, and have largely offset the equities outflows.

India: Rupee Remains Rangebound



Sources: Refinitiv, CareEdge. Data as on January 19



Sources: CMIE, CareEdge. Data as on January 12

- 10Y IN-US yield differential slightly lowered to 305bps in Jan from a recent peak of 341bps in Dec mainly due to rise in UST yields.
- Brent crude oil prices continue to hover around ~USD 78 per barrel as demand concerns outweigh supply concerns stemming from Red Sea crisis.
- India added ~USD 60 billion to its forex reserves during CY23.
- Forex reserves currently stand at ~USD 619 billion and are sufficient to cover around 11 months of imports.

Outlook: Limited INR Appreciation Expected in CY24 (1/2)

	Spot	1M Change	Q1 CY24 View	Q2 CY24 View	Q3 CY24 View	Q4 CY24 View
Dollar Index*	103.07	1.0%	101-104	100-103	99-102	98-101
EUR/USD*	1.09	-0.4%	1.08-1.10	1.09-1.11	1.10-1.12	1.11-1.13
GBP/USD*	1.27	0.5%	1.26-1.29	1.27-1.30	1.28-1.31	1.29-1.32
USD/JPY	148.14	3.2%	145-150	140-145	135-140	130-135
USD/CNY	7.19	0.8%	7.10-7.20	7.05-7.15	7.00-7.10	6.95-7.05
USD/INR	83.09	-0.1%	82.75-83.25	82.50-83.00	82.25-82.75	82.00-82.50

Source: Refinitiv, CareEdge. Data as on January 19, 2024. *(+) change implies currency strengthened & (-) change implies currency weakened. Views are for end period.

Outlook: Limited INR Appreciation Expected in CY24 (2/2)

Global

- Fed likely to cut rates by 100-125bps in CY24, softening the dollar and aiding other currencies.
- However, any dollar softening will be limited due to favourable US growth differentials with Euro and UK.
- BoJ policy tightening likely to support JPY in 2024.
- Degree of CNY appreciation will depend on China's growth prospects.

India

- In addition to a soft dollar, INR to gain from FPI inflows amidst robust growth prospects, global bond index inclusion, and expected policy continuity post General Elections.
- Crude oil prices likely to trade between USD 70-85 per barrel in 2024 amidst global demand slowdown, supporting India's current account deficit.
- RBI interventions to build forex reserves may curb INR appreciation.
- We expect RBI to cut repo rate by 50bps in CY24 (25bps each in Q3 and Q4) and pause thereafter.
- Risks to outlook may emerge from escalation of Red Sea crisis and heightened global macro uncertainty.

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