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Monthly Currency Outlook

Rupee likely to appreciate back towards 81.80 level

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View on US\$INR

Rupee likely to appreciate towards 81.80 level

Rationale: We expect the rupee to appreciate in anticipation of a correction in the dollar and improved economic data from the country. GDP grew 6.1% in Q4FY23, pushing the overall growth rate to 7.2% for FY23 despite global headwinds. Additionally, softening of crude oil prices may be supportive for the domestic currency. Even in the coming month, 83.00 would act as a major resistance while the pair is expected to dip towards 81.80.

View on EURINR

EURINR may find floor near 87.50 level

Rationale: The Euro is likely to find a floor amid expectation of softness in the US dollar. Further, the ECB is likely to opt for a 25 bps rate hike as the headline inflation rate remained far above the 2% target. The policy divergence between the US and Europe could support the pair to recover some recent losses. However, investors will remain cautious ahead of the guidance from the central bank to get cues on the future rate hike trajectory. EURUSD is expected to hold the support near 1.060 and rebound towards 1.0850. EURINR is likely to find the floor near 87.50 and may rise towards 89.40.

View on GBPINR

GBPINR likely to rise towards 103.0 level

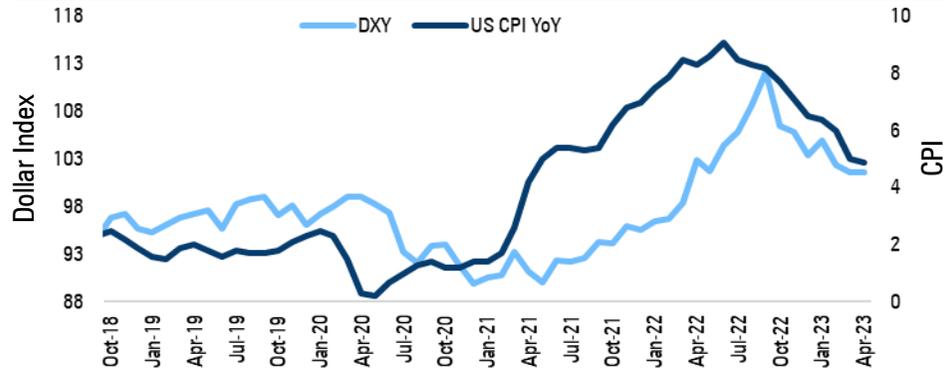
Rationale: The pound is expected to trade with a positive bias amid softness in the dollar and on expectations that the BoE may continue to raise interest rates by 25 bps to control stubbornly high inflation. GBPUSD is trading above bullish crossover key moving averages of 50 day EMA and 200 day EMA, which could help it to rise again towards 1.2600. On downsides, 1.23 levels may hold as key support to the trend. GBPINR is expected to hold the support near 101 and rise towards the target at 103.00-103.50 zone

US dollar may face hurdle near 105.0

Major Currencies

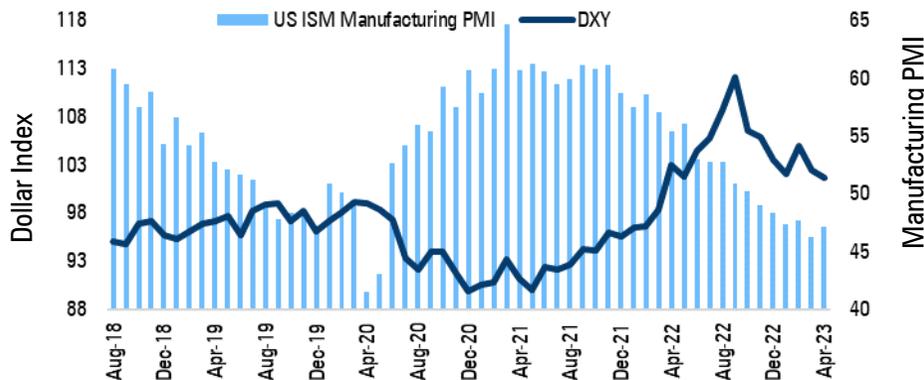
Futures	Close	Pvs. Close	% Change
DXY	104.22	101.67	2.51%
EURUSD	1.0689	1.1016	-2.97%
GBPUSD	1.2437	1.2564	-1.01%

CPI Inflation vs. Dollar Index

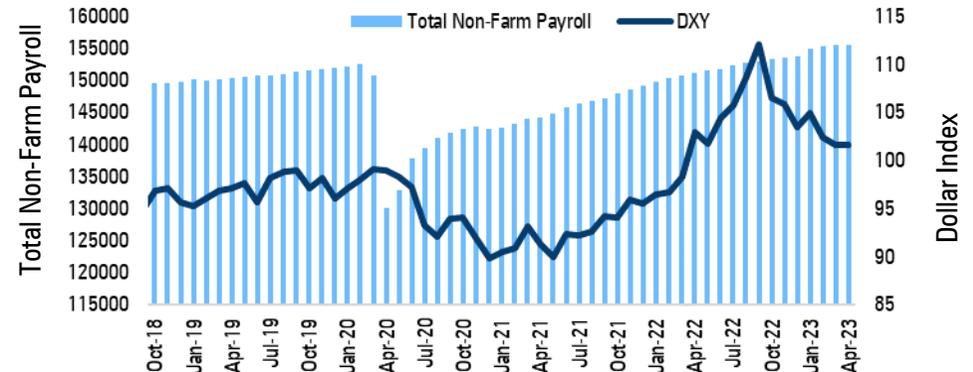


- The dollar paused and rose back towards the 104 mark amid safe haven buying and better economic numbers from the US. The ongoing US debt ceiling issue raised concerns on a US default, leading to a rise in the dollar. Further, better-than-expected US economic number and hawkish comments from Fed members also supported the gain in the dollar
- We expect the dollar to face a hurdle near 105 level in anticipation that the US Fed may hit the pause button in its upcoming policy meeting. As per CME Fed watch tool, markets are pricing in a 63% chance of the Fed foregoing a hike in the June meeting. Further, forecast for upcoming economic data from the US seems to signal that the economy is feeling the heat of a rate hike. Additionally, investors fear that the debt deal will intensify the risk of recession by limiting government spending, which could make the Fed less likely to keep tightening

ISM Manufacturing PMI vs. Dollar Index



Total Non-Farm Payroll vs. Dollar Index

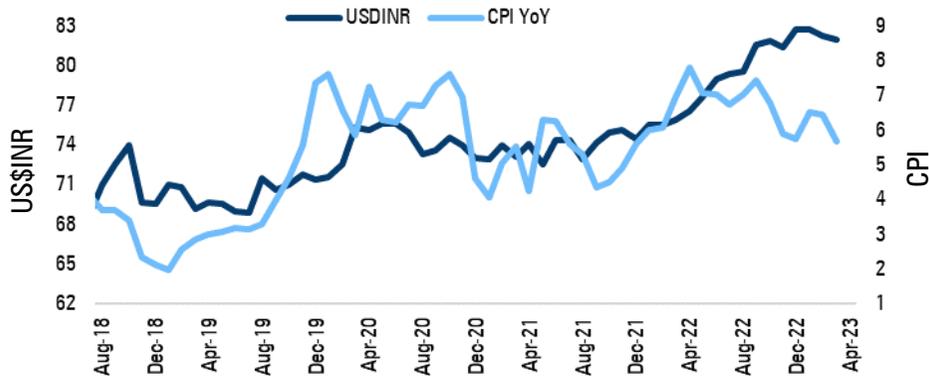


Rupee likely to appreciate towards 81.80 level

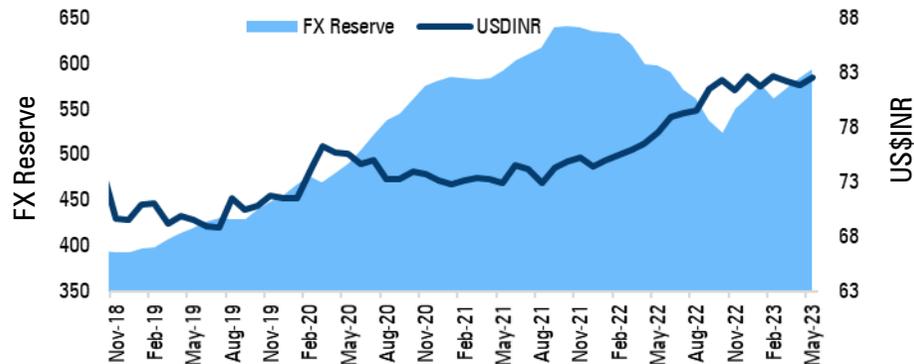
US\$INR

Futures	Close	% Change	Open Interest	Change in OI	Volume	Change in Vol
USDINR Spot	82.64	1.15%	-	-	-	-
USDINR (June)	82.82	0.98%	2641135	2285440	1872285	1724113
USDINR (July)	82.92	0.93%	552442	363865	372753	343851

CPI Inflation vs. US\$INR



FX Reserve vs. US\$INR



- The rupee depreciated back towards the 83 mark amid a strong dollar. Concerns over an economic slowdown across the globe and uncertainty over the US debt ceiling impacted the rupee. Additionally, solid economic data from the US and hawkish comments from Fed officials fuelled bets that interest rates may remain elevated for longer than expected. However, strong FII inflows in the domestic equity markets and weakness in crude oil prices limited the sharp fall in the rupee
- The rupee is likely to trade in the range of 81.80 to 83.00 levels in the coming month. In the past six months, the US\$INR has failed to breach 83.00 levels, which is now acting as a strong hurdle
- We expect the rupee to appreciate this month in anticipation of a correction in the dollar and improved economic data from the country. GDP grew 6.1% in Q4FY23, pushing the overall growth rate to 7.2% for FY23 despite global headwinds. Indian equities have seen continued inflows in the last one month and further trajectory of flows will be crucial to watch. However, softening crude oil prices may be supportive for the domestic currency as it will reduce import bills
- Moreover, India CPI data is likely to show that inflation remained under RBI's comfort zone, providing room for the central bank to keep borrowing costs low and focus more on economic growth
- In the past few months, the rupee has remained in the range of 81.60-83.00 levels. In the coming month, 83.00 would act as major resistance while the pair is expected to dip towards 81.80

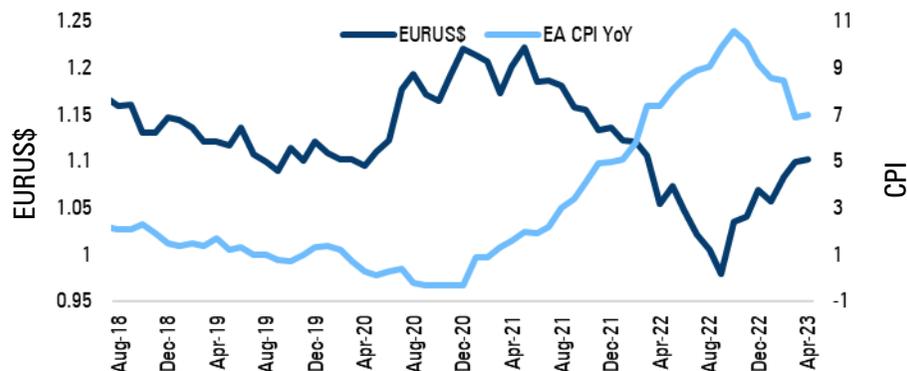
Source: Bloomberg, Reuters, Ticker, ICICI Direct Research

EURINR may find floor near 87.50

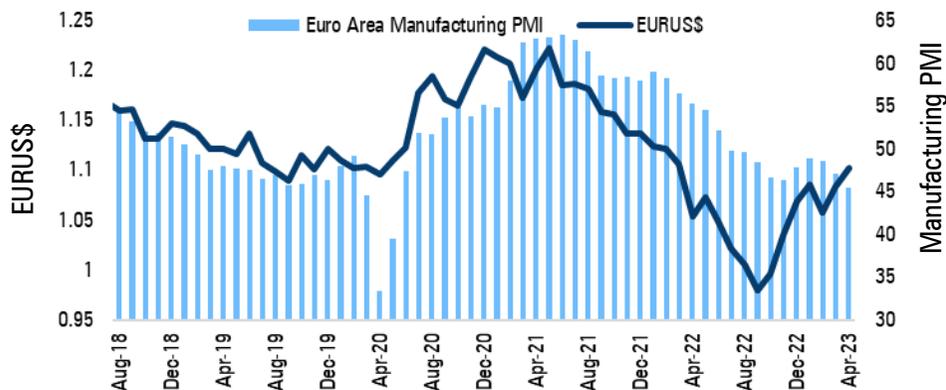
EURINR

Futures	Close	% Change	Open Interest	Change in OI	Volume	Change in Vol
EURINR Spot	89.83	-1.87%	-	-	-	-
EURINR (June)	88.60	-1.88%	110060	67301	173868	132434
EURINR (July)	88.82	-1.88%	42778	-9350	27318	-17749

CPI Inflation vs. EURUS\$

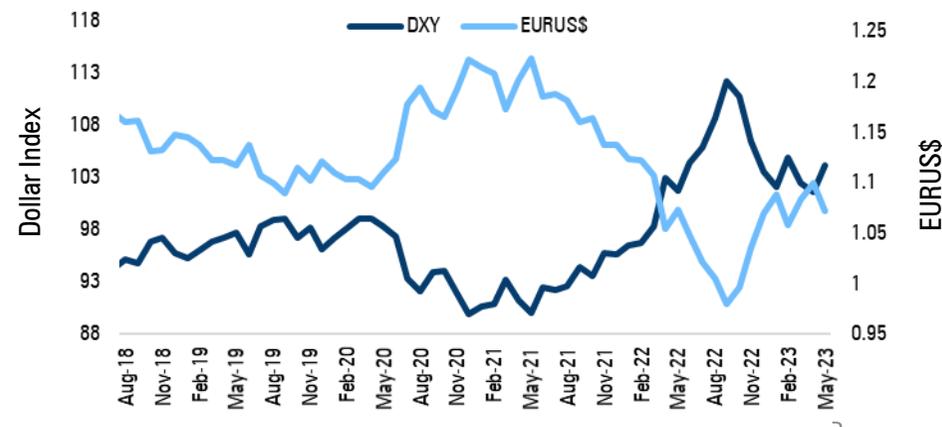


Manufacturing PMI vs. EURUS\$



- The Euro retreated from its one year high and lost more than 2% last month amid a strong dollar and weaker economic numbers from the eurozone. The contraction in the German economy, which reported a negative growth in the first quarter of 2023 has raised recession fears. Furthermore, weakness in the manufacturing sector also weighed on the single currency to slide below the 1.08 mark
- The Euro is likely to find a floor amid expectation of a correction in the US dollar. Further, ECB is likely to opt for a 25 bps rate hike as headline inflation rate remained far above the 2% target. The policy divergence between the US and Europe could support the pair to erase its last month's losses. However, investors will remain cautious ahead of the guidance from the central bank to get cues on the future rate hike trajectory. EURUSD is expected to hold the support near 1.060 and rebound towards 1.0850. EURINR is likely to find the floor near 87.50 and may rise towards 89.40

Dollar Index vs. EURUS\$

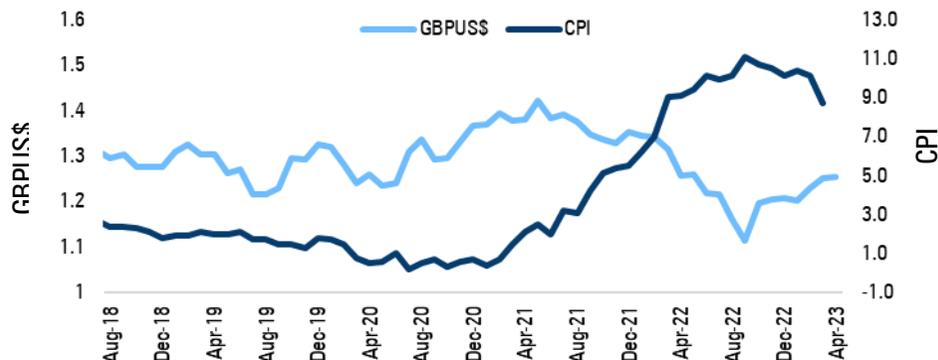


GBPINR likely to rise towards 103.0 level

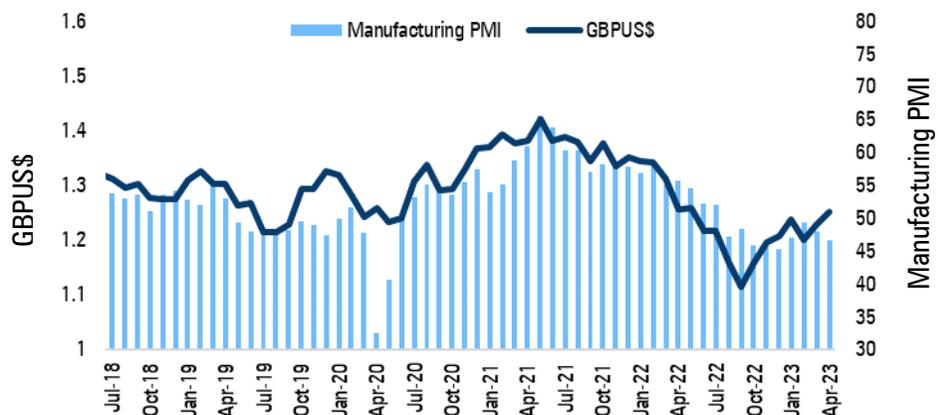
GBPINR

Futures	Close	% Change	Open	Interest	Change in OI	Volume	range in Vol
GBPINR Spot	101.31	0.13%	-	-	-	-	-
GBPINR (June)	102.45	0.17%	170280	136651	214921	172189	
GBPINR (July)	102.60	0.18%	36080	33295	29435	25276	

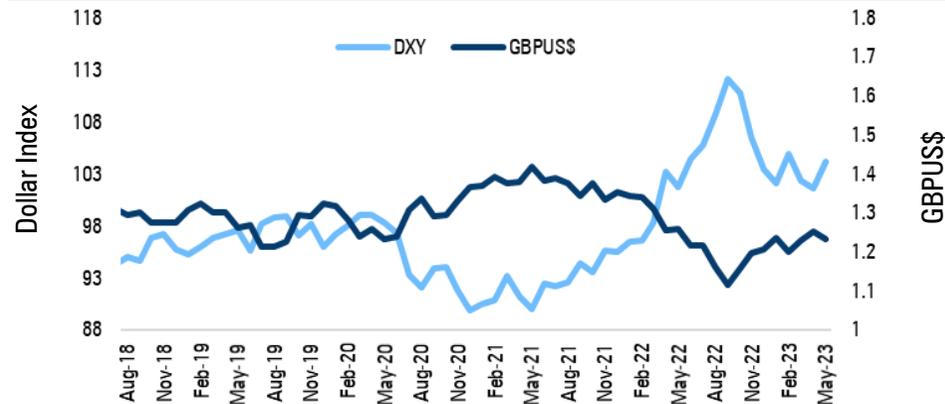
CPI Inflation vs. GBPUS\$



Manufacturing PMI vs. GBPUS\$



Dollar Index vs. GBPUS\$



- The pound paused after testing its one year high near 1.2679 due to a strong US dollar. Further, weakness in job numbers and decline in GDP data also weighed on the pair. Meanwhile, hawkish comments from BoE officials amid higher inflation numbers has restricted its decline and helped it to rise back above the 1.24 mark. Furthermore, improvement in last month's retail sales numbers also supported the recovery in the pair
- The pound is expected to trade with a positive bias amid expectation of a correction in the dollar and in anticipation that the BoE may continue to raise interest rates by 25 bps to control stubbornly high inflation. GBPUSD is trading above bullish crossover key moving averages of 50 day EMA and 200 day EMA, which could help it to rise again towards 1.2600. On the downside, 1.23 may hold as key support to the trend. GBPINR is expected to hold the support near 101 and rise towards the target at 103.00-103.50 zone

US Federal Reserve

The US Federal Reserve decided to raise interest rates by 25 bps to a range between 5.0% and 5.25% but signalled they may be done raising interest rates for now and amplified attention to credit and other economic risk.

Federal Open Market Committee also decided to continue its balance sheet reduction as announced in May 2022.

US Federal Reserve Chair Jerome Powell pushed back market expectations that FOMC would cut rates this year by saying it would not be appropriate to cut rates this year.

Bank of England

The Bank of England raised interest rates by 25 bps to 4.5% for the twelfth time in a row since it started hiking in December 2021. Seven out of nine monetary policy committee members voted for a 25 bps hike whereas two voted for no change.

The stubbornly high inflation numbers, which were at 10.1% in March have favoured the 25 bps rate hike. However, now the BoE expects inflation to fall more slowly due to persistent rise in food prices and stronger wage growth numbers.

The BoE forecast the economy would grow 0.25% this year, up from its February prediction of a 0.5% contraction.

European Central Bank

The European Central Bank slowed the pace of its interest rates hikes for the first time after a series of hikes since last July. ECB raised the rates by 25 bps in its May Meeting and pushed the borrowing cost to 3.75%. The rising prospects of a slowdown in the eurozone economy and turning off the credits by the banks had forced the ECB to moderate its pace of monetary policy tightening.

The stubbornly high inflation in the eurozone has forced most ECB members to remain hawkish. The ECB President said there were still big upside risks to inflation, notably from recent wage deals and high corporate profit margins.

ECB is expected to hike the rate further in its next policy meeting.

Reserve Bank of India

The RBI MPC has decided to pause for this meeting and maintained the repo rate at 6.5%. The MPC continued to remain focused on “withdrawal of accommodation” to ensure that inflation progressively aligns with the target while supporting growth. RBI emphasised that the decision to pause on the repo rate is only for this meeting.

CPI inflation is projected lower at 5.2% vs. 5.3% earlier for 2023-24, with Q1 at 5.1%, Q2 at 5.4%, Q3 at 5.4% and Q4 at 5.2% vs. 5.6% earlier led by the current Q4 base effect. Real GDP growth projection for 2023-24 has been raised to 6.5% from 6.4% with Q1 at 7.8%, Q2 at 6.2%, Q3 at 6.1% and Q4 at 5.9%.

Date	Data	Country	Actual	Expected	Previous	Impact
01-06-2023	German Retail Sales m/m	Europe	-	0.90%	-2.40%	Medium
01-06-2023	CPI Flash Estimate y/y	Europe	-	6.30%	7.00%	High
01-06-2023	ADP Nonfarm Employment Change (May)	US	-	167K	296K	High
01-06-2023	ISM Non-Manufacturing PMI (May)	US	-	47	47.1	High
02-06-2023	Average Hourly Earnings (MoM) (May)	US	-	0.30%	0.50%	High
02-06-2023	Nonfarm Payrolls (May)	US	-	189K	253K	High
02-06-2023	Unemployment Rate (May)	US	-	3.50%	3.40%	High
05-06-2023	German Trade Balance	Europe	-	-	16.7B	Medium
05-06-2023	ISM Services PMI	US	-	-	51.9	Medium
06-06-2023	German Factory Orders m/m	Europe	-	-	-10.70%	Medium
06-06-2023	Retail Sales m/m	Europe	-	-	-1.2%	Medium
07-06-2023	German Industrial Production m/m	Europe	-	-	-3.40%	Medium
08-06-2023	RBI Interest Rate Decision	India	-	6.50%	6.50%	High
09-06-2023	Industrial Production y/y	India	-	1.00%	1.00%	Medium
13-06-2023	Claimant Count Change	UK	-	-	-	High
13-06-2023	Average Earnings Index 3m/y	UK	-	-	-	Medium
13-06-2023	Unemployment Rate	UK	-	-	-	High
13-06-2023	German ZEW Economic Sentiment	Europe	-	-	-	High
13-06-2023	Inflation Rate YoY	India	-	4.60%	4.70%	High
13-06-2023	CPI y/y	US	-	-	-	High
14-06-2023	GDP m/m	UK	-	-	-	High
14-06-2023	PPI m/m	US	-	-	-	High
14-06-2023	Federal Funds Rate	US	-	-	-	High
15-06-2023	Industrial Production y/y	China	-	-	-	Medium
15-06-2023	Trade Balance	India	-	-	-	Medium
15-06-2023	Main Refinancing Rate	Europe	-	-	-	High
15-06-2023	Retail Sales (MoM) (May)	US	-	-	-	High
15-06-2023	Empire State Manufacturing Index	US	-	-	-	High
15-06-2023	Philly Fed Manufacturing Index	US	-	-	-	Medium
15-06-2023	Industrial Production m/m	US	-	-	-	Medium
16-06-2023	Prelim UoM Consumer Sentiment	US	-	-	-	High
21-06-2023	CPI y/y	UK	-	-	-	High
22-06-2023	BOE Official Bank Rate	UK	-	-	-	High
23-06-2023	Flash Manufacturing PMI	Europe	-	-	-	High
23-06-2023	Flash Services PMI	Europe	-	-	-	High
23-06-2023	Flash Manufacturing PMI	UK	-	-	-	High
23-06-2023	Flash Services PMI	UK	-	-	-	High
23-06-2023	Flash Manufacturing PMI	US	-	-	-	High
23-06-2023	Flash Services PMI	US	-	-	-	High
27-06-2023	CB Consumer Confidence	US	-	-	-	High
27-06-2023	New Home Sales	US	-	-	-	High
29-06-2023	German Prelim CPI m/m	Europe	-	-	-	High
29-06-2023	Final GDP q/q	US	-	-	-	High
30-06-2023	Final GDP q/q	UK	-	-	-	High
30-06-2023	CPI Flash Estimate y/y	UK	-	-	-	High
30-06-2023	Core PCE Price Index m/m	US	-	-	-	High



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