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Snap

India drifts onto US Treasury's FX manipulation radar

The US Treasury's report may bring some respite from recent INR depreciation pressure

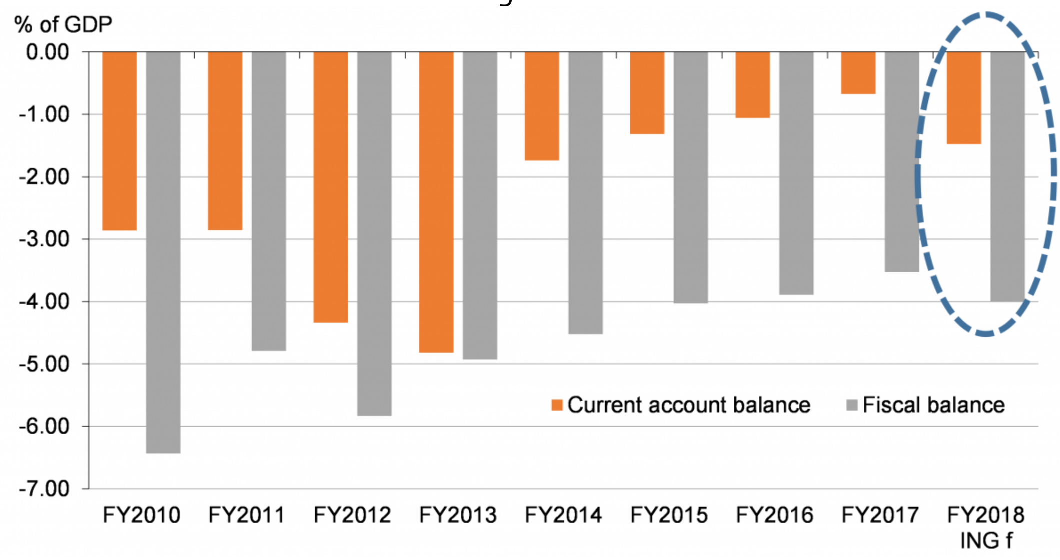
The US Treasury noted in its semi-annual currency manipulator report that *"Over the first half of 2017, there has been a notable increase in the scale and persistence of India's net foreign exchange purchases, which have risen to around $42 billion (1.8 percent of GDP) over the four quarters through June 2017. India has a significant bilateral goods trade surplus with the United States, totalling $23 billion over the four quarters through June 2017. Treasury will be closely monitoring India's foreign exchange and macroeconomic policies."*

The US Treasury's report may bring some respite from recent INR depreciation pressure. USD/INR spiked above 65.50 in September in a sudden reversal of fortune caused by significant equity and bond market outflows associated with a negative mix of slowing GDP growth, rising CPI inflation, and an elevated risk of a budget deficit overshoot as fiscal policy gears to supporting growth. We also see the issue of the twin-deficit resurfacing as a possible cloud over on investor sentiment towards the Rupee going forward.

Better activity data last week – lower consumer and wholesale price inflation (CPI and WPI) in September and an acceleration in industrial production in August – helped USD/INR drift below 65.00, though gains were short-lived (spot 65.04).

> We think it would take continued good economic news or a dramatic weakening in the USD for the pair to retest the August low of 63.58. We forecast range trading around the 65.00 level over the next 12 months.

The twin-deficits issue is resurfacing



Source: ING, EMED

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