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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

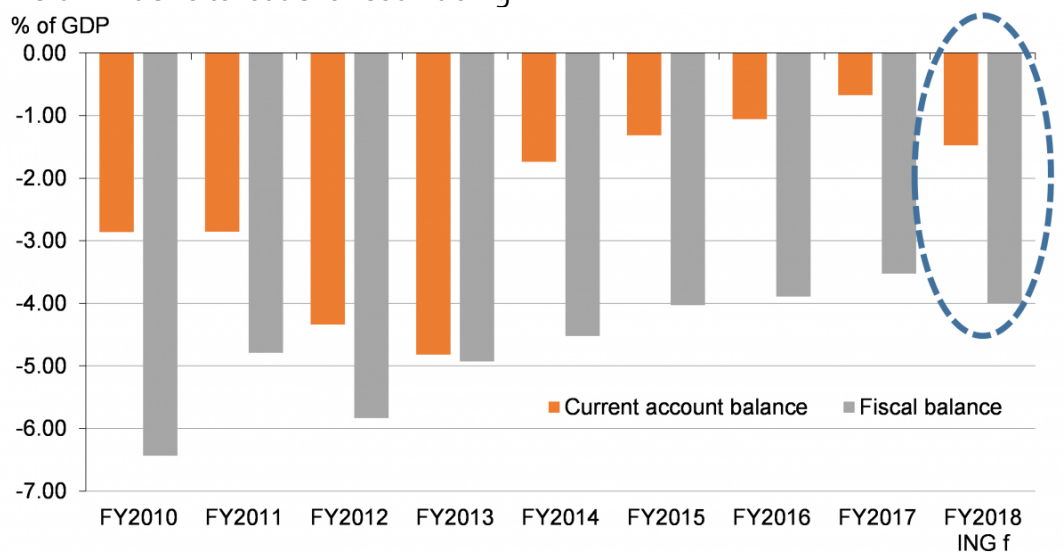
The US Treasury noted in its semi-annual currency manipulator report that “Over the first half of 2017, there has been a notable increase in the scale and persistence of India’s net foreign exchange purchases, which have risen to around \$42 billion (1.8 percent of GDP) over the four quarters through 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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