

KEY HEADLINES:

The Indian rupee against the US dollar end gain on Wednesday to test 6-week high earlier in intra day trade in expectation of dollar inflows after rebound in equity market added by fall in crude oil prices, but later on dollar demand from OMC as well importers cap rupee rally and end with marginal gain.

The rupee at NSE Future 29 May. ended Gain by 3 paise at 83.30 against previous close of 83.33 and after make low of 83.22 and high of 83.31.

Even as they acknowledged disappointment over recent inflation readings, Federal Reserve officials at their last policy meeting indicated they still had faith that price pressures would ease, if only slowly, according to the minutes of the U.S. central bank's April 30-May 1 session. "Participants ... noted that they continued to expect that inflation would return to 2% over the medium term," the minutes said, but "the disinflation would likely take longer than previously thought." While the policy response for now would "involve maintaining" the central bank's benchmark policy rate at its current 5.25%-5.50% level, the minutes, released on Wednesday, also reflected discussion of possible further hikes in borrowing costs.

The currency has managed to hold its ground even as foreign investors have pulled out \$3 billion from Indian equities in May so far, prompted by concerns about the upcoming national election results on June 4.

The recent sharp foreign investor selling in Indian government bonds in April, marking the highest monthly sales since the Covid-19 pandemic, is only an aberration, with inflows likely to continue in the coming months, according to various analyst expectations. Foreign investors sold bonds worth 149.5 billion rupees (\$1.79 billion) on a net basis in April, the highest in the four years, after net purchases of bonds worth 816 billion rupees between October and March.

The dollar rose against the euro on Wednesday after minutes of the last Fed meeting showed officials acknowledging disappointment over recent inflation readings, while the pound held its gains after British Prime Minister Rishi Sunak called for a general election for July 4.

The euro was down 0.3% at \$1.08205.

British consumer prices rose by 2.3% in annual terms in April, slowing from a 3.2%

increase in March. The BoE and economists polled by Reuters had forecast an annual rate of 2.1%.

Elsewhere, the Reserve Bank of New Zealand left its benchmark cash rate at 5.5% as expected, but lifted its forecasts for peak interest rates at its latest monetary policy meeting as inflation stays stubbornly high. It now sees rates peaking at 5.7% at the end of 2024, compared with 5.6% three months ago.

Investors also watching Thursday's data from the European Central Bank negotiated wage tracker and the euro zone Purchasing Managers' Index which could provide further clues about the monetary cycle in the euro area.

Bloomberg Index Services said it will include 34 Indian government bonds that are open for investment under the country's fully accessible route in its emerging market local currency indexes from January 2025. The announcement follows JP Morgan's decision to add Indian government bonds in its Government Bond Index-Emerging Markets from June 2024.

Markets are now pricing in nearly 50 basis points of rate cuts from the Fed this year, including a 65% chance of a rate cut of at least 25 basis points in September, according to CME's FedWatch Tool.

Money markets now see only a 15% chance of a rate cut in June got BOE, according to LSEG data. Earlier this week, pricing in derivatives markets suggested traders saw a 55% chance of a first cut coming in June.



Economic Indicators to be released.

Indicator	Currency	Forecast	Previous	Impact
Flash Manufacturing PMI	GBP	49.5	49.1	HIGH
Flash Manufacturing PMI	USD	50.0	50.0	HIGH

Support Resistance Levels – Currency Future:

Currency	LTP	S1	S2	R1	R2	Trend
USDINR FUTURE	83.30	83.20	82.80	83.65	83.90	BEARISH
EURINR FUTURE	90.23	90.15	89.65	90.80	91.20	BULLISH
GBPINR FUTURE	105.90	104.80	104.15	106.40	107.0	BULLISH
JPYINR FUTURE	53.55	53.25	52.40	54.25	54.60	BEARISH

Technical Research Analyst

Vibhu Ratandhara

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M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate.
Walbhat Road, Goregaon (E), Mumbai – 400063 Web site:
<https://www.bonanzaonline.com>

SEBI Regn. No.: INZ000212137

BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 |

NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186