

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.

Business activity in India expanded robustly in May, helped by the dominant services industry, as HSBC's flash India Composite PMI, compiled by S&P Global, rose slightly to 61.7 this month from April's final reading of 61.5, marking the 34th month above the 50-level separating growth from contraction. The flash services PMI index rose to a four-month high of 61.4 this month from 60.8 in April and a preliminary manufacturing PMI showed strong growth, albeit slightly weaker than last month. It dipped to 58.4 from 58.8.

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 pared losses against the euro after data showed U.S. business activity accelerated to the highest level in just over two years in May, suggesting that economic growth picked up half-way through the second quarter.

The euro was up 0.1% at \$1.0835. The pound was steady near a two-month high against the dollar at \$1.2714. The dollar was 0.2% higher against the Japanese currency at 157.09 yen.

S&P Global said on Thursday that its flash U.S. Composite PMI Output Index, which tracks the manufacturing and services sectors, jumped to 54.4 this month. That was the highest level since April 2022 and followed a final reading of 51.3 in April.

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
Retail Sales m/m	GBP	-0.5%	0.0%	HIGH
Revised UoM Consumer Sentiment	USD	67.8	67.4	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

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