

KEY HEADLINES:

The Indian rupee inched lower on Thursday on risk aversion fuelled by the U.S. debt ceiling worries, but fared better than its Asian peers and continued to hold above a key level.

The rupee at NSE Future 30 June ended weak by 5 paise at 82.84 against previous close of 82.79 and after make low of 82.79 and high of 82.87. In comparison, the Korean won and the Malaysian ringgit were down 0.6%, while the Indonesian rupiah and the offshore Chinese yuan slipped 0.4%.

The spread between the Indian and U.S. 10-year bond yields dropped to its lowest level in nearly 14 years, India's benchmark bond yield has hovered around 7% for the last few days, and the U.S. yield rose to around 3.75% in the past two weeks, shrinking the spread to 325 basis points (bps), levels last seen in August 2009.

The U.S. dollar's dominance in international trade and finance will persist for decades despite new challenges and even when a more multipolar currency system emerges it will be led by the greenback, Moody's Investor Service said on Thursday. On Thursday, the dollar index, which measures the strength of the U.S. currency against six rivals, was up 0.4% at a two-month high of 104.23. For the year, the index is up 0.7%.

Fitch put the United States' "AAA" debt ratings on negative watch on Wednesday in a precursor to a possible downgrade, should lawmakers fail to raise the ceiling. While the multi-decade fall in the dollar's share of central bank reserves, simmering geopolitical tensions and growing brinkmanship in U.S. politics have boosted speculation about an end to the dollar's dominance, at present there are no viable alternatives, Moody's said in a note.

The dollar's share of official FX reserves fell to a 20-year low of 58% in the fourth quarter of 2022, down from about 78% at the turn of the century, according to International Monetary Fund data.

Minutes from the Fed's May meeting indicated that policymakers were divided over whether further hikes would be needed.

Traders have ramped up bets that the Fed funds rate will stay elevated, with markets pricing in almost a 30% chance of a rate hike in June and the Fed funds rate seen at

about 4.75% in December.

The key for the rupee and other emerging market currencies this year will be contingent on how the U.S. inflation and growth data shape up and how they affect the U.S. Federal Reserve rate expectations.

Economic Indicators to be released.

| Indicator | Currency | Forecast | Previous | Impact |
|--------------------------------|----------|----------|----------|--------|
| Core PCE Price Index m/m | USD | 0.3% | 0.3% | HIGH |
| Revised UoM Consumer Sentiment | USD | 58.2 | 57.7 | HIGH |
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Support Resistance Levels – Currency Future:

| Currency | LTP | S1 | S2 | R1 | R2 | Trend |
|----------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| USDINR FUTURE | 82.84 | 82.75 | 82.25 | 83.0 | 83.70 | BULLISH |
| EURINR FUTURE | 89.03 | 88.25 | 87.0 | 89.60 | 90.05 | BEARISH |
| GBPINR FUTURE | 102.47 | 102.25 | 101.60 | 103.40 | 104.80 | BEARISH |
| JPYINR FUTURE | 59.79 | 59.70 | 59.0 | 60.65 | 61.55 | BEARISH |

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