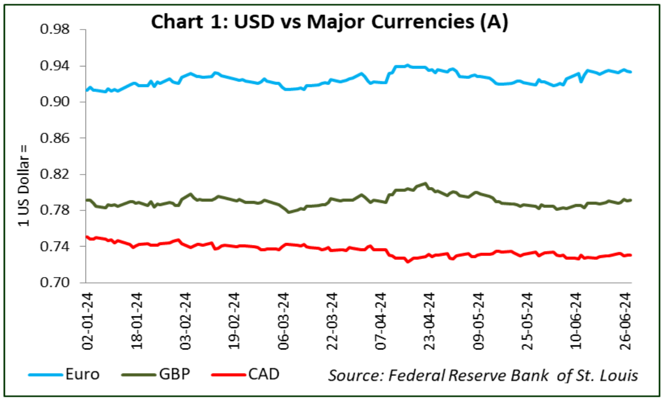
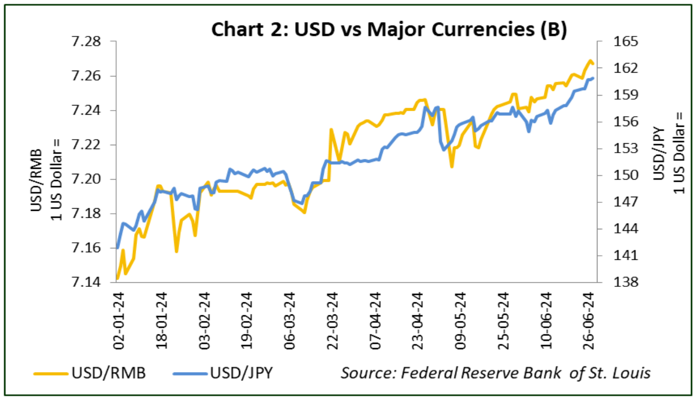
CCIL FOREX QUARTERLY

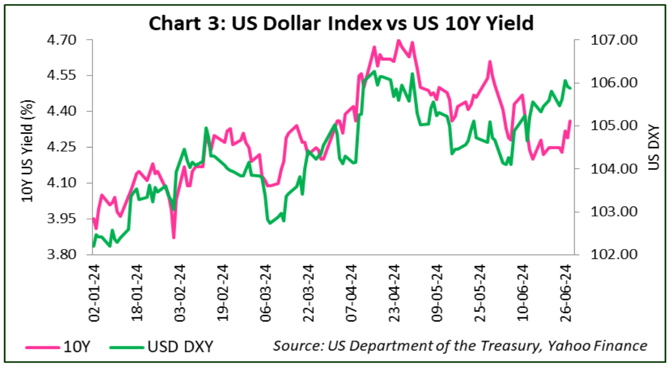
APRIL - JUNE 2024

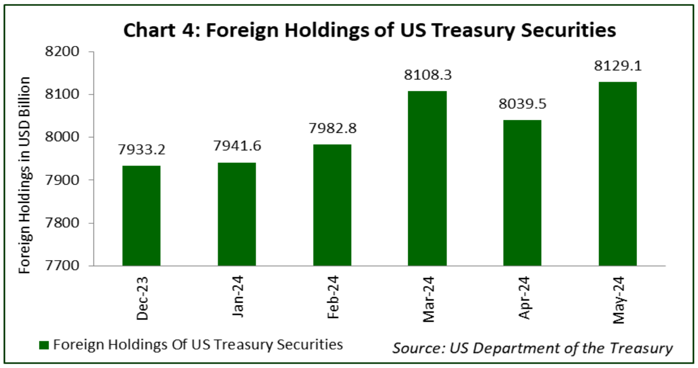
International Developments

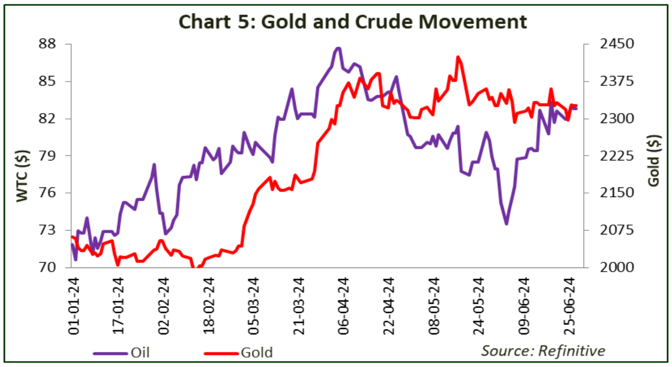
Robust US economic data amid price pressures resulted in the Federal Reserve delaying its indicated rate cut trajectory in Q1-FY25. The widening of yield differentials resulted in the strengthening of the US Dollar (USD) against major currencies. Higher US yields coupled with safe-haven demand amid protracted geopolitical uncertainty boosted foreign holdings of US Treasuries. The Japanese Yen continued hitting multi-decadal lows against the USD, while the sustained depreciation in the Chinese Yuan pulled down other EM currencies. Central bank purchases pushed gold prices higher, while oil prices remained range-bound with OPEC's decision to extend production cuts to support prices being offset by falling demand. EM currencies are expected to receive near-term support from cooling inflation readings building up the case for rate cuts in the US amid the commencement of rate cuts by other AE central banks such as the European Central Bank and Bank of Canada.

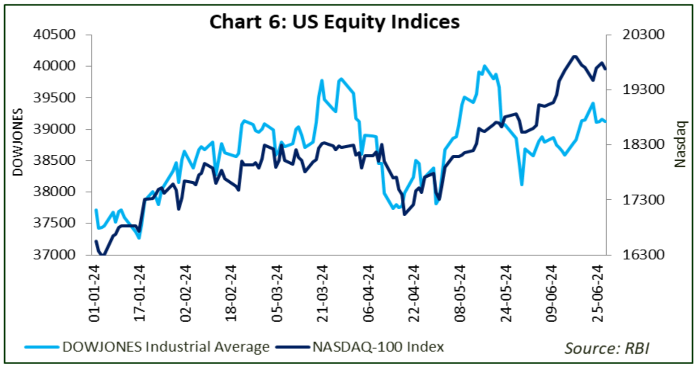








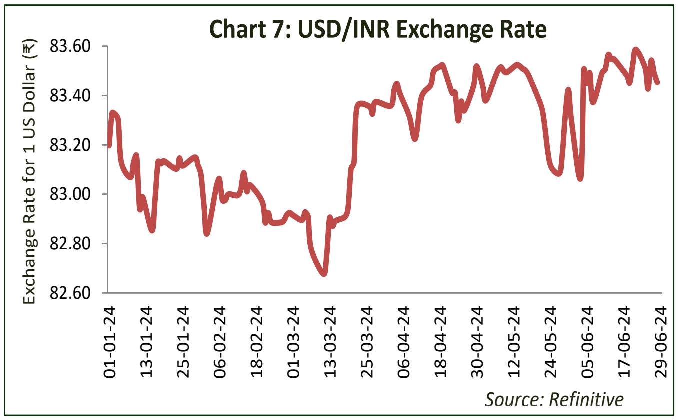


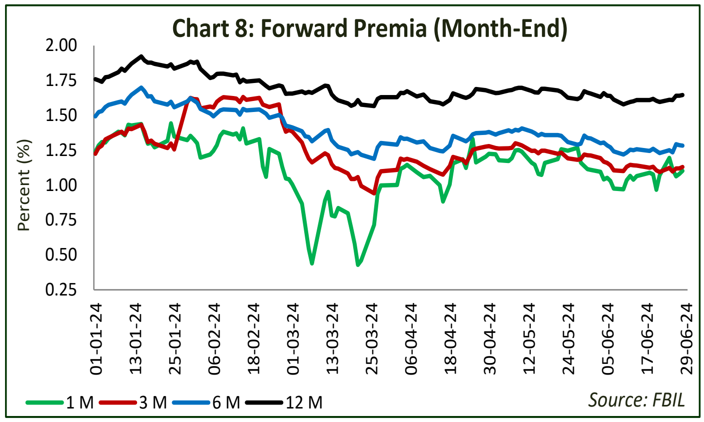


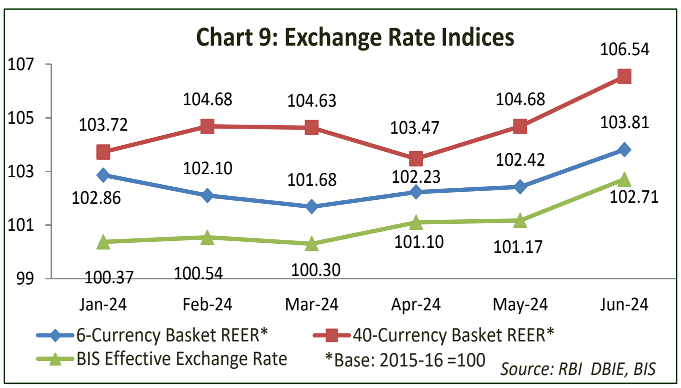
Domestic Developments

A. Reference Rates and Indices

Despite operating within a narrower trading band in Q1-FY25 compared to the previous quarter, the Indian Rupee (INR) experienced intermittent periods of volatility especially around the declaration of the results of the general elections. The INR was supported by the strong recovery in FPI inflows triggered by bond inclusion and MSCI rebalancing coinciding with positive domestic macroeconomic developments including RBI's record dividend transfer to the Government. RBI resumed intervening in the currency market, particularly on the selling side in the forwards segment, which coupled with the persistent push back in the Fed's proposed rate cuts and low INR volatility resulted in forward premia rates trending lower over the quarter. The INR appreciated in May-June in terms of RBI's 40-currency REER majorly due to the positive relative price differentials (RBI).







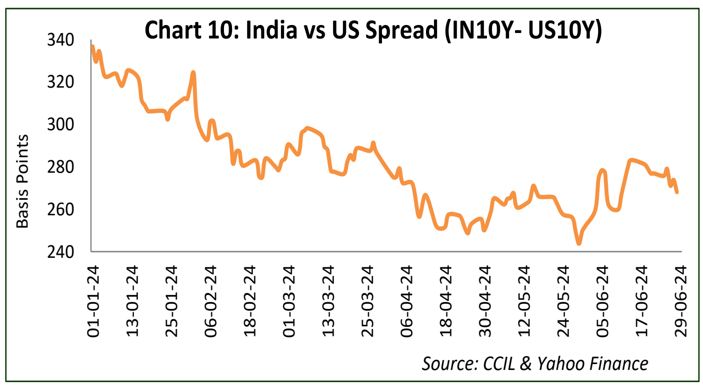


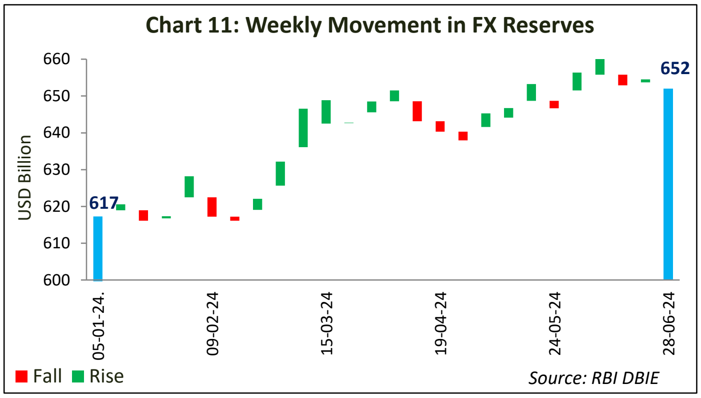
Table 1: Cross-Currency Movement Against IMF's SDR

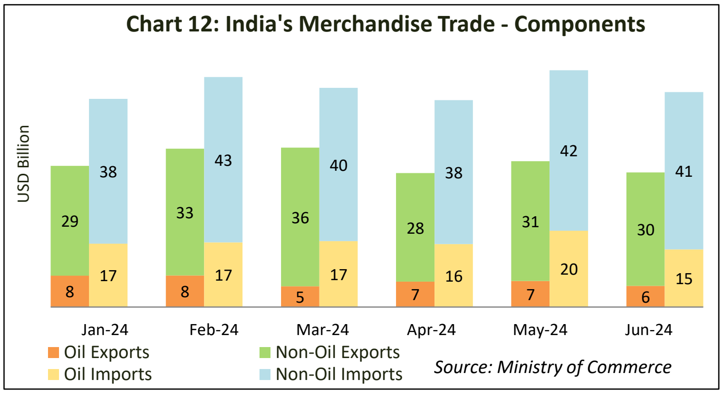
	Currency units per SDR							
Month	Euro	Japanese Yen	Great Britain Pound	US Dollar	Indian Rupee	Chinese Yuan	Brazilian Real	South African Rand
Jan-24	1.22717	196.15800	1.04831	1.32988	110.48700	9.54946	6.58679	24.87720
Feb-24	1.22627	199.93100	1.04942	1.32756	110.08800	9.55064	6.61485	25.50980
Mar-24	1.22415	200.26200	1.04930	1.32343	110.33900	9.56361	6.61131	25.13540
Apr-24	1.22964	206.67800	1.05094	1.31793	110.07200	9.54444	6.81529	24.65330
May-24	1.21963	207.33300	1.04035	1.32354	110.24900	9.58589	6.93669	24.95380
Jun-24	1.22872	211.70500	1.03926	1.31534	109.77000	9.55767	7.31106	23.95740
6 Month Trend								

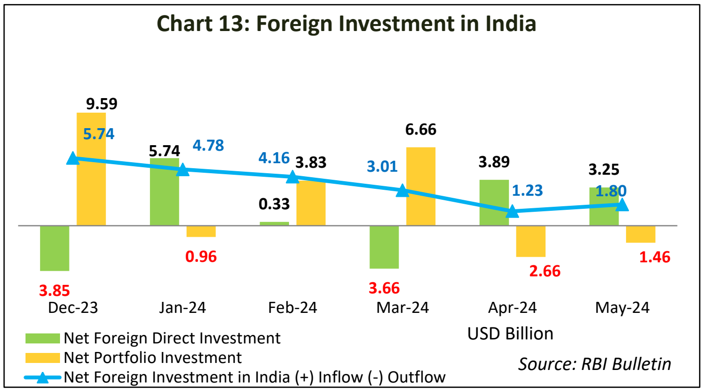
Source: IMF

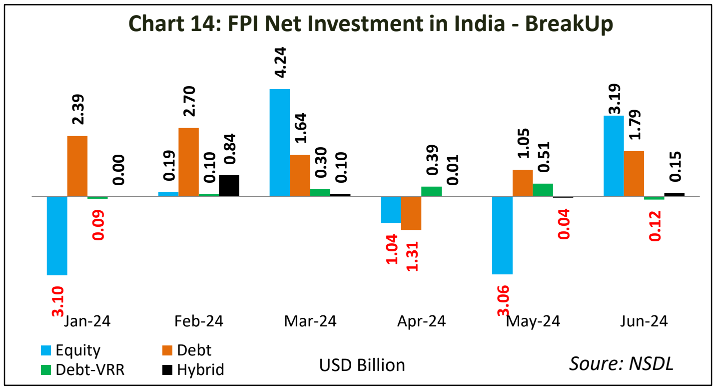
B. Movement of Capital

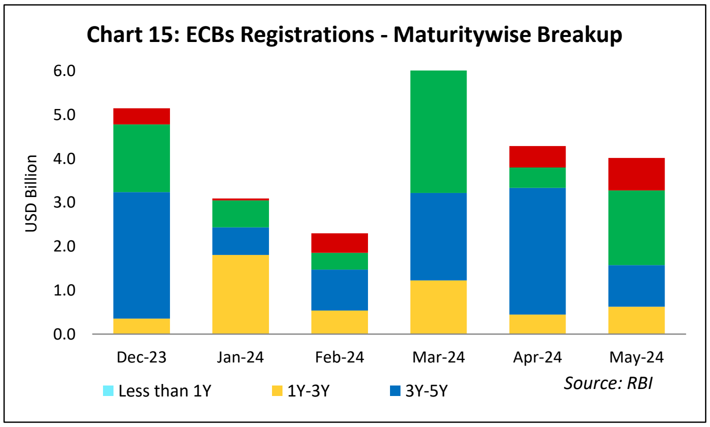
Despite a sell-off in April-May, India recorded net FPI inflows in Q1-FY25 due to substantial investments across market segments in June. This was triggered by India's sovereign rating outlook being upgraded to 'positive' from 'stable' by S&P Global Ratings on May 29, 2024, and further sustained by the frontloading of investments prior to the commencement of bond index inclusion at the end of June, MSCI rebalancing and the post-election rally in the Indian equity markets. India's forex reserves reached an all-time high of $657.20 billion on July 5, 2024, equivalent to around 11 months of projected imports for FY25 and about 99% of the total external debt outstanding at the end of March 2024 (RBI Bulletin). Capex demand has continued to drive ECB registrations in FY25. The merchandise trade deficit widened to $62.30 billion in Q1-FY25 due to petroleum imports. Going forward, FPI inflows tracking global bond indices are expected to provide strong support for the current account in FY25.

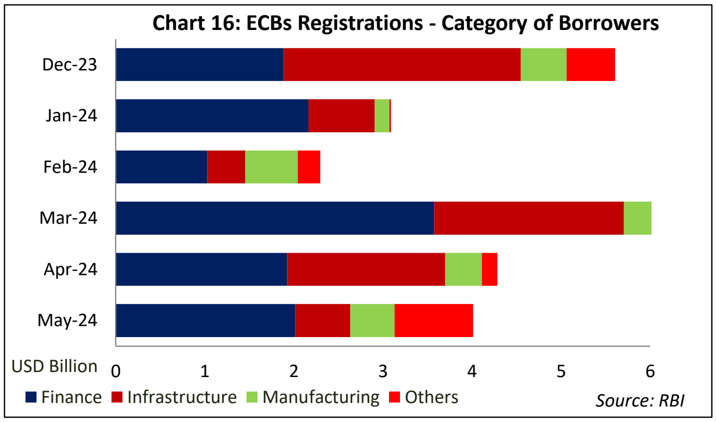












C. Macro Parameters

Moderation in India's overall trade deficit on account of slower merchandise imports and rising services exports coupled with strong remittances helped lower the FY24 current account deficit (CAD) to $23.20 billion (0.70% of GDP) - about a third of the CAD of $67.0 billion (2.0% of GDP) recorded in FY23. India even recorded a surplus in the current account in Q4-FY24. While net FDI inflows narrowed significantly reflecting global trends, net portfolio investment inflows attracted by India's macroeconomic parameters jumped to $44.10 billion in FY24 as against an outflow of $5.20 billion in FY23. There was an accretion of $63.70 billion to the foreign exchange reserves (on a BoP basis) in FY24 due to robust FPI inflows. With external debt at $663.80 billion, India's external debt-GDP ratio stood at 18.70% at end-March 2024. In addition to the robust inflows already received in Q1-FY25, RBI expects India's debt segment to attract around $20-$40 billion within 18-21 months on account of the inclusion of FAR G-Secs in global bond indices.

Table 2: Trends in Balance of Payments (USD Billion)*

Item/Period	Q4-FY23	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24
Current Account	-1.3	-8.9	-11.3	-8.7	5.7
Goods	-52.6	-56.7	-64.5	-69.9	-50.9
Non-Monetary Gold	-6.6	-9.7	-12.6	-13.7	-9.6
Services	39.1	35.1	39.9	45.0	42.7
Primary Income	-12.6	-10.2	-11.6	-13.1	-14.8
Secondary Income	24.8	22.9	24.9	29.3	28.7
Capital Account	0.0	0.0	-0.1	-0.1	0.0
Financial Account	0.9	9.5	10.3	9.1	-6.3
Direct Investment in India	6.4	7.4	3.0	8.4	7.7
Portfolio Investment	-1.7	15.7	4.9	12.0	11.4
Reserve Assets	-5.6	-24.4	-2.5	-6.0	-30.8
Errors and Omissions	0.4	-0.5	1.0	-0.3	0.5

**As per IMF BPM6; Source: RBI DBIE*

D. Central Bank Intervention

RBI followed a passive intervention in the currency market in Q1-FY25, as reflected in the accretion to forex reserves and a gradual but orderly weakening of the INR in line with other EM currencies such as the Chinese Yuan, despite a substantial jump in net FPI inflows in June. RBI continued focusing on strengthening the national balance sheet with forex reserves by absorbing capital inflows amid the overvaluation of the rupee against major trading partners. Movements in forward premia across maturities were influenced by RBI's sell-side activity in the forward segment. RBI Governor Shaktikanta Das has reiterated confidence in the tools available to manage the heavy inflows expected following the commencement of the inclusion of FAR G-secs in global bond indices.

Table 3: RBI Intervention in Foreign Exchange Market (USD Billion)

Month	Purchase			Sale			Net Outstanding at month-end Sales (–)/ Purchase (+)		Rupee Range During Month
	Spot	Forwards	Futures	Spot	Forwards	Futures	Forwards	Futures	
Dec-23	32	11	1	30	8	1	2	-2	83.02-83.40
Jan-24	10	10	1	8	0	1	10	0	82.85-83.33
Feb-24	9	10	0	0	0	0	10	0	82.84-83.09
Mar-24	15	5	0	2	5	0	-1	-1	82.68-83.37
Apr-24	8	4	2	12	20	2	-16	-2	83.23-83.52
May-24	24	1	2	19	12	2	-10	-2	83.08-83.52

Source: RBI Bulletin

Market Developments

A. Forex Market Turnover

Table 4: Turnover in Foreign Exchange Market - FCY/INR (USD Billion)

Period	Purchase						Sale					
	Merchant			Inter-Bank			Merchant			Inter-Bank		
	Spot	Forward	Forward Cancellation	Spot	Swap	Forward	Spot	Forward	Forward Cancellation	Spot	Swap	Forward
Q1-FY24	252	94	57	762	846	87	245	128	50	757	821	70
Q2-FY24	276	98	58	856	846	88	274	133	47	831	815	82
Q3-FY24	249	68	45	688	832	144	262	77	36	670	821	75
Q4-FY24	318	99	73	1026	912	85	313	129	59	978	859	86
Q1-FY25*	290	80	64	979	721	99	302	112	43	948	697	78

Source: RBI DBIE * Upto June 21, 2024

Table 5: Turnover in Foreign Exchange Market - FCY/FCY (USD Billion)

Period	Purchase						Sale					
	Merchant			Inter-Bank			Merchant			Inter-Bank		
	Spot	Forward	Forward Cancellation	Spot	Swap	Forward	Spot	Forward	Forward Cancellation	Spot	Swap	Forward
Q1-FY24	21	22	16	408	139	26	21	22	16	408	139	26
Q2-FY24	22	24	19	440	141	24	22	25	19	440	141	24
Q3-FY24	20	24	23	351	115	18	20	24	23	350	113	18
Q4-FY24	19	28	26	474	161	22	19	29	26	472	157	22
Q1-FY25*	20	19	16	405	142	20	21	19	16	405	138	20

Source: RBI DBIE *Upto June 21, 2024

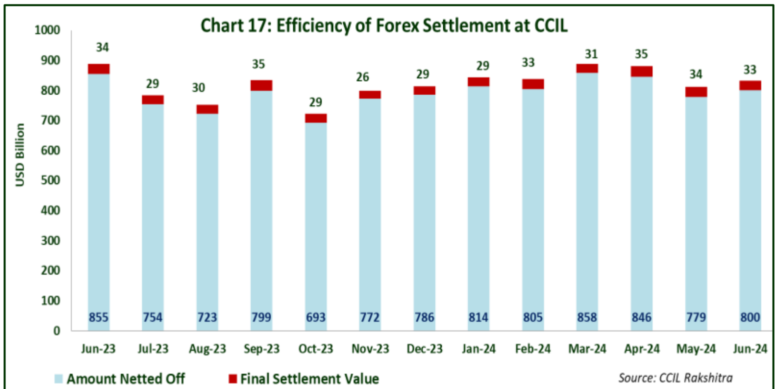
B. CCIL Statistics

i. Forex Settlement at CCIL

Table 6: CCIL Forex Settlement - Gross (Value in USD Billion)

Period	Cash	Tom	Spot	Forward	Total
Q1-FY24	318	372	1119	563	2372
Q2-FY24	346	388	1129	482	2345
Q3-FY24	376	431	1219	536	2562
Q4-FY24	342	397	1257	503	2500
Q1-FY25	361	405	1262	497	2526

Source: CCIL Rakshitra



Netting Factor indicates the extent of actual reduction achieved through multi-lateral offsetting of individual member obligations (arising out of every trade) to a single net obligation. A Netting Factor of 95.99% was achieved during Q1-FY25.

ii. CCIL CLS Settlement

CCIL also provides settlement of cross currency trades of Indian banks through the CLS Bank. This is a unique arrangement under which, CCIL aggregates all trades reported by the member banks and enables settlement through a third party arrangement. A Netting Factor of 91.70% was achieved during Q1-FY25 in the CLS segment.

Table 7: CLS Settlement (Value in USD Billion)			
Period	Gross Value Settled	Net Value Settled	Netting Factor
Q1-FY24	273	20	92.69%
Q2-FY24	296	23	92.29%
Q3-FY24	298	22	92.49%
Q4-FY24	349	25	92.91%
Q1-FY25	326	27	91.70%
Source: CCIL Rakshitra			

Table 8: CLS Settlement - Currency Wise Gross Volume (In Millions)			
Currency	Q1-FY25	Q4-FY24	Q3-FY24
USD	161959	163198	144101
EUR	69172	68968	60002
GBP	34485	36116	30605
JPY	4107327	4863470	4312190
AUD	10039	13923	13124
ZAR	6959	4805	5373
CAD	5383	4104	5737
SEK	2540	2947	4176
SGD	1960	1540	1406
NOK	254	359	692
NZD	2704	3035	1867
CHF	4942	4715	5551
HKD	871	748	1287
DKK	660	276	195
Source: CCIL Rakshitra			

iii. FX-CLEAR

The FX-CLEAR platform for USD-INR Spot, Swap and other transactions offers STP (Straight Through Processing) wherein all these trades are automatically sent to CCIL for guaranteed settlement.

Table 9: FX-CLEAR Trading (Value in USD Million)				
	Total		Daily Average	
Period	Trades	Value	Trades	Value
Q1-FY24	95190	46052	1613	781
Q2-FY24	131222	77042	2116	1243
Q3-FY24	120880	87457	2015	1458
Q4-FY24	132168	81792	2240	1386
Q1-FY25	152098	117354	2668	2059
Source: CCIL Rakshitra				

iv. Forex Forward Settlement

Table 10: Forex Forward Settlement (USD Billion)				
	Accepted		Oustanding at Quarter End	
Period	Trades	Volume	Trades	Volume
Q1-FY24	28751	511	48353	650
Q2-FY24	24672	491	47624	660
Q3-FY24	29445	603	49426	727
Q4-FY24	28290	519	50063	731
Q1-FY25	20407	375	44262	608
Source: CCIL Rakshitra				

Disclaimer

Authors

Payal Ghose
Abhishek Date
Published by Research Department, CCIL. Suggestions and feedback are welcome at –
E-mail: research@ccilindia.co.in Website : www.ccilindia.com

Dadar Office: 'CCIL Bhavan', S. K. Bole Road, Dadar (West), Mumbai - 400028. Tel: 022 61546200
Kurla Office: 14A & 14B, 4th Floor, Tower -1, Commercial - 2, 'Kohinoor City', Kirol Road, Off. LBS Road, Kurla (West), Mumbai – 400070.
Pune Office: A - 101, Nano Space, Baner Pashan Link Road, Baner, Pune - 411045.