CCIL FOREX QUARTERLY

OCTOBER - DECEMBER 2024

International Developments

The US Presidential Election was a significant driver of global markets in Q3-FY25. The US Dollar (USD) strengthened against most currencies and yields on US Treasuries rose as market participants tried to gauge the inflationary impact of potential tariffs and policy reversals on fiscal, trade and immigration fronts amid hawkish signals from the US Federal Reserve. While US assets benefited from safe-haven demand and the strength of the US economy, emerging market (EM) currencies were further impacted by the sharp depreciation of the Chinese Yuan (CNY). Although gold prices were supported by central bank buying, some cryptocurrencies broke new records following the US Election. Crude oil prices remained range-bound despite reduced production and the sanctions on Russian oil on account of demand concerns.

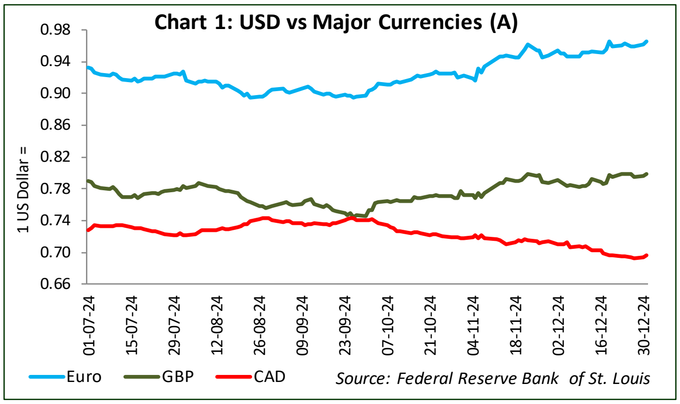


Chart 1: USD vs Major Currencies (A)

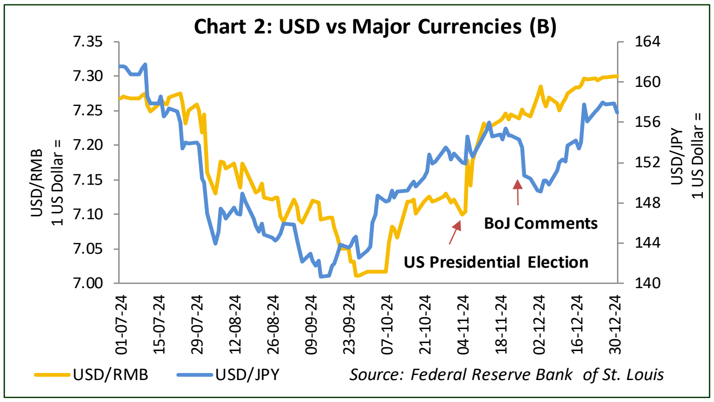


Chart 2: USD vs Major Currencies (B)

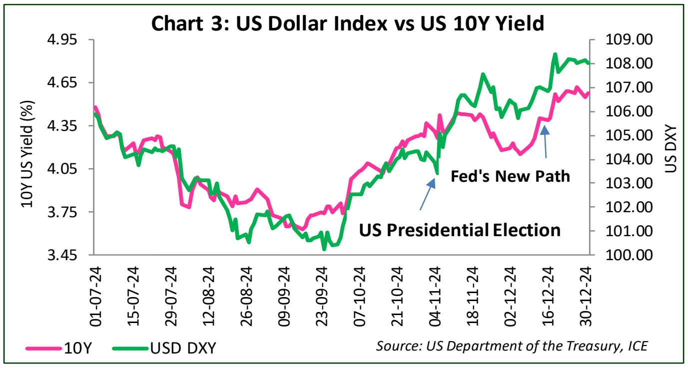


Chart 3: US Dollar Index vs US 10Y Yield

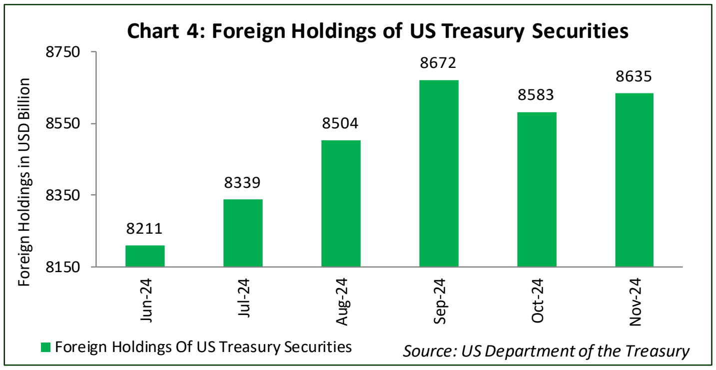


Chart 4: Foreign Holdings of US Treasury Securities

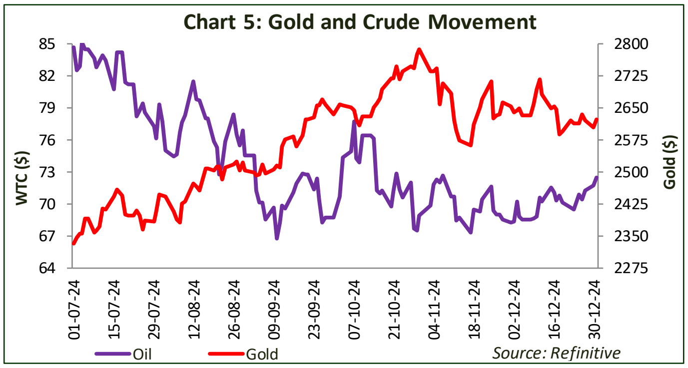


Chart 5: Gold and Crude Movement

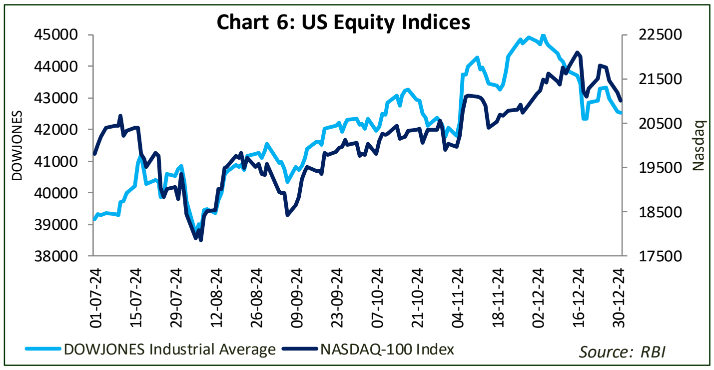


Chart 6: US Equity Indices

Domestic Developments

A. Reference Rates and Indices

After depreciating gradually within a tight band (0.52%) throughout H1-FY25, the pace of the depreciation of the Indian Rupee (INR) against the USD quickened in Q3-FY25 (2.19% over Q2-FY25) despite central bank intervention, with new lows being breached throughout December 2024. The depreciation of the INR was worsened by the growing uncertainty on India's external sector prospects amid continued exit of foreign investors and the widening trade deficit which coincided with the significant strengthening of the USD following the US Elections. The volatility in the Indian forex market was also reflected in the sharp jump in the forward premia rates over and above the narrowing India-US interest rate differential. In contrast to the sharp depreciation in the nominal exchange rate against the USD, the INR remained overvalued in terms of the 40-currency real effective exchange rate (REER), indicating the sharper depreciation in other currencies against the USD compared to the INR's gradual depreciation over the quarter.

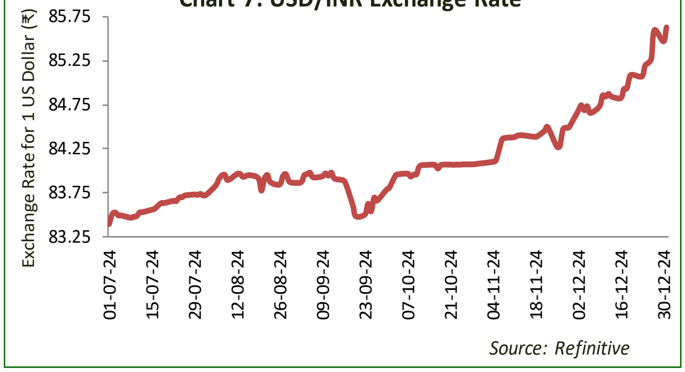


Chart 7: USD/INR Exchange Rate

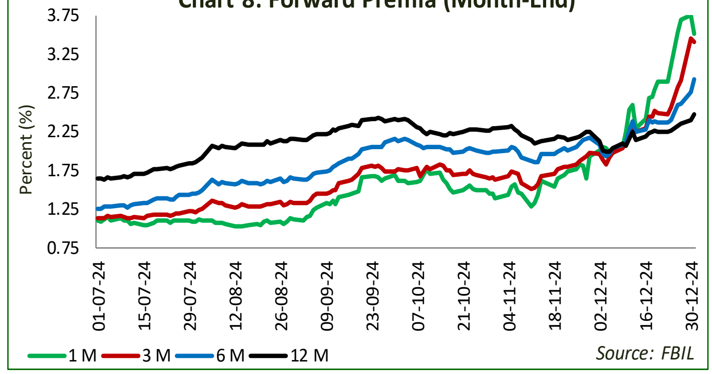


Chart 8: Forward Premia (Month-End)

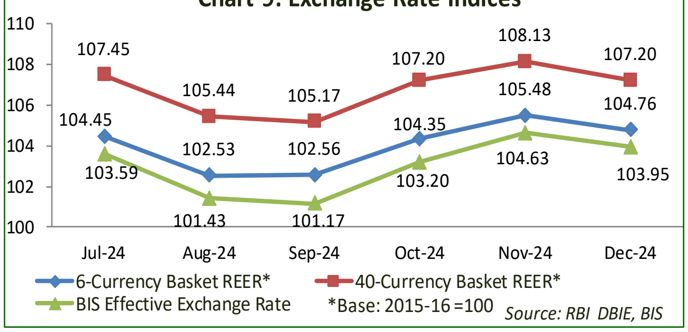


Chart 9: Exchange Rate Indices

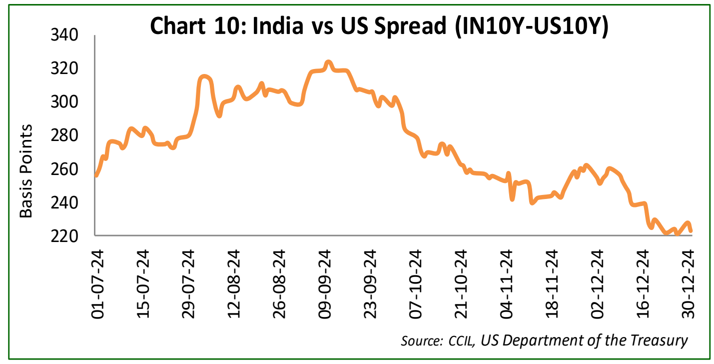


Chart 10: India vs US Spread (IN10Y-US10Y)

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
Jul-24	1.22684	202.45100	1.03448	1.32842	111.24700	9.59463	7.52083	24.27070
Aug-24	1.21458	194.93400	1.02229	1.34661	112.94100	9.54153	7.61586	23.71550
Sep-24	1.21148	193.48600	1.01173	1.35637	113.64900	9.51158	7.38885	24.70050
Oct-24	1.22370	204.40600	1.02611	1.33163	111.80100	9.48074	7.69325	23.51390
Nov-24	1.24766	200.83100	1.04188	1.31391	110.98700	9.52798	7.65814	23.80030
Dec-24	1.25482	204.29300	1.03952	1.30413	110.94400	9.51910	8.03426	23.97700
6 Month Trend								

Source: IMF

B. Movement of Capital

Sustained central bank interventions amid continued FPI outflows resulted in a significant drawdown in forex reserves during Q3-FY25 from their record high in September 2024. As of January 3, 2025, India's forex reserves stood at $634.60 billion, covering 11 months of imports and 90% of external debt (RBI Bulletin), a massive fall of $64.61 billion from the previous quarter. Although India was the highest recipient of remittances in 2024 with an estimated inflow of $129 billion as per World Bank estimates, the fall in net FDI and persistent FPI selling exerted significant pressure on India's external sector and the INR in Q3-FY25. Indian companies which had been locking in lower rates for funding their capital expenditure over FY25, slowed their overseas borrowings in November as global rates surged tracking US yields.

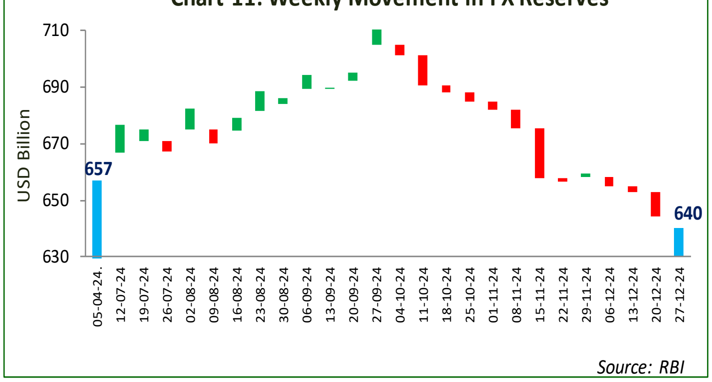


Chart 11: Weekly Movement in FX Reserves

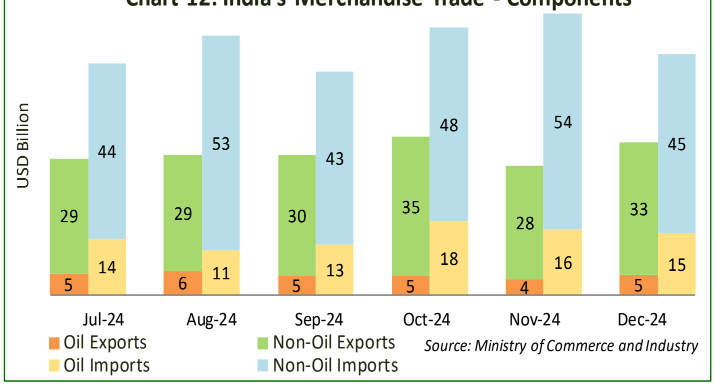


Chart 12: India's Merchandise Trade - Components

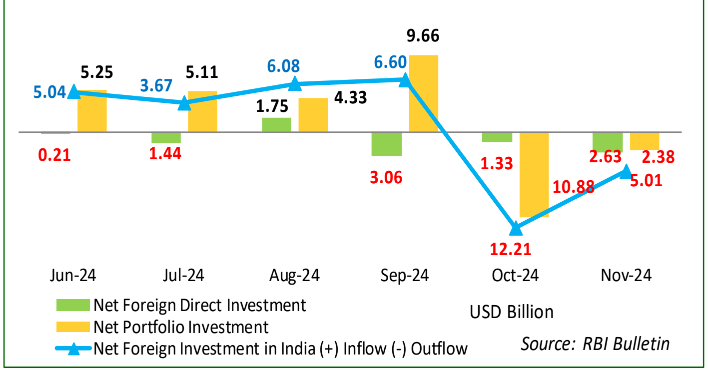


Chart 13: Foreign Investment in India

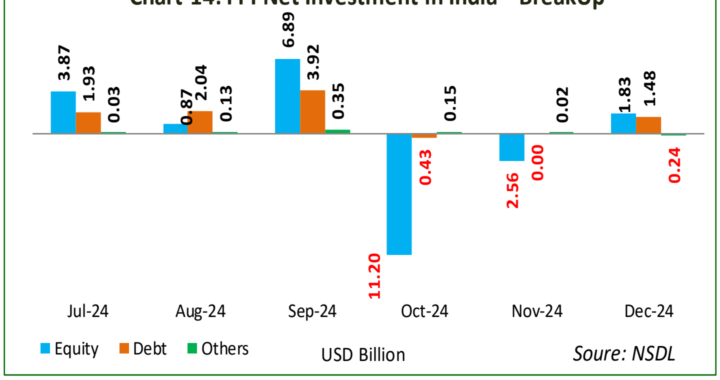


Chart 14: FPI Net Investment in India - BreakUp

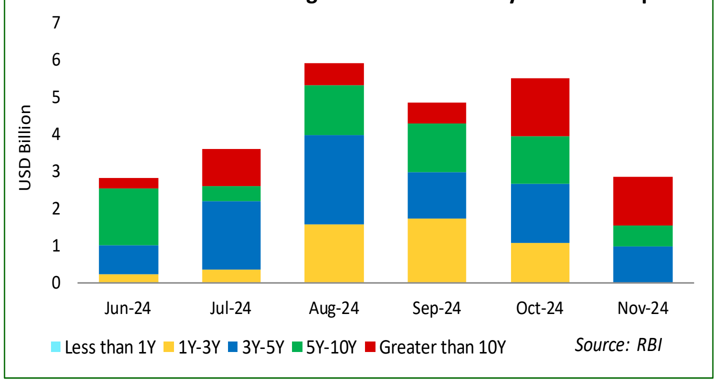


Chart 15: ECBs Registrations - Maturitywise Breakup

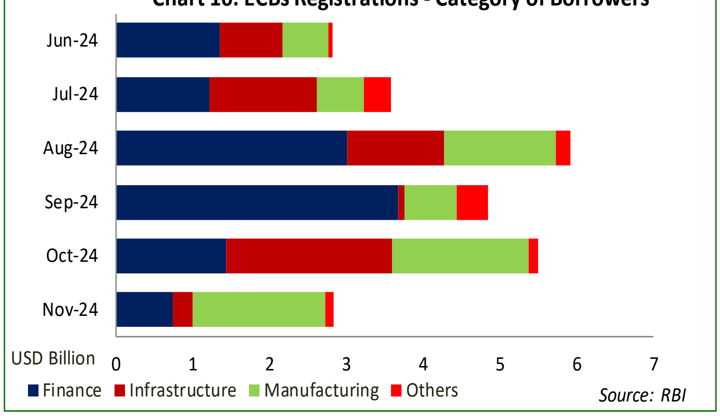


Chart 16: ECBs Registrations - Category of Borrowers

C. Macro Parameters

India's current account deficit (CAD) widened to $11.20 billion (1.20% of GDP) in Q2-FY25 despite robust services exports and remittance inflows due to the widening merchandise trade deficit. The quarter recorded an accretion of $18.60 billion in foreign exchange reserves (excluding valuation effects) on account of strong inflows from FPIs, ECBs and non-resident deposits. Overall, India's CAD stood at $21.40 billion (1.20% of GDP) in H1-FY25, supported by net FDI-FPI inflows and remittances. Although external debt increased 4.34% to $711.80 billion by September 2024 raising the debt-to-GDP ratio to 19.40%, the share of short-term debt (with original maturity of up to one year) in total external debt decreased to 18.80%. While the data for Q2-FY25 showcased the resilience in India's Balance of Payments, the sharp fall in forex reserves amid continued exit of foreign investors indicates the significant challenges to India's external sector in Q3-FY25.

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

Item/Period	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25
Current Account	-11.3	-10.4	4.6	-10.2	-11.2
Goods	-64.5	-71.6	-52.0	-65.1	-75.3
Non-Monetary Gold	-12.6	-13.7	-9.6	-9.5	-17.6
Services	39.9	45.0	42.7	39.7	44.5
Primary Income	-11.6	-13.1	-14.8	-11.1	-9.5
Secondary Income	24.9	29.3	28.7	26.4	29.1
Capital Account	-0.1	-0.1	0.0	0.0	0.0
Financial Account	10.4	11.4	-5.3	9.4	11.9
Direct Investment in India	3.0	8.4	8.0	10.7	5.0
Portfolio Investment	4.9	12.0	11.4	0.9	19.9
Reserve Assets [Increase (-)/Decrease (+)]	-2.5	-6.0	-30.8	-5.2	-18.6
Errors and Omissions	1.0	-0.9	0.6	0.8	-0.7

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

D. Central Bank Intervention

RBI's sustained intervention in all segments of the foreign exchange market targeted an orderly depreciation of the INR amid continued capital outflows during Q3-FY25. The INR remained one of the most stable currencies in 2024. Available data for the quarter reveals a sharp jump in RBI's dollar sales in October-November, with the selling in the spot window intensifying in November even as the outstanding net forward market sold position reached a high of $58.90 billion. Following the RBI Governor's December 6th reiteration of RBI's exchange rate policy with "its central tenet to maintain orderliness and stability, without compromising market efficiency", the sharper depreciation of the INR by ~ 1.34% in December over November - indicates RBI's increasing tolerance towards the strengthening of the dollar amid tightening liquidity in the domestic banking system and increased volatility in global markets.

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

	Purchase			Sale			Net Outstanding at month-end Sales (–)/ Purchase (+)		Rupee Range During Month
Month	Spot	Forwards	Futures	Spot	Forwards	Futures	Forwards	Futures	
Jun-24	16	0	2	18	16	2	-16	-2	83.07-83.59
Jul-24	24	0	2	17	9	2	-9	0	83.40-83.74
Aug-24	16	0	2	23	19	2	-19	-1	83.73-83.97
Sep-24	29	0	2	19	15	2	-15	0	83.49-83.98
Oct-24	28	0	3	37	49	3	-49	-3	83.82-84.09
Nov-24	31	0	4	51	59	4	-59	-3	84.11-84.49

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
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	328	92	73	1099	798	108	335	127	53	1064	766	86
Q2-FY25	358	97	65	1081	975	103	357	130	50	1058	905	76
Q3-FY25*	223	57	49	584	737	88	251	91	31	535	649	71

Source: RBI DBIE *Upto November 29, 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
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	22	24	21	453	163	22	23	24	21	452	158	22
Q2-FY25	34	31	29	580	180	23	35	30	29	579	171	23
Q3-FY25*	25	19	19	298	111	14	25	19	19	297	103	14

Source: RBI DBIE*Upto November 29, 2024

B. CCIL Statistics

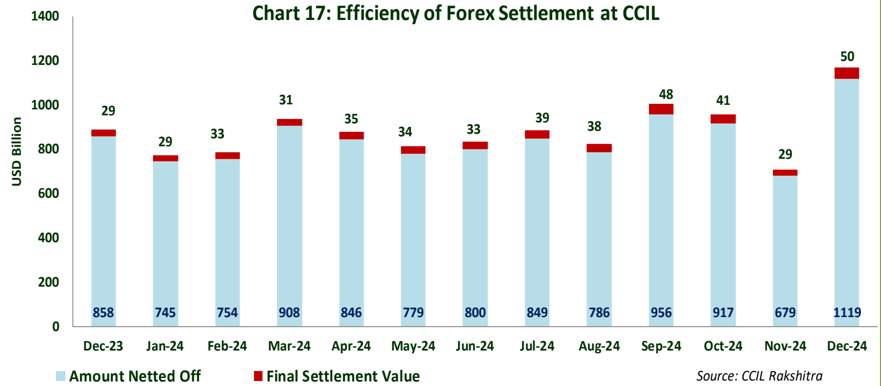
i. Forex Settlement at CCIL

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

Period	Cash	Tom	Spot	Forward	Total
Q3-FY24	376	431	1219	536	2562
Q4-FY24	342	397	1257	503	2500
Q1-FY25	361	405	1262	497	2526
Q2-FY25	473	501	1333	408	2715
Q3-FY25	558	544	1260	473	2835

Source: CCIL Rakshitra

Chart 17: Efficiency of Forex Settlement at CCIL



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 95.74% was achieved during Q3-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 91.01% was achieved during Q3-FY25 in the CLS segment.

Table 7: CLS Settlement (Value in USD Billion)

Period	Gross Value Settled	Net Value Settled	Netting Factor
Q3-FY24	298	22	92.49%
Q4-FY24	349	25	92.91%
Q1-FY25	326	27	91.70%
Q2-FY25	426	459	92.26%
Q3-FY25	328	30	91.01%

Source: CCIL Rakshitra

Table 8: CLS Settlement - Currency Wise Gross Volume (In Millions)

Currency	Q3-FY25	Q2-FY25	Q1-FY25
USD	164362	222732	161959
EUR	59666	90883	69172
GBP	34194	34565	34485
JPY	5697841	8219282	4107327
AUD	8040	10964	10039
ZAR	7118	5803	6959
CAD	5026	6030	5383
SEK	2113	5445	2540
SGD	1937	2270	1960
NOK	276	216	254
NZD	1430	2479	2704
CHF	5898	5276	4942
HKD	1000	813	871
DKK	482	378	660

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)

Period	Total		Daily Average	
	Trades	Value	Trades	Value
Q3-FY24	120880	87457	2015	1458
Q4-FY24	132168	81792	2240	1386
Q1-FY25	154247	117372	2706	2059
Q2-FY25	198516	189207	3151	3003
Q3-FY25	127866	102895	2096	1687

Source: CCIL Rakshitra

iv. Forex Forward Settlement

Table 10: Forex Forward Settlement (USD Billion)

Period	Accepted		Oustanding at Quarter End	
	Trades	Volume	Trades	Volume
Q3-FY24	29445	603	49426	727
Q4-FY24	28290	519	50063	731
Q1-FY25	20407	375	44262	608
Q2-FY25	23085	410	44819	610
Q3-FY25	30206	604	50084	741

Source: CCIL Rakshitra

Disclaimer

Authors

Payal Ghose
Rati Rahul
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.