Finally, we bid farewell to 2023 with a heavy heart!

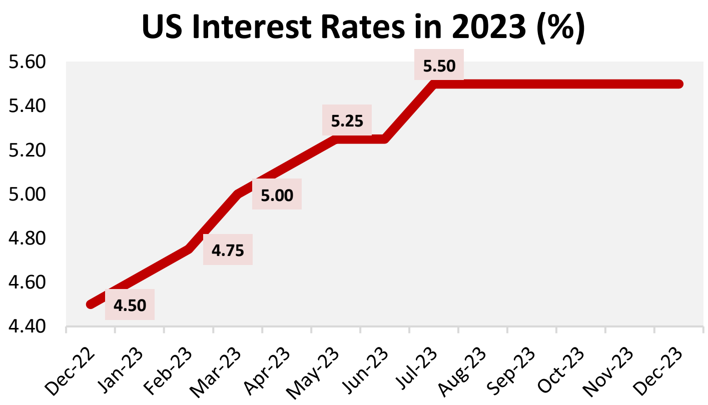
This year undoubtedly had come with a slow thud but left with a solid bang. We saw some major and minor happenings that swayed world markets. Both global equities and currencies played with the bulls while the once-steady bond yields made quite an impact with their volatile moves. Not to forget, the geo-political uncertainties, natural disasters and the topsy turvy global interest rates pattern that ruled investment decisions. 2023 had definitely given us a reason to talk about.

Taking a walk through of events and happenings that took place in 2023.

A date with interest rates and bond yields

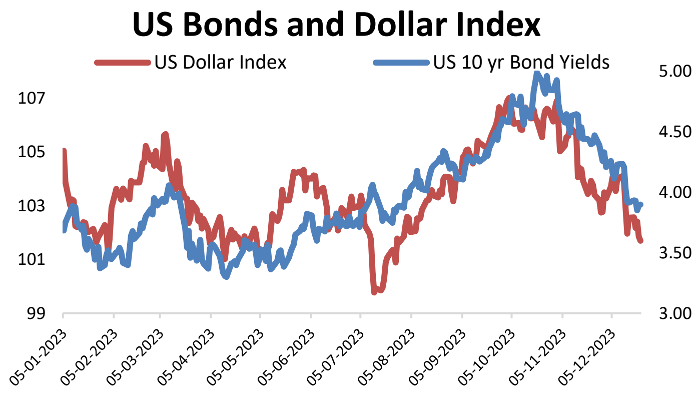
As per book definition, interest rates, bond yields, and inflation expectations correlate with one another. Movements in short-term interest rates, as dictated by a nation's central bank, would affect different bonds with different terms to maturity differently, depending on the market's expectations of future levels of inflation. So, what really happened to global interest rates in 2023?

Starting with the powerhouse i.e. the United States. The US Federal Reserve hiked interest rates four times in 2023 which influenced a lot of other central banks following suit. However, in the last FOMC policy of 2023, the US Federal Reserve Chief Jerome Powell in his ending speech indicated that the focus was now shifted to rate cuts.



Source: Refinitiv; Angel

Most Fed officials now see interest rate cuts in 2024, median projection shows three rate cuts in 2024. There is anticipation for further reductions in the fed funds rate to end 2025 at 3.6 percent, according to the median estimate of 19 officials. This has been the first significant mention of rate cuts in 2024 by the US Federal Reserve.

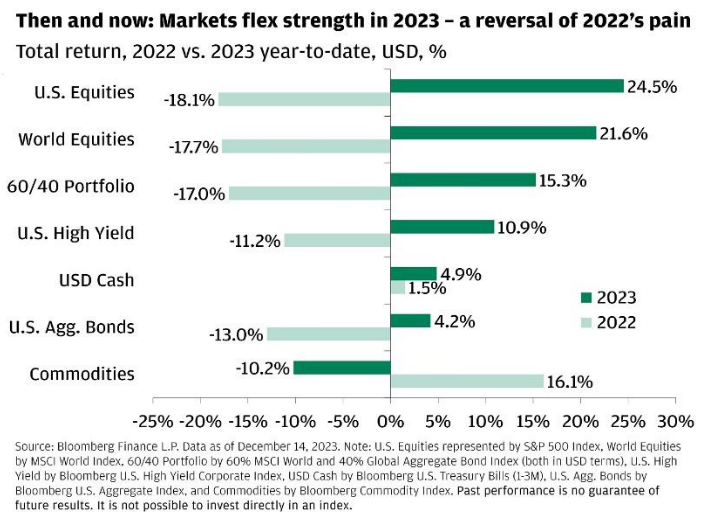


Source: Refinitiv; Angel

The rate hikes in 2023 and talks of rate cuts in 2024 created a huge uproar in the US Dollar Index and US Treasury yields. Both US Dollar Index and 10-year US Treasury yields started off 2023 at 105 mark and 3.68 percent respectively.

After facing some rocky roads in the first half, both units fell sharply towards 99.77 levels (DXY) and 3.29 percent in the mid-year. In the latter half of 2023, US Dollar Index reached 107 levels while the 10-year yields touched 4.98 levels creating an immense euphoria in the global arena. However, the bullish trend couldn't last, bringing the unit again into bearish territory.

Nevertheless, one cannot put the entire blame on interest rates alone. There were other factors too that played with the prices and yields. Explaining below some of the major events that took place in 2023, chronologically.



In the early Jan'23, the United States hit its debt ceiling of $31.4 trillion creating a panic mode in the markets. In between Feb'23 and Apr'23, came another shock wave – the banking crisis.

US's tech sector faced another challenge as its go-to specialized bank, Silicon Valley Bank (SVB), collapsed after a bank run. The hard-hit tech sector first made news in late 2022 and early 2023 with mass layoffs.

SVB played an important role in the tech sector as it provided financing for about half of all U.S. venture-backed technology and healthcare companies. They used to support startup companies that not all banks would accept due to higher risks.

After the crisis came the most talked about merger of UBS and Credit Suisse. UBS made an emergency takeover of its local rival Credit Suisse, forging a Swiss banking and wealth management giant with a $1.6 trillion balance sheet. This was the biggest banking deal since the 2008 financial crisis. In the meanwhile, JP Morgan Chase took over First Republic.

May'23 onwards, the US started reporting an official fall in inflation rates. S&P 500 rallied 20 percent from its Oct'22 lows. In Aug'23, rating agency Fitch downgraded the US's rating to 'AA+' from 'AAA' — a rating that it had been holding at the agency since 1994. This was the first major downgrade for the country since S&P actions in 2011.

Reason for the fiscal deterioration was the "high and growing" general government debt burden and the "erosion of governance" in comparison to similarly rated peers over the last two decades.

During the same period, the US inflation once again re-accelerated and crude prices rallied sharply. Crude oil prices climbed to their highest this year, as expectations of tighter supply outweighed worries about weaker economic growth and rising U.S. crude inventories. In the meantime, ECB increased interest rates, but signaled an end of hikes.

Then came Oct'23, where geo-political risk made an entry-the Israel and Hamas war. Hamas gunmen launched an unprecedented assault on Israel from the Gaza Strip on 7th Oct'23, killing 1,200 people and taking about 240 hostages.

The Israeli military responded with air strikes on Gaza and launched a ground offensive. More than 20,000 people have been killed in Gaza, according to the Hamas-run government. During a temporary truce at the end of November, Hamas released 105 hostages and Israel freed 240 Palestinian prisoners in exchange.

Late Oct'23 and early Nov'23, the US treasury yields had hit an all-time high since 2007 financial crisis. Not only this, the Magnificent Seven Stocks added more than $200 billion of market value in a single day.

The Magnificent Seven stocks include Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla. These mega-cap companies focus and capitalize on tech growth trends including AI, cloud computing, and cutting-edge hardware and software.

By the end of 2023 i.e. Nov'23 and Dec'23 saw an amazing market boom. US aggregate bonds posted their best monthly returns since 1985 while gold made a close at an all-time high level. 2023 parted its ways with an eye-raising twist. According to the US Fed Chair, rate hikes were finally over and now rate cuts are on the cards.

The end of 2023 was indeed rememberable!

Most talked about currency of 2023 – Yen!

Japanese Yen was that one currency which became the talk of the town for most of the speculative traders. USDJPY started off the year at 131.11 levels; crossed 151-mark for the first time since 1990 and is now currently trading at 142.37 mark. The sharp weakness in Japanese Yen has been more than 7 percent in 2023.

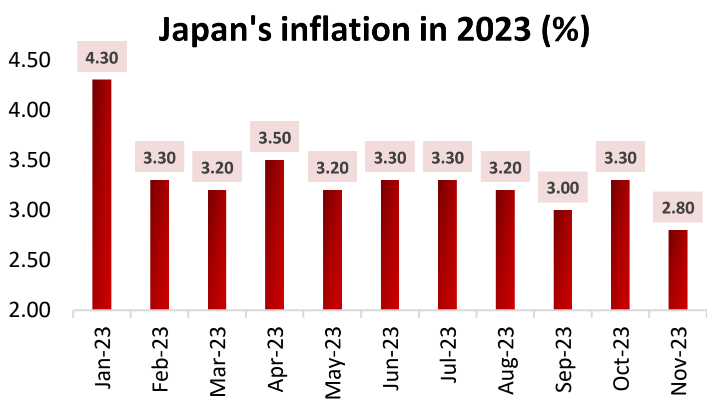
So, what is causing Yen to not leave the bear?

The first reason that comes to mind for the sharp weakness in Japanese Yen is interest rate differentials. The Bank of Japan have kept the interest rates at rock-bottom levels while the Federal Reserve and other central banks are conducting outsized rate hikes.

The US Feds have hiked rates around 10 times since 2022 alone which has made the dollar denominated assets more attractive for investors. Global investors usually flock to a country's currency where a central bank is raising rates, in the hope of a higher yield on their investments, thus shunning currencies (like the yen) where rates are still very low.

In the month of Oct'23, the US treasury yields were soaring to their highest levels (2023) on expectations of further rate hikes. On the contrary, the BOJ kept the 1 percent upper bound for 10-year Japanese government bonds as its limit, thus relaxing its previous strict policy of yield curve control for the second time in only three months.

Normally, such a policy would support a stronger yen, given that the higher rates of return resulting from the BoJ's actions would likely trigger more demand for Japan's currency. However, reports suggest that the market anticipated a much firmer abandonment of yield curve control than was ultimately delivered in Oct'23. This caused major weakness in Japanese Yen.



Source: Refinitiv; Angel One

The side effects of Yen depreciation are coming on the inflation rate. Import prices continue to soar, keeping Japan's inflation well above the 2 percent target. This is eroding the purchasing power of consumers, leading to a decline in real consumption.

Despite Yen's weakness, Japan's trade deficit is continuing, and export quantities have still not increased. Also, industrial production and corporate investment remain sluggish. Wage growth too has not caught up with the rate of inflation.

Due to all these factors, the BoJ's job challenges have increased. Correcting the extreme depreciation of the yen — without causing significant damage to markets, while also committing to a 2 per cent inflation target — is an unprecedented challenge.

In the last policy of 2023, the BOJ Governor Kazuo Ueda said, "Uncertainty over the outlook is extremely high and we have yet to foresee inflation sustainably and stably achieve our target. As such, it's hard to show now with high degree of certainty how we can exit [from ultra-loose policy]."

"If we were to exit negative rate, interest rates will rise slightly. But inflation-adjusted real borrowing costs will remain low, so accommodative monetary conditions will be sustained," he added.

Bank of Japan has been very cautious in unwinding its long-held ultra-loose monetary policy fearing that any premature move could jeopardize recent nascent improvements.

After making the worst out of 2023, Japanese Yen is all set to rebound in 2024 but for how long is the question. Unless the BoJ incorporates some major change in the policy and solves the problem of interest rate differential, we may not see some major positive moves in Japanese Yen.

Technically, USDJPY Spot is likely to move upwards towards 152.10 levels; break of same could push the currency towards 164 levels in 2024. On the other hand, JPYINR is likely to move towards 47 levels. However, with Indian elections gracing in 2024 we may expect some pull in the opposite direction in JPYINR due to possible volatile swings in Indian Rupee.

Russia and its troubled currency

A lot has happened in Russia in 2022 and 2023. After Russia's invasion of Ukraine in 2022, there were mounting sanctions on the Russian financial sector. Numerous Russian banks were disconnected from the SWIFT international financial messaging system, adding complications for Russian companies transacting in other currencies like US Dollar, Euro etc.

Despite bottlenecks, Russia has managed to continue with its foreign trade by using the national currency i.e. Russian Ruble. A lot of European and Asian countries have adopted the ruble-denominated payments for Russian natural gas supplies.

Russia's reorientation of trade flows to the East has also spurred greater reliance on the yuan. In a recent visit to China, Russian deputy prime minister Andrei Belusov stated that, in 2023, the use of the Russian ruble and China's yuan in trade between the two countries has reached 95 percent.

Despite Russia's successful adaptation in facilitating mutual settlements in international trade, the Russian Ruble itself has struggled with volatility and weakness, primarily impacting consumers rather than the state. The Russian Ruble has weakened by more than 50 percent in 2023 crossing the 101-mark.

Major reasons that could be attributed to Ruble's weakness include the growing influence of the CNY in mutual trade, volatile commodity prices, seasonal variations in Russia's balance of payments surplus, trade sanctions, plunging export earnings and foreign companies leaving the country. An excessively weak ruble is detrimental to the Russian economy.

To stabilize the currency, the Bank of Russia hiked rates five time in 2023. The interest rates surged to 16 percent (Dec'23) from 7.5 percent (Jul'23).

In Dec'23 policy, Bank of Russia commented on resuming operations under its so-called "budget rule" from 2024. This means that the bank will buy and sell foreign currency through its sovereign wealth fund in 2024 as the ruble continues to recover from a dramatic summer slide.

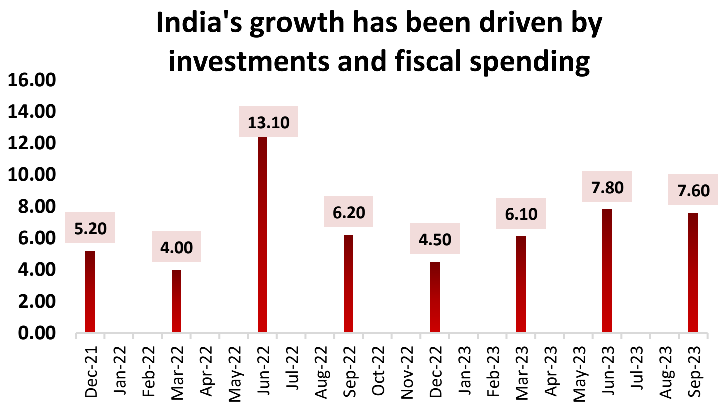
Indian Economy & Market Snapshot

A lot happened on the Indian continent in 2023. From a successful moon mission Chandrayaan-3 to hosting the G20 Summit, India is now set its sights on the sun by launching Aditya-L1, a spacecraft designed to study the solar atmosphere. Our country has made an impact to remember.

Apart from this, there were other unpleasant events too which blew everybody's mind off. The fallout in Adani Group shares and bonds brought a lot of jitters in the markets. Not only this, the Manipur clash, Uttarakhand tunnel disaster and heartbreak when India lost the cricket World Cup finals; 2023 was a roller-coaster ride for India and its economy.

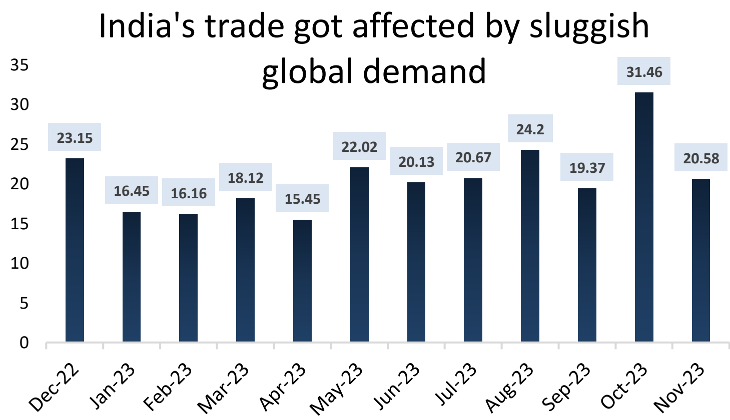
Looking at India's economic fundamentals

GDP – From the chart below, it's quite evident that India's GDP growth was mostly on the upside in 2023 with few minor hiccups towards the end. Despite the geopolitical uncertainties and the slowdown in the global economy, India's GDP Annual Growth Rate has surged from 4.50 percent in Dec'22 quarter to 6.10 percent in Mar'23 quarter and 7.80 percent in Jun'23 quarter. The growth was primarily due to festive spending followed by higher government spending before the upcoming national elections in 2024.



Source: Refinitiv; Angel One

Balance of Trade – India's trade deficit has widened in 2023. After a fall from $23.15 billion in Dec'22 to $16.45 billion in Jan'23, the trade deficit of India has been widening considerably in 2023. It reached $31.46 billion in Oct'23 which was the highest deficit number in 2023. Reason behind the sharp surge in deficit was the sharp spike in global crude oil prices that has led to an increase in the



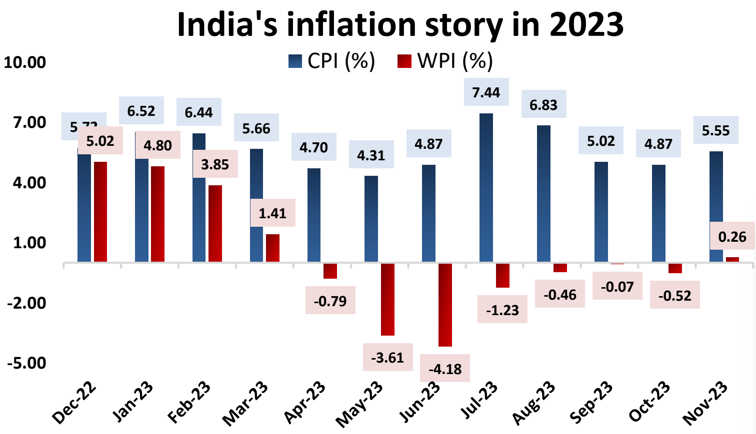
Source: Refinitiv; Angel One

country's import bill.

Sluggish global demand is also to be blamed for the spike in deficits as the export sector remains affected. Commerce Secretary Sunil Barthwal asserted that trade is not one-way traffic and should be seen in a global context.

"GDP growth is not high in many countries and interest rates have not gone down. Although global trade is suffering, we are holding fort and our exports have beaten the global trends in 2023 by a significant margin."

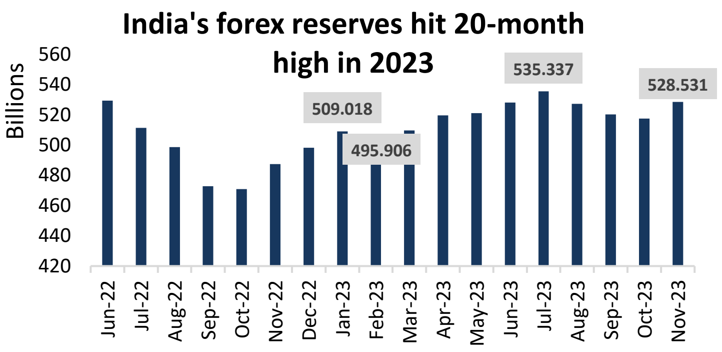
Inflation – Retail inflation based on the Consumer Price Index of India have breached the upper tolerance level of the RBI's 2-6 percent inflation band many a times in 2023. In fact it went up to 7.44 percent in Jul'23. This was mostly due to higher food prices, strengthening expectations that the RBI will not ease interest rates anytime soon.



Source: Refinitiv; Angel One

However, the current inflation numbers has once again come into the RBI set band. According to the RBI Governor, temporary increases in inflation on a few occasions are caused by demand-supply mismatches arising from global shocks and adverse weather conditions.

Forex Reserves – Forex reserves are assets that are held by a nation's central bank. Having a good amount of reserves is good for any country as it allows central bank to intervene in support of the national currency.



Source: Refinitiv; Angel One

It absorbs shocks during times of crisis by providing liquidity. India's forex reserves is divided into four – Foreign Currency Assets, Gold, Special Drawing Rights and Reserve position with the IMF.

India's forex reserves for the year 2023 is currently sitting high at $ 615.97 Billion. It's the highest in 2023. Reason for the uptrend could be attributed to heavy inflows in Indian debt and equity markets along with RBI's intervention in forex markets and change in valuation.

Minor fall in reserves in the latter part of 2023 was mostly due to intervention by the RBI to protect the value of Indian Rupee as the local unit remained under pressure due to rising crude oil price triggered by evolving geopolitical situation and outflow of foreign funds

Foreign Inflows and Local equities – 2023 saw many Foreign Portfolio Investors pumping money into the Indian financial markets. There has been a total inflow of around $ 27 billion in 2023. The country has managed to attract foreign investors at a time when global economies have been witnessing challenges in the form of slower growth, elevated inflation, fears of recession. Political stability, dip in US treasury yield, robust Indian economy, talks of global rate cuts etc. are some of the major reasons for FIIs turning net buyers in Indian stock market.

Monthly FPI Net Investments (Calendar Year - 2023)

Calendar Year	USD Million			
	Equity	Debt	Others	Total
January	-3520	435	-148	-3233
February	-647	302	-156	-501
March	967	-307	52	712
April	1420	99	136	1655
May	5335	396	147	5878
June	5737	1118	-9	6847
July	5678	454	-288	5844
August	1480	934	-200	2214
September	-1776	114	2	-1660
October	-2950	767	35	-2148
November	1080	1784	83	2946
December **	6796	1794	14	8604
Total - 2023	**19600**	**7890**	**-332**	**27158**

Source: NSDL; Angel One

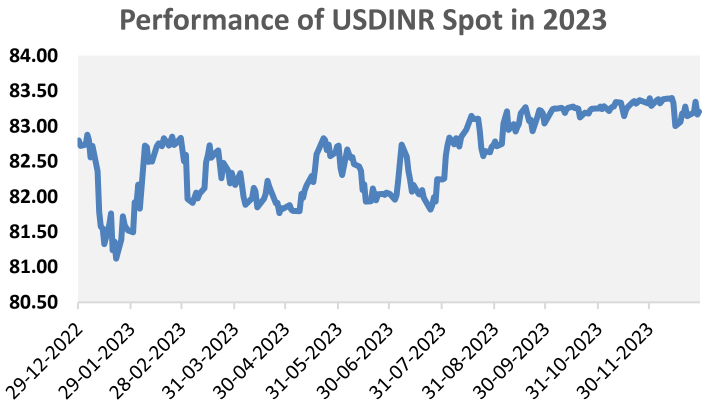
RBI Policy – Markets saw only one rate hike in 2023 by the Reserve Bank of India. The current repo rate stands at 6.50 percent. In the fifth monetary policy of the financial year 2023-24, the RBI Governor presented a picture of resilience and momentum of Indian economy.

The projections for 2024 are as follows:

India's Real GDP growth for FY24 is projected at 7 percent from 6.5 percent while Real GDP for Q1FY25 is projected at 6.7 percent, for Q2FY25 at 6.5 precent, and for Q3FY25 at 6.4 percent.

On the other hand, inflation projection for FY2024 stands at 5.4 percent. With regards to global arena, the RBI Governor feels that the global economy will remain fragile due to elevated debt levels, lingering geopolitical tensions and extreme weather conditions.

How did the Indian Rupee perform in 2023?



Source: Refinitiv; Angel One

From the above graph it is quite understandable that the Indian Rupee had one crazy year in 2023. The Indian currency (Spot) has depreciated by almost 0.6 percent. USDINR Spot started off the year at 82.66 levels and closed the year at 83.20 levels. The highest it surged was at 83.42 levels while the lowest figure it tapped was 80.88 levels. There were a lot of swings incorporated in Rupee due to several host reasons described below.

Month	Trend	Key fundamentals
Jan-23	Mixed	Initially Rupee strengthened due to: • Speculation surrounding smaller US rate hikes • More demand for riskier assets • Huge dollar selling by corporates/banks Later, Rupee weakened owing to lack of flows, low forward premium and high Current Account Deficit.
Feb-23	Weak	Rupee weakened in Feb'23 due to: • Hindenburg report on Adani Group raise concerns • Huge FII selling of approx $3 billion (equity+Debt) • Asian currencies slump on rising US yields
Mar-23	Strong	Rupee appreciated in Mar'23 due to: • Sharp overnight slide in oil prices • Decline in USDINR NDF forward market • 25bps US rate hike; likely end of tightening cycle Later, global markets were in jitters due to the Silicon Valley Bank crisis. However, Rupee was defended well by RBI dollar selling & FII inflows.
Apr-23	Strong	Rupee appreciated in Apr'23 due to: • Huge inflows on doubling of MSCI weightage • Sharp fall in US Dollar Index as US CPI softens • RBI puts a pause to its rate hike cycle
May-23	Weak	Rupee weakened due to : • Dollar demand for Cash/hedging • Bullish DXY & yields • Worries over the U.S. debt ceiling • US rate hike of 25 bps; hawkish tone • Fitch downgrades US; puts into "AAA" debt ratings
Jun-23	Strong	Rupee strengthens in Jun'23 due to: • Sharp fall in DXY on no rate hike talks in Jun • India's economic growth accelerates to 6.1% • RBI keeps policy rates unchanged • Probable corporate related inflows
Jul-23	Mixed	After making a bullish entry; USDINR plunged due to: • India's Q4 CAD dropped to 0.2% of GDP • Huge inflows, upbeat risk appetite & higher yields • Speculation of more rate hikes in 2023; DXY falls • Unwinding of yen-funded positions
Aug-23	Mixed	Rupee initially weakened on: • Opportunistic dollar buying by importers/banks • Fitch cuts the U.S. credit rating from AAA to AA+ • India's retail inflation in July'23 soared to 7.44% Towards the end; Rupee appreciated on account of huge influx of IPO related funds into the system.
Sep-23	Weak	Rupee weakened in Sep'23 due to: • Bullish DXY & rising U.S. Treasury yields
Oct-23	Mixed	Rupee traded in a raneg bound manner due to: ▪ Rising yields & faltering global growth outlook ▪ RBI kept its policy rates unchanged ▪ Ongoing conflicts between Israel and Palestine ▪ Persistent RBI intervention in the markets
Nov-23	Mixed	Indian Rupee traded in a range bound manner due to: ▪ Persistent RBI intervention in the spot market ▪ Fed minutes hinted at end of rate hike cycle ▪ Festive activities kept the trading volumes light
Dec-23	Mixed	Indian Rupee traded in a range bound manner due to: ▪ Heavy presence of the RBI in the currency markets ▪ Dovish FOMC Meeting ▪ Unwinding of year end positions

How is USDINR expected to trade in 2024?

2024 looks quite optimistic for Indian markets. The US treasury yields, and the US Dollar Index have come down after the Federal Reserve dropped hint to start rate cut by March 2024, which means high interest rate regime is finally bidding farewell.

The Indian Rupee may benefit a lot out of these as foreign investors will continue to flock the Indian markets for more investments. Both Indian equities and debt market has witnessed huge influx of funds in 2023. This trend is likely to continue again as the valuations of Indian equities look attractive and the economic fundamentals are also doing well.

Having said that, it won't be an all-rosy year for India. The biggest trigger of 2024 would be the General Elections which may definitely govern the trend of Indian markets and the local unit.

It has been observed that RBI has been intervening the markets aggressively especially in the months of Oct'23, Nov'23 and Dec'23 in a bid to keep the Indian Rupee within a stable range. There is a very strong possibility that this trend may continue until the General Elections which are expected to take place in Apr'24 – May'24.

The Indian stock market often functions as a barometer of political sentiment and economic stability during election periods. Investors closely monitor election developments, as the outcome can have a significant effect on market dynamics. RBI will therefore keep an eagle eye on the currency markets.

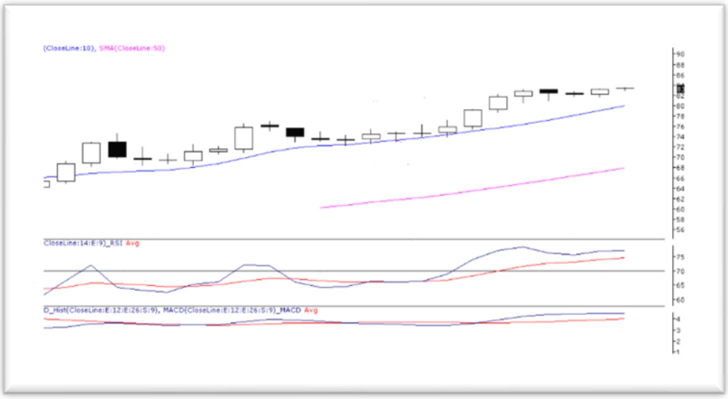
With regards to global arena, the World Bank's Country Director pointed out the adverse global environment which shall continue to pose challenges in the short-term. Global headwinds are likely to persist and intensify due to high global interest rates, geopolitical tensions, and sluggish global demand. As a result, global economic growth is also set to slow down over the medium term against a background of these combined factors.

Though India's growth rate was the second highest among G20 countries and almost twice the average for emerging market economies, there is a possibility that the country would face some obstacles.

Due to this, the World Bank has forecasts India's GDP growth for FY23/24 to be at 6.3 percent. The expected moderation is mainly due to challenging external conditions and waning pent-up demand.

Keeping all the factors in mind, USDINR Spot (CMP: 83.13) is likely to trade towards 80-mark in the first few months of 2024. Mid-year of 2024 is when we shall see some huge volatile moves due to General Elections and sluggish global economic growth. We may expect USDINR Spot to move higher towards 86-mark. The outcome of General Elections shall set the ending tone of USDINR Spot.

Technical Outlook - USDINR Spot CMP - 83.25 levels



As per the quarterly price chart of the NSE, USDINR traded all-time high for most of 2023, and prices closed 83.2575 (0.50%) higher in a year.

USDINR started off the year at 83.14 levels and made a yearly low of 80.9075 levels. Later, prices did not sustain lower levels and rallied sharply towards 83.57. From the chart, it can be said that USDINR has formed a "Long-Legged "Doji Type of candlestick pattern" which indicates further indecisiveness.

Technically, prices are trading above their 10 and 50 EMAs (quarterly basis). RSI (14) (Relative Strength Index) stood at 77.21 levels and heading northward. MACD is showing a slightly positive divergence, indicating further strength.

For 2024, we expect USDINR prices to find support at 81.00–80.50 levels. Trading consistently below 80.50 levels.

would lead towards the strong support at 78.00 levels and then finally towards the major support at 77.50 levels.

Resistance is now observed in the range of 86.00–86.50 levels. Trading consistently above 86.50 levels would lead to a strong resistance at 89.00 levels, and then finally to a major resistance at 89.50 levels.

Looking at positive chart structure and technical indicators, we might see Positive trend in coming quarters around support levels, and we recommend buying USDINR.

Technical Levels of USDINR for **2024 - Trend – Up/Depreciation**

	S2	S1	R1	R2
USDINR	**78.00**	**81.00**	**86.00**	**89.00**

Quoting Alex Morritt – Will the new year be a new chapter, new verse, or just the same old story? Ultimately, we write it. The choice is ours!