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Rupee Strengthens Slightly Ahead of Key U.S. Inflation Data; Asian Currencies Show Broad Gains

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The Indian rupee edged higher on Friday, mirroring modest gains seen across most Asian currencies as traders await a crucial U.S. inflation report. The local currency closed around ₹85.81 per U.S. dollar, appreciating roughly 0.2% from the previous session.

The movement came amid a general softening of the U.S. dollar, following weaker-than-expected producer price and retail sales data in the United States. This has eased investor concerns over the possibility of further interest rate hikes by the Federal Reserve.

The dollar index, which tracks the greenback against a basket of major currencies, slipped 0.2% on Thursday. This helped emerging market currencies, including the rupee, regain some footing after recent declines.

Market focus is now centered on the upcoming U.S. Consumer Price Index (CPI) report for June, due later today. The data is expected to influence the Federal Reserve's monetary policy stance, particularly regarding the timing of potential rate cuts. Economists anticipate a 0.3% month-on-month rise in core CPI.

“The rupee is consolidating within a narrow band, driven by global cues and a temporary pause in the dollar rally,” said a senior currency trader at a private bank. “If the U.S. inflation print is cooler than expected, we might see some more room for the rupee to strengthen.”

In addition to global factors, domestic data offered limited support. India's trade deficit for June narrowed to \$18.78 billion, contributing to improved sentiment among forex traders. However, importers' dollar demand and external uncertainties continue to cap gains.

Analysts expect the rupee to remain in a range between ₹85.50 and ₹86.50 in the near term, barring any major global shocks. ING analysts also maintained a cautious outlook, noting subdued volatility and consistent intervention by the Reserve Bank of India to avoid sharp currency swings.