20 April 2021

Intensification of second COVID wave poses downside risks to economic recovery in near-term; faster rebound expected

- India's second COVID wave has intensified and widened in regional reach within a short period, raising uncertainties about the economic outlook.
- Compared to a blanket nationwide lockdown last year, the government's ongoing response is relatively calibrated and targeted to contain the virus spread and minimize the impact on economic activity.
- However, if daily COVID cases continue to climb up, overwhelming the health infrastructure, state governments may have to resort to stricter restrictions/lockdowns, weighing on the economy.
- Based on recent developments, we see downside risks to our real GDP projection of 12.4% YoY in FY22 by 100-250 basis points, but given the highly dynamic situation, we will wait for more data to quantify the extent of the required revision.
- We expect the second COVID wave to weigh on sequential economic recovery, mostly in Q1 FY22. The economy should rebound quickly in the following quarters, assuming the second COVID wave peaks in coming weeks and vaccines remain effective against virus variants.
- Several factors should support the faster resumption of economic recovery from the near-term impact of the ongoing COVID wave.
- These factors include a rapid vaccination drive, adaptability to a ‘new normal’, somewhat improved corporate and household balance sheets, fiscal spending focused on investment, and better external demand.
- Experiences of other countries also suggest that second/third waves are less likely to derail economic recovery despite higher COVID cases. Moreover, India’s recovery momentum before the intensification of the current COVID wave should add to resilience.
- While policy space is relatively less compared to the last year, the government has the flexibility to front-load spending while the central bank could postpone the policy normalization process.
- In the last meeting, the RBI committed that the stance of policy will remain accommodative till the ‘prospects of sustained recovery are well secured’ while announcing an upfront government bond-buying acquisition programme to manage the orderly evolution of the yield curve.

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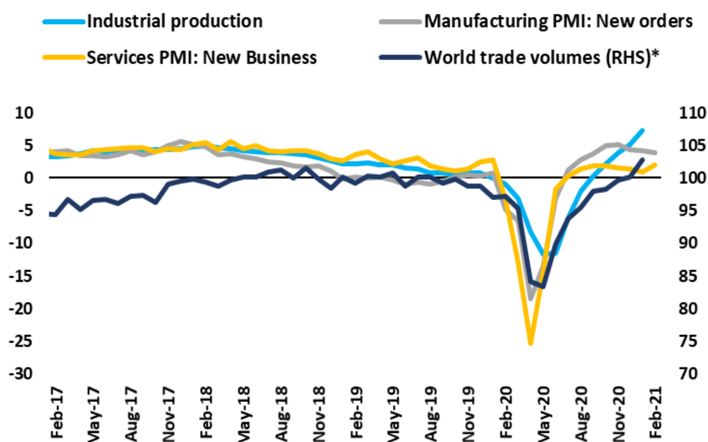
Global economic outlook improves further despite rise in uncertainty

The global economic outlook has continued to improve with each passing month. The fast-progressing vaccination drive, continued policy support, and adaptation of economies across the globe to a 'new normal' are leading to economic activity gaining traction. High-frequency indicators such as Global Purchase Managers' Index (PMI) surveys (both manufacturing and services), industrial production, and world trade volumes suggest that overall economic activity is back to pre-COVID levels, with exceptions prevalent in contact intensive service sectors. The International Monetary Fund (IMF) has revised its global growth projections higher to 6% YoY in 2021 from 5.5% in its January outlook and 5.2% in its October 2020 outlook. This is primarily led by advanced economies (0.8 percentage points upward revision from January outlook) that have been beneficiaries of larger fiscal stimulus from their governments. Meanwhile, emerging economies have witnessed a relatively smaller upgrade of 0.4 percentage points with limited fiscal headroom.

High-frequency indicators suggest economic activity is back to pre-COVID levels



***Source:** IMF; Three-month moving average, annualized percent change; deviations from 50 for PMI, unless noted otherwise; *seasonally adjusted, 2018=100*

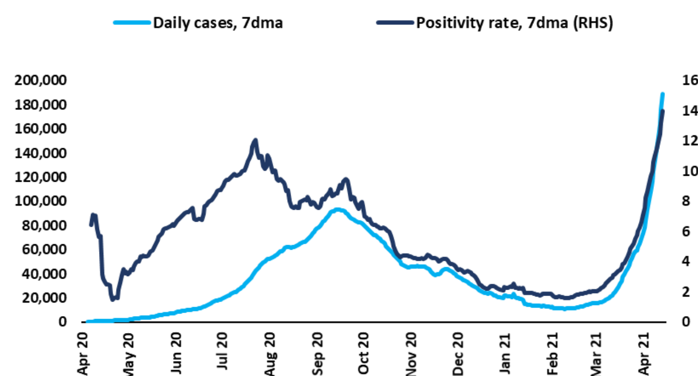
However, recoveries continue to remain highly uncertain, with the path of the virus evolving dynamically. A new mutation of the virus has infested regions across Asia, Europe, and South America with countries such as India, Brazil, and Turkey reporting their highest daily cases so far. Consequently, this has pushed the global tally of COVID cases to a record high of over 75 lakh daily cases currently, surpassing its peak from the previous wave earlier this year. The resultant pandemic-induced restrictions have further upended the ongoing recovery across economies, although the impact on economic activity is likely to be less severe given better adaptation of technology and remote work by countries during COVID.

Nevertheless, the renewed surge in COVID cases puts even more focus on enhancing the vaccination drive, especially with the possibility of any new mutations resisting the vaccine's efficacy. As such, a race against the vaccine has been stipulated, with the ongoing surge in cases. Countries such as Israel, the UK, and certain states in the US (where more than 40% of the population has been vaccinated) that are leading the vaccination drive have shown evidence of bending the COVID curve. However, other emerging and African nations fall far behind in terms of vaccine access and inoculation of their population. While the progress around the vaccine has been improving rapidly with the daily administration rate increasing steadily and new vaccine manufacturers coming into the market, the goal of achieving herd immunity remains a distant goal. On a global scale, around 5% of the world population has been vaccinated currently.

India's second COVID wave is intensifying and widening in regional reach

After bending the COVID curve in September last year, the second wave of the virus has come back to India with a vengeance. The second wave is intensifying in India with each passing day. From an average of just around 12,600 cases per day in February 2021, daily confirmed cases rose to ~35,700 in March and surged significantly even further to over 200,000 per day (7-day moving average) by mid-April. Consequently, active cases shot up to over 18 lakhs by mid-April from 2.3 lakhs in mid-March, which is higher than the earlier peak of 10 lakhs reached in September 2020. While testing has accelerated, the national weekly positivity rate has also increased from 3.1% to 13.5% in the last one month.

India's second COVID wave surpasses the previous peak



***Source:** PIB, Covid19india.org*

A lack of COVID-appropriate behaviour and super-spreader events like election rallies and religious gatherings are possibly causing a sudden surge in daily cases. New COVID virus strains with possibly higher transmissibility, including a more infectious double mutant variant which is reportedly found in 61% of sample genomes sequenced in Maharashtra, coupled with laxity in preventive measures, are likely behind the spread of the second wave in the country from a few states earlier. In March, higher cases were concentrated in few states, with Maharashtra accounting for a dominant ~59% share of the country's daily cases on an average. But in late March/early April, several states/UTs like Uttar Pradesh, Delhi, and Chhattisgarh started registering a considerable jump in the number of daily cases. As on April 17, Maharashtra, Uttar Pradesh, Chhattisgarh, Delhi, Karnataka, Tamil Nadu, Madhya Pradesh, Gujarat, Rajasthan, and Kerala together accounted for ~80% of new cases reported in the country, with Maharashtra's share falling below 30%.

Cases could continue to rise for a few weeks as most states are in their early phase of the ongoing COVID wave, even as cases seem to be tentatively stabilizing in parts of Maharashtra. Ongoing elections in five states/UTs, the festive season, and other large public gatherings could provide conducive ground for the virus to spread faster than before. Significantly higher daily cases are putting a strain on states' health infrastructure, forcing governments to tighten mobility restrictions and impose local curfews/lockdowns. Maharashtra imposed a 15-day strict (lockdown-like) curfew till May 1, with the possibility of extension for another one or two weeks. Delhi also announced a 6-day lockdown. Other states are imposing weekend lockdowns and/or night curfews, with the rising risk of a Maharashtra-like lockdown in some states. Besides mobility restrictions/partial lockdown, states are also trying to accelerate vaccination speed but have recently been faced with supply shortages.

The pace of vaccination should accelerate by the end of Q1 FY22 as supply constraints ease

The pace of COVID vaccination in India moderated to 3.27 million dosages per day in mid-April compared to 3.6 million dosages in the first week of April, amidst reports of a vaccine shortage. Still, India managed to administer the third-highest number of vaccine doses after the United States and China. It took 92 days to reach 120 million vaccinations (as of April 18), making it the fastest country to do so, ahead of the US, which took 97 days, and China (108 days). However, this accounts for 8% of India's population (with at least one dosage administered) compared to 61% in the UK, 59% in the US, and over 12% in China.

To address emerging supply constraints and to speed up the vaccination drive, the government recently decided to fast-track approval for foreign vaccines. It also gave emergency use approval to Russia's Sputnik V vaccine (efficacy of 91.6%), the third vaccine to be administered in India. As per media reports, the initial, limited supply of Sputnik's vaccine dosages is likely to be made available (through imports) in May/June, while domestic production may start in Q2 FY22. The government is also taking steps to increase the supply of the indigenous vaccine (COVAXIN) to enhance production from the current 10 million dosages per month to 60-70 million per month by July-August and around 100 million by September. As per media reports, Government support for the manufacture of COVISHIELD has been approved to help boost its production. While some of the targets look ambitious, these steps should help ease supply constraints in the coming months.

The government also opened up vaccination for all above the age of 18 years under Phase 3 starting May 1, 2021, from 45+ years earlier under Phase 2. It also liberalized and decentralized the Covid vaccination strategy by allowing vaccine manufacturers to supply 50% doses to state governments and in the open market after supplying 50% of their monthly Central Drugs Laboratory released doses to the central government. This should give a boost to the vaccination drive.

The second COVID wave will weigh on economic recovery in Q1 FY22, but several factors support prospects of a faster rebound during the rest of the year

Given the ever-increasing size of the second COVID wave, economic recovery is expected to be hampered in the near-term as authorities tighten mobility restrictions/resort to lockdowns. We see downside risks to our real GDP projection of 12.4% YoY in FY22 by 100-250 basis points, but given the highly dynamic situation, we will wait for more data to quantify the extent of the required revision.

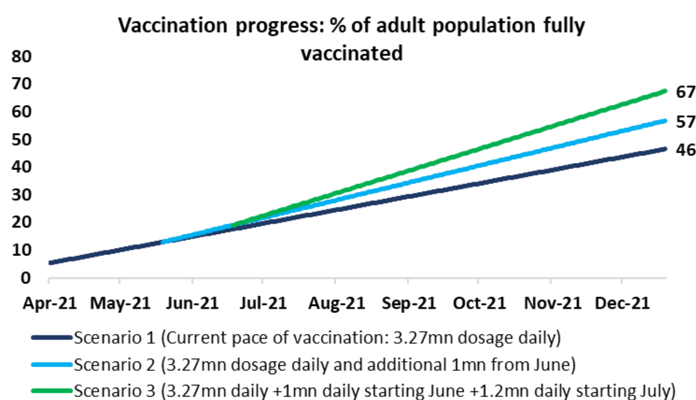
We believe overall economic normalization is likely to be delayed and not reversed. Of course, two key assumptions here are that a) the second COVID wave does not run unbridled and is brought under control in the coming weeks, and b) vaccines remain effective against the newly-emerging virus variants. Under these assumptions, we expect the second COVID wave to weigh on sequential recovery, mostly in Q1 FY22. Economic recovery should rebound quickly in the following quarters supported by factors discussed below.

1) **Vaccination to curtail the duration of the second COVID wave and allow faster normalization in the second half of FY22**

Compared to the last year, one key difference is the ongoing vaccination drive, which will help curtail the second COVID wave and allow faster reopening of the economy in the second half of FY22. It will also improve sentiment, thereby boosting consumption (partly due to reduced need for precautionary savings) and prospects of a pickup in investment activity, aiding faster economic rebound.

Based on the current pace of inoculation (3.27 million dosages per day, as of mid-April), India is on track to vaccinate ~46% of the population (aged 15+) by the end of 2021. Assuming an additional one million dosages can be administrated starting June as existing supply constraints ease and Sputnik supply starts flowing in, India could vaccinate ~57% of the population by the end of the year. As more vaccines are approved/imported and domestic supply is ramped up, the vaccination drive could be scaled further. Realistically, this could take a few months. Assuming an additional supply of 1.2 million starting July, it should be possible to vaccinate ~67% of the population by year-end, pushing the country closer to herd immunity. Seroprevalence related to COVID cases should also contribute towards the achievement of herd immunity earlier than anticipated based on the vaccination drive alone.

Pickup in vaccination drive should help India inch closer to herd immunity by the end of 2021



Source: PIB

2) **Targeted containment steps and businesses' adaptability to lower economic impact**

Compared to a blanket nationwide lockdown in the early phase of the pandemic outbreak, the government response is relatively calibrated and targeted in reaction to the second COVID wave to minimize the impact on economic activity. However, if daily COVID cases continue to climb up and overwhelm the health infrastructure, state governments might resort to stricter restrictions/lockdowns that would have a larger-than-presently-anticipated impact on economic activity.

Additionally, from last years' experience, people and businesses' adaptability to the COVID wave/virus containment measures have likely improved. This should help lower the disruption to economic activity caused by the ongoing COVID wave. Companies and people in the organized sector are better equipped to handle lockdowns through work-from-home options/rotational shifts in manufacturing plants. However, the informal sector and workers employed in the sector are likely to remain most vulnerable, needing state/central government support.

3) **The second/third waves seem to have a lower impact on the economy despite higher cases**

While a sudden rise in COVID cases is concerning, it is worth noting that second/third waves are not uncommon. Major countries like the US and UK have also witnessed their respective second/third COVID waves that were much larger than the first. An appropriate response by the public and governments could help contain the wave.

COVID- Economic Activity

Country	COVID-19 Waves	Period	Daily cases	Stringency index	Mobility Index	GDP (YoY%)	PMI Manufacturing	PMI Services
USA	Wave 1	Jul-20	61,637	68.3	-19.4	-2.8	50.9	50.0
	Wave 2	Nov-20	185,013	71.1	-24.7	-2.4	56.7	58.4
UK	Wave 1	Nov-20	19,021	68.3	-35.6	-7.8	57.3	49.9
	Wave 2	Jan-21	43,692	86.8	-50.0	-4.0*	54.9	49.7
Brazil	Wave 1	Jul-20	40,269	80.0	-20.5	-3.9	58.2	42.5
	Wave 2	Mar-21	70,887	67.7	-18.1	-1.1	52.8	44.1
France	Wave 1	Nov-20	28,750	78.3	-36.1	-4.9	49.6	38.8
	Wave 2	Mar-21	28,691	66.9	-22.3	N/A	59.3	48.2
Russia	Wave 1	May-20	9,492	80.7	-27.4	-5.6	36.2	35.2
	Wave 2	Dec-20	27,433	47.7	-19.1	-1.8	49.7	48.0

Source: OECD, Livemint, ourworldindata.org, IHS Markit, google mobility report. Mobility index - average of retail and recreation, transit stations, grocery and pharmacy and workplaces mobility indicators. *BoE's projection.

A closer look at the experience of major economies like the US, UK, and Brazil etc. shows that the second/third wave seems to have a lesser impact on the economy despite higher cases. As shown in the table above,

while the second/third wave led to higher COVID cases than the first one, the resultant tightening of restrictions was not very severe, and thus, the impact on economic mobility was not significant. This, coupled with policy support, ensured the continuation of recovery in economic activity as measured by Gross Domestic Product (GDP) despite the second/third wave. In Delhi (which has witnessed three COVID waves previously), each COVID wave came with higher COVID cases but did not lead to a sustained drop in mobility. Economic activity continued to recover during these COVID waves. If these experiences are any indication, India's economic recovery should continue even as it could slow due to the second wave and ongoing local containment measures.

4) **The economy was in better shape before the second wave intensified**

Having come out of contraction by Q3 FY21, the Indian economy continued on its path of V-shaped recovery, and economic activity gained traction in Q4 FY21. Most of the high-frequency indicators suggested strengthening and widening of economic recovery. Domestic demand conditions strengthened. Passenger vehicle and commercial vehicle sales registered a sharp uptick. Central government spending also accelerated in the first two months of Q4 to an average of 50% YoY v/s 29% in Q3 FY21. Exports rose by ~19% YoY in the last quarter of FY21, following a 4-5% YoY contraction in the prior quarter. Meanwhile, non-oil non-gold imports also increased by a similar amount (18% YoY in Q4 FY21) after a 2% YoY expansion in the previous quarter.

On the supply side as well, economic recovery showed continued normalization. The outlook for the agriculture sector remains bright, with higher rabi sowing, projection of a normal monsoon, and adequate reservoir levels. Broader industrial and services-related indicators also showed acceleration. GST collections and E-way bills rose by ~14% YoY and ~28% YoY in Q4 FY21, up from 8% YoY and 15% YoY respectively in the previous quarter. Electricity generation and consumption of petroleum & petroleum products increased by 9% YoY and 2% YoY in Q4 FY21 v/s 5% YoY rise and 1% YoY decline respectively in the December quarter. Cargo handled at major ports held up while railway freight traffic rose in double-digits in March. The PMI manufacturing index and the services PMI also remained in the expansion zone in March even though they eased moderately. However, in the Index of Industrial Production (IIP), contraction widened in February 2021 (partly due to the base effect), suggesting some loss of momentum in industrial recovery with two consecutive months of contraction, indicating the uneven nature of the ongoing recovery. Overall, economic recovery momentum was in a positive direction before the new COVID wave. Some of this momentum is likely to carry on, albeit at a slower pace, despite the new COVID wave and support the possibility of quicker resumption of the recovery process once COVID cases are brought under control.

5) **Corporate and household balance sheets improvement**

Compared to pre-COVID levels, the corporate sector seems to be in a somewhat better position to withstand a temporary economic shock, thanks to deleveraging and improved debt service capacity along with congenial financial conditions. In FY21, companies (listed non-government non-financial companies) reduced their assets and used funds to curtail liabilities and build up cash holdings. Accordingly, the debt-to-equity ratio of these firms fell by 4.4 percentage points to 39.7% in H1-FY21. Simultaneously, the interest coverage ratio of listed non-financial private companies increased in Q3, indicating improved debt servicing capacity of these companies, providing space to absorb a temporary shock. These aggregate numbers do hide differentiation by company size where smaller companies continue to struggle and may face higher risks to business continuation in the face of another shock. Many firms in the informal sector, for which financial data is not available, and firms in contact intensive sectors (like the hotel, restaurant, tourism, transport, and entertainment industries) are also likely to face higher pressures from the second COVID wave.

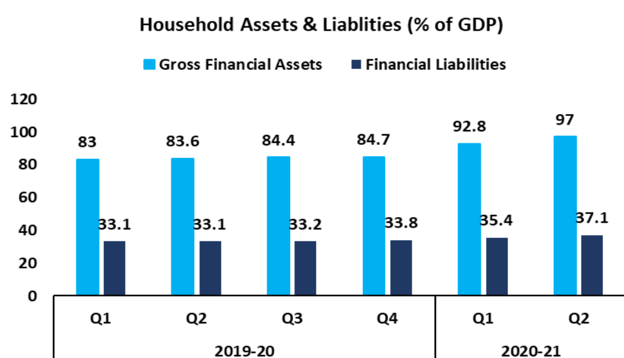
Corporate deleveraged and built cash buffers in FY21

Listed Manufacturing Private Companies			
Period	Debt to Equity Ratio	Debt to Assets Ratio	Cash to Total Assets Ratio
H2:2017-18	36.9	19.3	2.9
H1:2018-19	37.9	19.5	2.6
H2:2018-19	37.7	19.8	3
H1:2019-20	34.7	18.6	3.1
H2:2019-20	44.1	21.9	3.8
H1:2020-21	39.7	21	4.7

Source: RBI

Uncertainty brought on by the pandemic also forced households to build precautionary savings. Reduced spending opportunities during the initial phase of the lockdown last year also led to a rise in net savings. Based on data available from the RBI till Q2 FY21, households' gross financial assets rose from 84.7% of GDP in Q4 FY20 to 97% of GDP by Q2 FY21, while their financial liabilities rose at a slower pace from 33.8% of GDP to 37.1% of GDP, indicating fall in leverage. This should aid the ability of households to boost consumption when uncertainty related to COVID subsides. Like for companies, aggerate number of households hide significant difficulties faced by vulnerable sections of society and workers who lost jobs, especially in the MSME/informal sectors. These households typically have little savings, which might have been mostly exhausted during the economic hardship of last year. These households will thus need focused and more significant financial support during the second wave.

Households' net financial assets position improved in H1-FY21

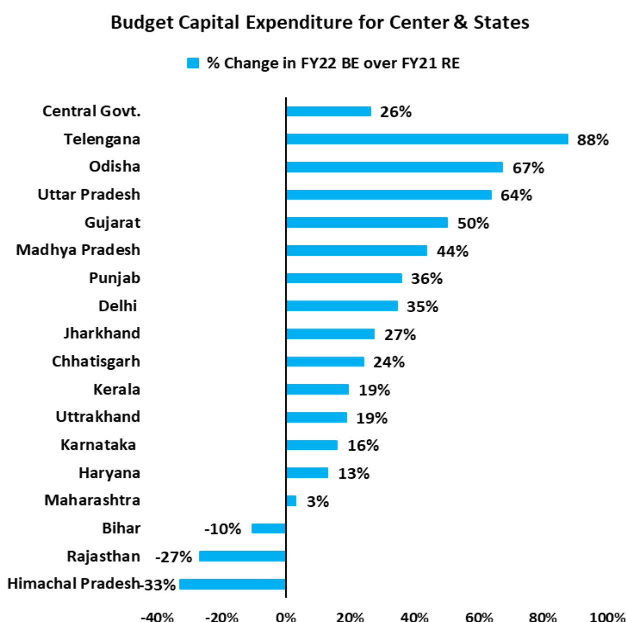


Source: RBI

6) **Higher thrust to investment by the center and state governments to spill over to the rest of the economy**

As the RBI noted in its last meeting, public investment in key infrastructure sectors is a force multiplier with a historically proven ability to revive the broader economy by directly enhancing capital stock and productivity and by attracting private investment. In FY22, both the central and state governments have increased budget allocation for capital spending, which should boost economic recovery prospects. The central government's budget for FY22 shows prioritization of economic growth revival over fiscal consolidation, with a significant push towards capital expenditure (budgeted to rise by 26% over FY21 Revised Estimate - RE). State governments also have a similar focus. Budget data for 17 states show a ~15% increase in total expenditure for FY22 Budgeted Estimate (BE) compared to FY21 RE. The growth is skewed towards capital expenditure within expenditure, which is budgeted to increase by 23.7% in FY22 over FY21 RE compared to ~7% rise last year (FY21 RE over FY20 actual).

Governments' raised capital allocation in the FY22 budget



Source: Budget documents, PRS

7) **Tailwinds from external demand are expected to remain notwithstanding the domestic COVID situation**

In FY21, India's exports contracted by 7.4% YoY (including 34-61% YoY monthly contraction during March-May 2020) as world trade volumes collapsed in the early phase of the pandemic, with several countries imposing lockdowns. Since then, world trade staged a smart recovery. The World Trade Organization's (WTO) Goods Trade Barometer rebounded in Q4 2020 as economic activity in major economies gained momentum. As recovery strengthens in 2021, the IMF projects global trade to accelerate to 8.4% YoY following an 8.5% contraction in 2020, mainly because of the rebound in merchandise volumes even as cross-border services trade (tourism, transportation) is expected to remain subdued. This should help India's export growth to pick up with a positive spillover on the economy irrespective of domestic COVID and demand conditions.

The above points highlight the factors which should provide resilience to the economy in the wake of the second wave

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and raise prospects for a faster rebound. However, on the downside, we note that uncertainty about the duration of the second wave is presently high given the possibility of new variants and differentiated responses by state governments. Further, policy space to respond to the shock is lower than in FY21. Nonetheless, it is worth noting that last year's valuable experience should help policymakers respond with appropriate and timely interventions. Also, there is still some flexibility to operate within the current policy framework. Given that it is the start of the fiscal year, the government could simply front-load spending while the central bank may postpone the policy normalization process. Additionally, positive impulses from last year's fiscal and monetary policy stimulus measures are still working through the economy.

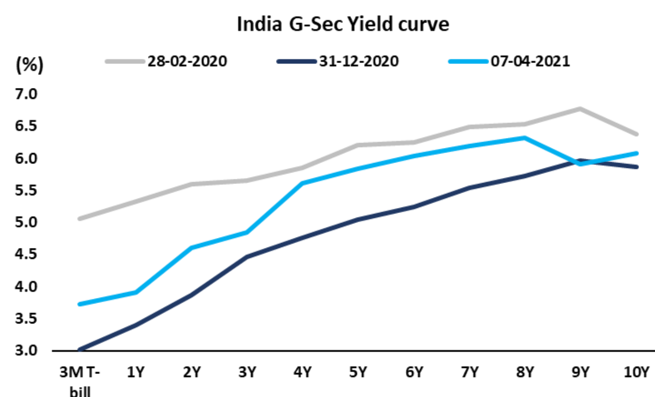
Overall, the onset and intensification of the second wave raised uncertainty about the near-term economic outlook. Rapid vaccination drive, pent-up demand, fiscal spending focused on investment by the government, and better external demand should help recovery to bounce back quickly. Having said that, we do note that downside risks have increased compared to February/March, and so has the uncertainty. The trajectory of the second wave is still on the upside, raising uncertainties about the outlook. If not contained, the recent increase in COVID infections could impede broader revival of economic activity by pushing back the normalization process. Accordingly, we expect some impact on the economic growth this year due to the likely slower sequential pace of economic activity in Q1 FY22 than previously projected. This would pose downside risks to the current forecast of 12.4% YoY expansion, which we are likely to revise downward in the coming weeks. We will closely watch incoming data to assess the potential impact of the growth outlook.

RBI continues to extend dovish support

The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) was beset by global volatility, increasing commodity prices, inflation expectations, and the recent surge in COVID cases as it met for the first policy meeting in the current financial year. As expected, it maintained the status quo on policy rates and reiterated its accommodative stance "*for as long as necessary to sustain growth on a durable basis…*". However, the MPC managed to deliver another dovish policy as it reaffirmed its focus on growth recovery on a sustained basis, despite fears of a spike in inflation (and an upward revision to its inflation forecasts). This was achieved through its commitment to keep liquidity in surplus, tweak its forward guidance from a time-based to state-based one, and other credit and liquidity boosting measures to stressed sectors such as the extension of the on-tap Targeted Longer-Term Refinancing Operations (TLTRO) scheme, liquidity support to the All-India Finance Institutions, and extension of Priority Sector Lending classification for lending by banks to NBFCs for on-lending to the stressed sectors, among other measures. Given the ongoing uncertainty with the second COVID wave, we expect the RBI to continue to prioritize growth and overlook some of the temporary shocks to inflation.

A pivotal measure of the RBI was exhibited in its announcement of an upfront government buying programme (G-SAP 1.0) of Rs. 1 lakh crore in the secondary market (in Q1 FY22) to enable a stable and orderly evolution of the yield curve. This resulted in an immediate cheer from bond markets, evident in the declining 10Y yields, and appears to have narrowed the divergence between the RBI and market expectations of the yield level so far. Another decision of the RBI regarding liquidity involved conducting a variable rate reverse repo (VRRR) of longer tenure (from the present 14-day tenure). We expect this should narrow the term premium and flatten the yield curve. (Please refer to our Monetary policy report for more details).

Yield curve flattens following RBI policy



Source: Bloomberg

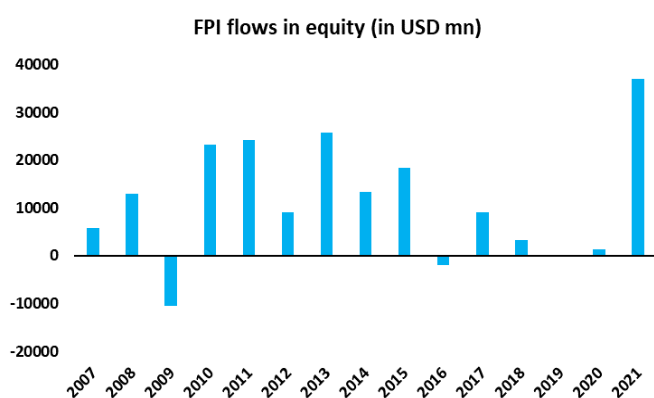
Market update

Indian bond markets continued to remain under pressure in the past two months. After witnessing a broad sell-off in February following the budget and extra borrowing announcements, bond markets extended their losses in March with the ongoing reflation trade, rising commodity prices, inflationary expectations, and rising US yields. Consequently, the yield on India's 10Y G-sec traded 10 basis points higher at 6.19% on average in March v/s 6.09% in February and 5.90% on average in January this year. However, the RBI managed to compress bond yields following its G-SAP 1.0 announcement in its policy (as discussed above). Bond yields on the 10Y G-sec initially fell sharply to trade below the 6% threshold; however, yields tightened partially thereafter, following a higher-than-expected cut-off by the RBI in the first auction of the G-SAP tranche (Rs 25,000 crore). A higher-than-expected inflation

print also weighed on bond yields. However, we expect the upfront bond-buying programme of the RBI to act as a frequent reminder to markets of RBI's hand and keep a lid on bond yields. As such, we expect the 10Y G-sec to trade in a range of 5.95-6.20% in the near-term. Meanwhile, the VRRR announcement has resulted in an increase in the shorter end of the curve and led to a flattening of the yield curve. Consequently, the 10Y-2Y spread has narrowed by more than 12 basis points and currently remains below 150 basis points

Indian equity markets extended their gains in March after the massive rally in February following the budget this year. The NIFTY 50 index increased by 1.1% MoM in March, adding to gains of 6.6% MoM in February. In March, Foreign Portfolio Investors (FPIs) continued to flock to Indian equity markets, taking the total capital flows in FY21 to a record high of over $37 billion. India continues to remain a favoured geography for foreign investors with its macro-economic outlook (the IMF recently revised India's growth forecast higher). However, the second COVID wave in India has revived some uncertainty on the domestic outlook with a return in local restrictions in certain states. This could weigh on the ongoing recovery at a time when other countries appear to be flattening their COVID curve. The development of the second COVID wave and the vaccination progress are likely to remain a wild card and will have to be closely monitored. FPIs have withdrawn more than $1.2 billion of capital from Indian equity markets since the last week of March.

Foreign portfolio investors inject record capital in FY21



Source: CMIE

The Indian Rupee traded in a narrow range in March as it averaged ~72.8 levels, similar to the previous month. Continued FPI flows in March kept the Rupee's value appreciated. However, outflows towards the end of March were offset by intervention from RBI on the other side – through the selling of Dollars in the market. However, the Rupee has come under pressure recently entering the new fiscal year. The Rupee depreciated by more than 1% following the RBI policy as the fall in bond yields disincentivized the carry trade for foreign investors. A stronger dollar, due to a faster-than-expected recovery, along with strong stimulus in the US combined with worsening of the COVID situation also weighed on the Rupee. The development around COVID and the vaccine scenario are likely to remain crucial for the trajectory of the Rupee ahead. However, we expect the RBI to curtail any sharp volatility in the Rupee using its arsenal of foreign exchange (FX) reserves. We expect the USD/INR to trade in the range of 74-75.75 in the near-term.

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