

FUTURES SNAPSHOT

Instruments	Price	% Change	Total OI (lots)	OI change (lots)	Total Volume (lots)	Volume Change (lots)	Comments
EUR/INR	79.39	0.78	181,415	14,342	236,998	76,175	Long build-up
GBP/INR	93.39	0.98	84,126	7,694	126,201	(31,628)	Long build-up
JPY/INR	62.42	1.27	40,200	5,070	106,079	(8,715)	Long build-up
USD/INR	61.15	1.59	5,326,102	505,065	9,752,552	1,590,013	Long build-up

NEWS TUBE

- ◆ According to RBI, banks are now required to verify on a periodical basis that the forward cover outstanding is supported by underlying exposures. In this context, it is clarified that in case an FII intends to hedge the exposure of one of its sub-account holders, it will be required to produce a clear mandate from the sub-account holder in respect of the latter's intention to enter into the derivative transaction. Further, the AD Category I banks shall have to verify the mandate as well as the eligibility of the contract vis-a-vis the market value of the securities held in the concerned subaccount. We believe this step has been taken to curb the arbitrage activity between NDF and onshore USD/INR market.
- ◆ RBI has allowed companies to use the overseas debt to pay for import of services, technical know-how and license fee as part of capital goods imports. In a separate notification, RBI also said it has been decided that credit enhancement can be provided by eligible non-resident entities to the domestic debt raised through issue of INR bonds/ debentures by all borrowers eligible to raise ECB under the automatic route.
- ◆ In its final estimate for Q1 GDP, US economy grew at 1.8%, sharply lower 2.4% and 2.5% estimated during the previous two estimates. It is unusual to see such a large downward revision in the final numbers. A weaker consumption and capex are blamed for the show.

USD/INR

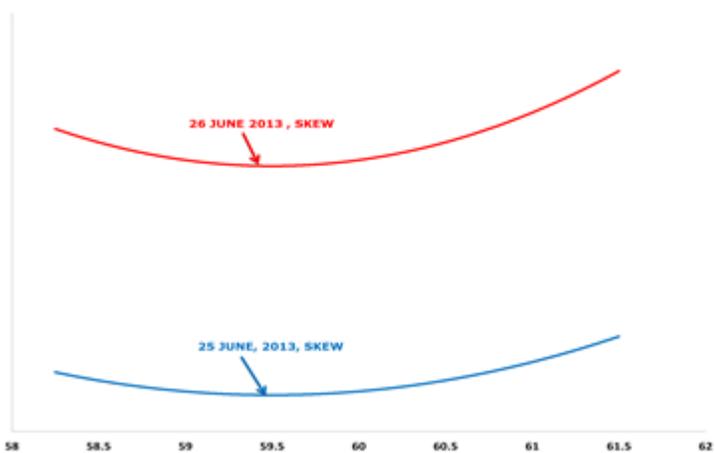
Yesterday, when trading began in the domestic currency pits, there was no sign of the coming deluge later part of the day. However, seeds were sown by bullion, which was melting rapidly. Both the Rupee and Gold have been a victim of the US Fed's taper-on trade. USD/INR was largely ranged between 59.70 and 59.90 for most of day. It was during the last two hours, USD/INR gapped upward above 60.00 on spot. After that there was no stopping the Dollar. A lack of offers and surge of buying from all quarter propelled it towards 60.72 on spot.

Overnight, markets have maintained their risk-on mood with US and European equities closing higher. Asian equities and the currencies are all trading in the positive zone. USD/INR could see a flat to marginally down opening and there after trade with an upward bias.

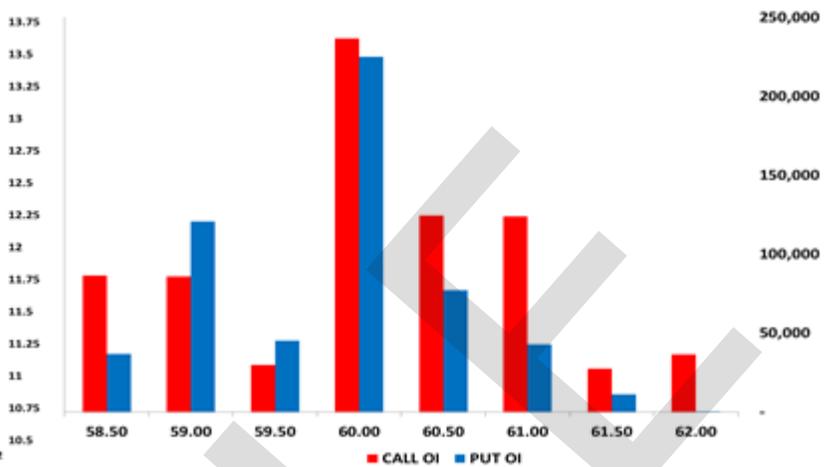
MARKET VIEW : Open could be around 60.50/51 on spot. Possible range of 60.30 to 61.10 over the near-term. Above 59.90 bias remains upward. Below 59.90, if sustained, then bias turns neutral.

Time (IST)	Currency	Economic Data	Month	Expectation	Previous
1:25pm	EUR	German Unemployment Change		7K	21K
1:30pm	EUR	M3 Money Supply y/y		2.90%	3.20%
2:00pm	GBP	Current Account		-11.9B	-14.0B
	GBP	Final GDP q/q		0.30%	0.30%
Tentative	EUR	Italian 10-y Bond Auction			4.14 1.4
Day 1	EUR	EU Economic Summit			
6:00pm	USD	Unemployment Claims		347K	354K
	USD	Core PCE Price Index m/m		0.10%	0.00%
	USD	Personal Spending m/m		0.30%	-0.20%
7:30pm	USD	Pending Home Sales m/m		1.10%	0.30%
	USD	FOMC Member Dudley Speaks			
8:00pm	USD	FOMC Member Powell Speaks			

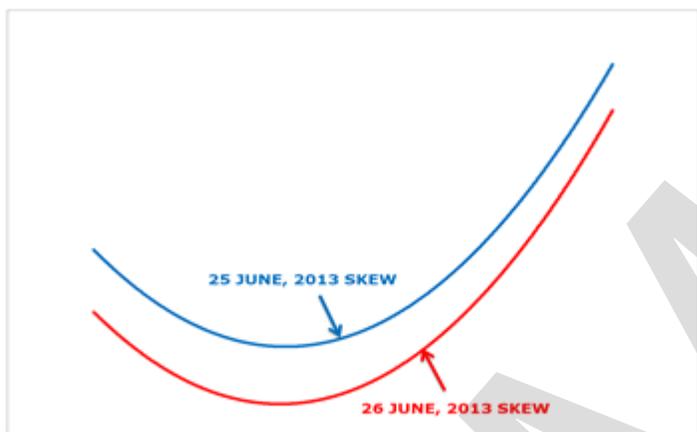
NSE IMPLIED VOLATILITY SKEW (NEAR MONTH)



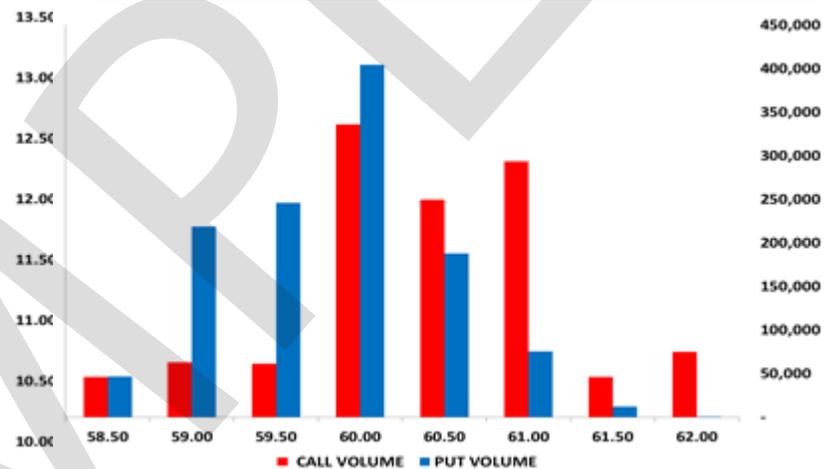
USD/INR OPTIONS OPEN INTEREST DISTRIBUTION (NEAR MONTH)



OTC IMPLIED VOLATILITY SKEW



USD/INR OPTIONS ACTIVITY (NEAR MONTH)



In July series, 60/60.50/61.00 call/put option has seen large volumes being traded. OI remains concentrated in the 60.50/60.00 put option and 61.00/62.00 call options, which means support is expected around 60.50 and resistance around 61.00 and then 62.00. IVs have risen in ETC but declined in the OTC.

DAILY CHART OF USD/INR SPOT



USD/INR continues to move higher and is now well above the 60.00/60.10 resistance on spot. An external retracement of the decline from 57.32 to 51.32 last year, a 161.8% retracement of that is around 61.05 on spot. We expect that to be the near-term target, a sustained move this level, could take prices towards 61.60/70 levels on spot. At these levels, keep an eye on Gold and the 10 year yields, as a reversal in trend over there, could be a sign of top in the pair.

EUR/INR

European finance ministers have taken a step towards reaching an agreement on how to handle failing banks. The draft document ensures that depositors with savings under 100,000 euros will be protected from any loss. The agreement has to be now ratified by the heads of state and government at the summit. While nations endorsed the banking-union project in principle last year, Germany has indicated that it disagrees with the European Commission's blueprint, warning that a strong central resolution authority, backed by a common bank fund, goes beyond what is possible under current treaties. In its final estimate for Q1 GDP, US economy grew at 1.8%, sharply lower 2.4% and 2.5% estimated during the previous two estimates. It is unusual to see such a large downward revision in the final numbers. A weaker consumption and capex are blamed for the dismal show. Fixed investment growth cratered to 0.39% from 0.53/0.53% during previous two estimates. At the same time consumption growth plunged to 2.6% from 3.4% during the previous estimate.

EUR/USD is trading around 1.3028, hovering below 200 DMA and 55 EMA between 1.3072 and 1.3103. As long as the pair not closing above the 55 EMA, there is risk of further losses in this pair. Support is expected around 1.30, which is psychological and then around 1.29/1.2850. A sustained move above 1.3160, Tuesday's high, is required to indicate that a short-term bottom is in place.

MARKET VIEW : Open could be around 79.48/53 on July futures.

GBP/INR

Here too, like the EUR/USD, Dollar bulls took control and as a result cable was sold down to 1.5300 levels. Downside pressure is evident but support levels are there, around 1.53/1.5290 levels and 1.52/1.5230 levels. However, a sustained move beyond yesterday's high of 1.5485 is required to indicate that a short-term bottom is in place.

MARKET VIEW : Open could be around 9.55/60 on July futures.

JPY/INR

Dollar/Yen has been ranged over yesterday, stuck within the levels of 98.80 and 97.20. A recovery in the US Treasuries pushed the USD/JPY pair lower. Over the last few months, Yen has replaced the US Dollar as a carry currency and hence the correlation between equities and credit with Yen has improved. A strong Yen goes hand in hand with weaker credit and weaker equity markets. Dollar/Yen is expected to face resistance around 98.70/99.00 levels, which if crossed could lead to a test of 100 handle. However, a break below 97.00 could also expose 96.00/95.50 on spot.

MARKET VIEW : Open could be around 62.43/47 on July futures.

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