

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	71.13	0.06%	2.4%	10%
EUR/INR	81.38	-0.32%	2.3%	2%
GBP/INR	93.16	-0.20%	5.2%	2%
JPY/INR	65.33	0.02%	3.1%	11%
EUR/USD	1.1441	-0.06%	-0.2%	-9%
GBP/USD	1.3096	-0.10%	2.8%	-8%
USD/JPY	108.88	-0.01%	-0.8%	0%
USD/CNH	6.7421	0.48%	-1.9%	7%
10 YR YIELD- IN	7.30	0.02	(0.12)	(0.31)
10 YR YIELD- USA	2.63	0.00	(0.05)	(0.16)
GOLD (\$/Oz)	1,319	-0.2%	3%	-2%
SILVER (\$/Oz)	15.98	-0.5%	3%	-7%
BRENT CRUDE (\$/Brl)	61.02	0.3%	13%	-12%
COPPER 3M (\$/Ton)	6169	0.5%	3%	-13%
NIFTY	10879	0.45%	-0.28%	-1%
HANGSENG	27855	-0.31%	7.77%	-15%
S&P 500	2704	0.86%	7.87%	-4%
INR 1M FWD	0.22	(0.01)	(0.02)	(0.00)
INR 2M FWD	0.48	0.00	0.02	(0.01)
INR 3M FWD	0.75	0.00	0.07	(0.03)
INR 6M FWD	1.46	(0.01)	0.07	(0.02)
INR 12M FWD	2.88	0.00	0.14	0.03
	1 DAY	MTD	QTD	CTD
FII INVESTMENT- EQ (\$ Mn)	33	(463)	(463)	(463)
FII INVESTMENT- DEBT (\$ Mn)	(61)	(354)	(354)	(354)
TOTAL- (\$ Mn)	(28)	(817)	(817)	(817)

CURRENCY	ECONOMIC DATA
EUR	CPI Flash Estimate
USD	Non-Farm Employment & ISM Manufacturing

WORLD NEWSWIRE

1. Collection from GST crossed the Rs. 1-lakh-crore mark in January. This is the third time that mobilisation has touched that amount since the introduction of the indirect tax regime.
2. The RBI has decided to take Bank of India and Bank of Maharashtra out of the Prompt Corrective Action framework following improvements in their capital position and asset quality in the December 2018 quarter.

FX VIEW

Overnight bulls kept the accelerator pressed during the US session. US stock market eked out strong gains. Trade talks between US and China has flashed a couple of fresh headlines. President Donald Trump said that no final deal will be made until he meets with China's President Xi Jinping. This is expected to occur at some time in the "near future". At the same time, In a tweet on Thursday, Trump warned that a trade deal with China would be unacceptable unless Beijing opened its markets to US financial services, manufacturing, agriculture and other industries. A major sticking point between the two sides have issues related to intellectual property in technology. Despite this, Lighthizer and Mnuchin are flying to meet in with officials in China, possibly in mid-February. However, USDCNH has not paid much attention to these headlines as the currency has quickly reversed from the early gains to 6.70 to now 6.7450 after PMI reports.

A private survey on China's manufacturing sector showed today that factory activity contracted in January. The Caixin/Markit Manufacturing Purchasing Managers' Index came in at 48.3 in January, compared to 49.7 in December. There also media reports that the Chinese central bank has directed banks to reduce the pace of lending in the economy. Weakness in China, the longer it persists, is bad news for the emerging market currencies.

Today all eyes will be on the Union Budget, where the interim FM is going to present the interim Budget. Pre-Budget news flow has been a mixed bag with CSO upgraded the GDP growth for FY 17 & 18 to 8.2% and 7.2%. This means the high base can pull down the year over year growth further in FY 19. GDP cheer did not last when the unofficial version of national employment survey came out, which showed unemployment rate has ticked up to 6.1% during 2017-18 from around 2% during the previous 10 year period. Labour participation also dropped to 36.9%. Low labour participation and high unemployment is a poor cocktail. If that was not enough, core sector growth for December declined to a 18 month low of 2.6%. The slowdown occurred on the back of weakness in growth in electricity and cement. With such a negative growth narrative around, Government could be under pressure to announce growth stimulative measures in the Budget. Remember, this is a poll bound budget and hence focus is not so much on measures to promote non-inflationary growth, which has been the focus for last 4 budgets, but more on measures which can improve the prospects in the elections. There is a lot of talk about direct cash transfer to citizens below a certain economic wellbeing. Such a measure if announced may absorb into it many of the existing subsidy schemes. However, such a move may also be inflationary. Therefore, a pro-growth and pro-poll Budget can be bullish for the equity market but not so for bonds. USDINR is going to be volatile but hard to say which direction it will close by EOD.

TECHNICAL VIEW:

Technically, USDINR remains in a bullish trend as long as above 70.80/90 zone on spot. Resistance is around 71.50/55 and 71.90/72.00. Nevertheless, incase of sustained trade below 70.80, it can test 70.50 levels on spot.

****CHART ON NEXT PAGE****



RISK REVERSAL CALCULATION= Implied volatility of 25 delta Call option - 25 delta Put option

When traders/hedgers are fearful in USDINR, they buy crash protection, generally the crash protection is bought in the direction of Dollar appreciation. In such cases, implied vol of OTM (25 delta) call options increases vs an OTM (25 delta) put option. Risk reversal value moves above 1%.

When traders/hedgers are complacent or bullish on INR, they don't pay higher volatility premium for OTM call options, as result, the spread declines and comes to 50 bps or below

Source: Bloomberg

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Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com / www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: INZ000200137(Member of NSE, BSE, MSE, MCX & NCDEX), AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97.

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