

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	69.30	0.21%	-2.3%	6%
EUR/INR	77.63	-0.05%	-4.0%	-4%
GBP/INR	90.56	-0.14%	-3.4%	-1%
JPY/INR	62.22	0.05%	-1.9%	1%
EUR/USD	1.1201	-0.11%	-1.2%	-9%
GBP/USD	1.3068	-0.27%	-0.8%	-7%
USD/JPY	111.35	0.00%	-0.4%	5%
USD/CNH	6.7243	0.08%	0.3%	7%
10 YR YIELD- IN	7.32	(0.03)	(0.06)	(0.08)
10 YR YIELD- USA	2.47	(0.03)	(0.28)	(0.26)
GOLD (\$/Oz)	1,287	-0.1%	0%	-4%
SILVER (\$/Oz)	15.08	-0.2%	0%	-9%
BRENT CRUDE (\$/Brl)	69.20	0.3%	6%	2%
COPPER 3M (\$/Ton)	6471	-0.2%	0%	-4%
NIFTY	11683	0.12%	7.55%	14%
HANGSENG	29577	0.05%	2.65%	-2%
S&P 500	2867	1.16%	2.26%	11%
INR 1M FWD	0.35	0.07	0.06	0.10
INR 2M FWD	0.57	(0.00)	0.01	0.08
INR 3M FWD	0.82	0.09	0.01	0.11
INR 6M FWD	1.43	(0.01)	(0.08)	0.07
INR 12M FWD	2.64	0.06	(0.28)	0.08
	1 DAY	MTD	QTD	CTD
FII INVESTMENT- EQ (\$ Mn)	0	4,768	7,063	7,063
FII INVESTMENT- DEBT (\$ Mn)	0	2,213	560	560
TOTAL- (\$ Mn)	0	6,981	7,624	7,624

CURRENCY	ECONOMIC DATA
USD	Durable Goods Orders

FX VIEW

Wish you all a worthwhile FY20 ahead. First trading day in the forex and rates market India starts with a bang, as RBI announced another USD 5 billion of USD to INR swap, to be conducted on April 23rd 2019. Under the swap arrangement, RBI will be providing a loan of INR liquidity to the tune of nearly 35,000 crore to the banking system, taking Dollar as collateral. Cost of securing that liquidity will be the 3 year MIFOR rate.

After the first auction there were several teething troubles. We had written about in details in our note on last Friday. To recap:

Inter-bank market was swimming in excess Dollar liquidity due to the following reasons:

1. PSU banks aggressively borrowed Dollars from the offshore market to participate in the swap. It is rumoured that the PSU banks were bid out of the market by other aggressive traders. The bids came in for more than USD 16 billion, as against a demand for USD 5 billion.
2. FPI inflows were exceptionally heavy
3. CPSE ETF was oversubscribed from FPIs and that excess funds did not leave the banking system
4. Year-end repatriation flows were exceptionally high
5. It was rumoured that several banks may have hit the limits on their NOSTRO account, which curtailed their ability to lend the dollars back abroad
6. Banks were also affected by the counter-party exposure limits which has come into place, curtailing their ability to lend Dollars to each other smoothly.

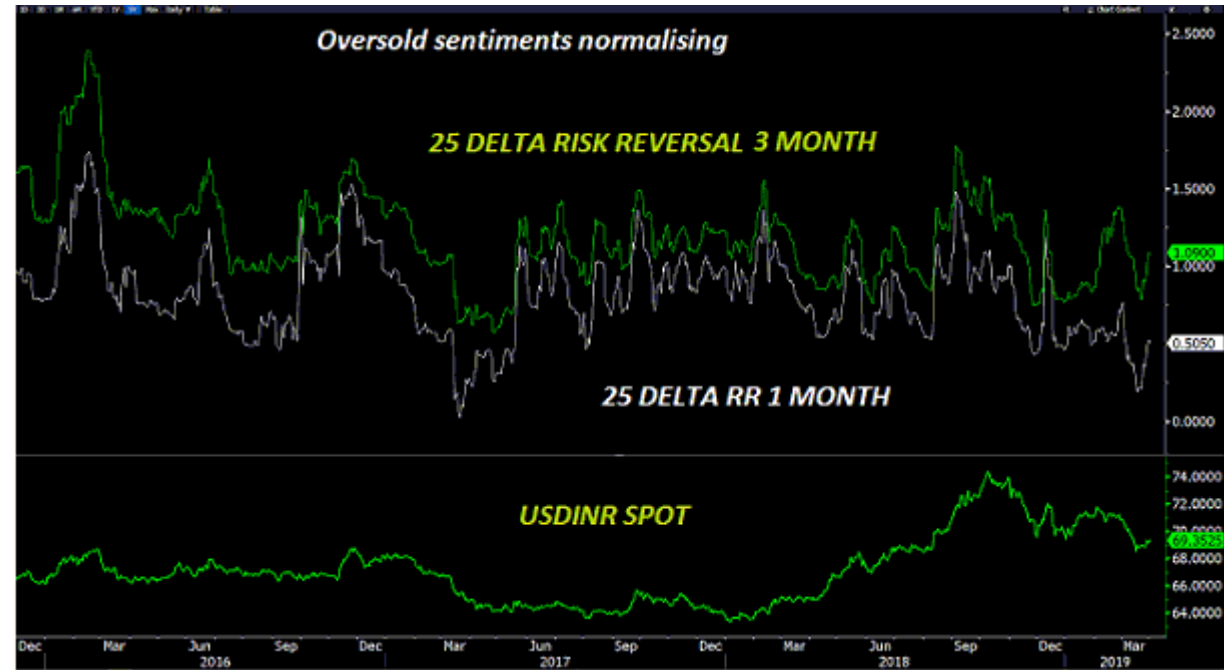
Banks had no choice but to rollover the Dollars into a future delivery. As a result, short term MIFOR rates blew out. Cost to swap Dollars from cash, delivery today, to tomorrow, next working day, which is today, touched an intra-day high of more 70% p.a.

This excess Dollars may not run off the system right away and that may keep the MIFOR curve a bit elevated due to the rollover pressure. However, as the time goes, the demand and supply of dollars will balance itself out.

All these developments and measures may have limited impact on spot USDINR. Having said that, one can argue that by announcing another swap, RBI is signalling to the market, that it is not comfortable with USDINR depreciating from here.

Swap is a negative development for the bond market as well. As it reduces the need for the OMOs. As a result, the yield curve can steepen. It can also be argued, RBI is infusing bigger amount of INR liquidity to smoothen the transmission channels, before it can begin to lower policy rates sharply. A steeper yield curve is beneficial for banks but may also discourage corporates from going for long term INR funding, due to high term premium. However, lower forward premium due to swaps, may encourage the same corporates to look for offshore market for funding, on a hedged basis. Lower forwards is also positive development for the FPIs, as they can play interest rate spread between USD and INR debt.

Technically, USDINR may test 69.50/60 zone on spot. USDINR to open around 69.33 levels. Support around 68.75/80 remains quite formidable.



Source: Bloomberg

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