kotak Securities

FOREIGN EXCHANGE INSIGHT

FX, RATES & MACRO DESK

SEPT 03,2018

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	70.77	-0.32%	3.1%	9%
EUR/INR	82.11	-0.71%	3.1%	7%
GBP/INR	91.50	-0.81%	2.3%	9%
JPY/INR	63.84	-0.27%	3.6%	8%
EUR/USD	1.1601	-0.01%	0.3%	-2%
GBP/USD	1.2929	-0.24%	-0.6%	0%
USD/JPY	110.86	-0.15%	-0.4%	1%
USD/CNH	6.8440	-0.03%	0.0%	5%
10 YR YIELD- IN	7.93	(0.02)	0.17	1.45
10 YR YIELD- USA	2.86	0.00	(0.09)	0.69
GOLD ($/Oz)	1,200	-0.3%	-1%	-10%
SILVER ($/Oz)	14.47	-0.5%	-6%	-19%
BRENT CRUDE ($/Brl)	77.41	-0.3%	6%	47%
COPPER 3M ($/Ton)	5975	-1.5%	-5%	-12%
NIFTY	11698	0.15%	2.96%	17%
HANGSENG	27585	-1.09%	-0.33%	-1%
S&P 500	2902	0.01%	2.15%	17%
INR 1M FWD	0.27	0.01	0.02	0.04
INR 2M FWD	0.53	0.00	0.01	0.07
INR 3M FWD	0.77	0.01	0.03	0.08
INR 6M FWD	1.50	0.00	(0.01)	0.11
INR 12M FWD	3.01	(0.02)	0.01	0.22

	1 DAY	MTD	QTD	CTD
FII INVESMENT- EQ ($ Mn)	113	131	339	(283)
FII INVESMENT- DEBT ($ Mn)	(155)	403	508	(5,601)
TOTAL- ($ Mn)	(42)	534	847	(5,884)

CURRENCY	ECONOMIC EVENT
GBP	Manufacturing PMI
EUR	German Buba President Weidmann Speaks

FX VIEW

It was a tumultuous week and month for the Rupee. Rupee plunged to life time low of 71 against USD and also saw fresh 52 week lows against majors, viz., Euro and Yen. If the central bank had not intervened the way it did, it could have been even deeper losses for the local unit. Domestic bond yields edged up above 7.90% on the 10 year. Higher oil prices and weak Rupee drove Goisec yields higher. However, local equity markets have brushes aside the weakness in currency and bond. Life time high in Nifty and Sensex at a time when Rupee is at a life time low against Dollar is not a common occurrence. Last time such a divergent trend persisted was during the 90s. The divergent trend can be explained by the fact that local stocks are being driven money from resident investors. Whereas, Rupee is reacting global factors like EM turmoil and higher oil prices. As a result, the divergence can persist for more time

Just released GDP data for India positively surprised. Real growth touched a decadal high of 8.2% in Q1FY19 from 7.7% during Q4 FY18. Growth was broad-based, as agriculture, manufacturing, construction and electricity output, all clocked impressive growth in Q1. Services sector clocked robust growth but at a slower pace than Q4 FY18. Momentum was evident in consumption as private consumption grew 8.6%, vis-a-vis 6.7% in the previous quarter. Investment demand grew 10% in Q1, strong show, but slower than 14% in Q4. However, one point to a low base during Q1FY18, when investment demand had grew 0.8%, due to the disruption post demonitisation. All in all, Indian economy has continued recovery sharply from the demonitisation-GST slump last year and a strong growth augurs well for the Rupee assets. In the R-G-P framework we use to analyse a currency, real rates, growth and politics, is a strong for the Rupee. However, turmoil in EMs as well as high oil prices are bigger factors that can continue to drive the Rupee away from the domestic positive factors.

TECHNICAL VIEW:

Technically, USDINR remains within a primary uptrend. Unless prices are closing below 69.00, any sharp correction, 1-1.5%, is an opportunity to enter fresh longs on USD and short on INR. However, over the near term, there is a need for a correction in USDINR prices. Therefore, as long as 71.00/71.05 holds out on spot as resistance, USDINR can test support around 70.40/45 levels on spot, which if breached can take prices towards 70.00 handle. Nevertheless, incase of a sustained move above 71.05, play for 71.50/71.60 on spot.

On Rupee crosses, EURINR is in need for a correction. The run from 78.50 to 83.00 has been without any correction. Therefore, we would wait for a EURINR to dip towards 81.00 levels on spot, before attempting fresh longs. Key event to watch for the week for EuroINR will be the EZ retail sales data due on Wednesday. At same time, US jobs data, ISM release as well durable goods orders shall also impact the EuroINR and other INR crosses. On GBPINR, we would wait for a decline towards 90.80 before attempting fresh longs. GBP will be driven by headlines on Brexit. EU chief negotiator, Michel Barnier indicated that he is "strongly opposed" to Theresa May's Chequers plan. This can add more pressure on GBP, which had spiked last week on the back of favourable comments from EU on Brexit. On JPYINR, we would remain bullish and look to buy the dips as long as prices hold above 62.00 on spot. JPYINR has been a solid proxy for the EM risk off move this year. As long as the EM risk-off persists, JPYINR would find demand. If the risk aversion intensifies, due to the expected imposition of 25% tariff on $200 billion of Chinese exports to America, then JPYINR can rise towards 64.50 on spot.

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