

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR	
USD/INR	68.81	0.10%	2.4%	6%	
EUR/INR	80.22	0.29%	2.2%	8%	
GBP/INR	91.01	0.30%	1.4%	8%	
JPY/INR	62.37	0.29%	1.8%	9%	
EUR/USD	1.1658	0.01%	-0.5%	3%	
GBP/USD	1.3227	-0.02%	-1.2%	2%	
USD/JPY	110.34	-0.14%	0.5%	-3%	
USD/CNH	6.6499	0.10%	3.8%	-2%	
10 YR YIELD- IN	7.86	0.01	0.03	1.31	
10 YR YIELD- USA	2.84	0.01	(0.09)	0.52	
GOLD (\$/Oz)	1,256	0.1%	-3%	2%	
SILVER (\$/Oz)	16.07	-0.1%	-3%	0%	
BRENT CRUDE (\$/Brl)	77.67	-0.7%	3%	63%	
COPPER 3M (\$/Ton)	6386	-1.6%	-8%	8%	
NIFTY	10768	-0.02%	1.65%	12%	
HANGSENG	28038	-0.72%	-9.83%	10%	
S&P 500	2713	-0.49%	-1.23%	12%	
INR 1M FWD	0.26	0.00	0.01	0.01	
INR 2M FWD	0.51	0.00	0.05	0.01	
INR 3M FWD	0.78	0.00	0.08	0.01	
INR 6M FWD	1.52	0.01	0.12	0.02	
INR 12M FWD	2.98	(0.01)	0.18	0.04	
		1 DAY	MTD	QTD	YTD
FII INVESTMENT- EQ (\$ Mn)	(144)	(121)	(121)	(742)	
FII INVESTMENT- DEBT (\$ Mn)	(27)	(29)	(29)	(6,138)	
TOTAL- (\$ Mn)	(171)	(150)	(150)	(6,880)	

CURRENCY	ECONOMIC EVENT
USD	ADP Non-Farm Employment & ISM
USD	FOMC Meeting Minutes

INDIA NEWSWIRE

1. Gol's decision to hike MSP will imply a dent of Rs 150 billion to the exchequer immediately but the final figure could be more than double at around Rs 350 billion once the purchase price of oilseeds and pulses was taken into account.

WORLD NEWSWIRE

1. China's Commerce ministry said that US tariffs will hit global supply chains including foreign companies in China. Separately, China's custom agency has said that its tariffs on US goods will kick in immediately after US tariffs on China activates.

FX VIEW

Yesterday Rupee was the worst performing currency in Asia. Hard to say what could have driven the weakness. Post facto blame can easily fall on increase in the minimum support prices by Gol, which if implemented well, will not only be pro-growth but also inflationary. A higher inflation risk means, RBI will press on the gas more and tighten monetary policy. In an ideal world, rising real rates are positive for a currency, without much political risk and growth risk, but when equity market is not able to attract inflows and carry traders are shying away from Rupee, due global and domestic factors, the real rate angle fails to impress. Domestic interest rate market is pricing another 2/3 hikes from RBI over the next twelve months. RBI had signalled that they would like to maintain real rates of 150-200 bps over the CPI. Currently CPI is nearly 5.00% and if RBI believes that CPI can inch towards 5.5% over the next 9/12 months, due to oil, Rupee, MSP and growth, then in order to maintain a real rate of 150 bps, repo has to become 7.00%. The play in the call on CPI a year ahead. Currently the expectation from RBI is that CPI will remain anchored below 5%, hence the call for repo to be steady around 6.50% over the medium term. If that expectation moves higher, RBI is expected to act swiftly.

USDCNH has once again started to depreciate. Yesterday after making a low of 6.61, CNH is trading at 6.65 against USD. We will be watching closely the level of 6.70. If the pair manages to cross that and sustain above it, it can drag the Asian basket lower, including Rupee. Next round of tariffs are expected to be announced from US before the week draws to close, which can lead to retaliatory moves from China. Trade war concerns remains a major headwind for EM currencies.

Not surprisingly, in a recent report on the US economy by IMF, primary concern was that the fiscal stimulus would trigger an inflation break-out and the Fed would have to raise the policy rate quicker. This has been our stance since the beginning of the year and a major reason why we flipped bearish on INR in Q1. IMF is expecting Fed to hike rates from 1.75%-2.00% to 3.50%-3.75% by 2020. A clear signal that 2018 is going to be a challenging year for emerging markets, as dollar rates and dollar prices head higher. Things can change next year, but that is still way out of our trading horizon for the moment.

Technically, in USDINR the ongoing tussle between RBI and market is quite fascinating. The zone of 68.40 and 69.00 will lay the foundation for the next move. If the pair breaks down below 68.40, we can assume that a major top is in place and prices are heading lower. On the contrary, if prices are to finally breakout above 69.00, then this launch pad can send prices towards a new handle, which is 70 and higher. Therefore, enjoy this tussle zone and hope we stay on the right side of the trend once it begins.

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