

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	69.41	0.21%	0.0%	4%
EUR/INR	77.94	-0.04%	0.3%	-1%
GBP/INR	88.06	0.05%	-3.3%	-2%
JPY/INR	64.12	0.37%	2.3%	5%
EUR/USD	1.1230	0.08%	0.3%	-5%
GBP/USD	1.2687	0.00%	-3.1%	-5%
USD/JPY	108.24	-0.20%	-2.3%	-2%
USD/CNH	6.9286	0.01%	2.2%	8%
10 YR YIELD- IN	6.98	(0.04)	(0.41)	(0.94)
10 YR YIELD- USA	2.11	(0.02)	(0.36)	(0.86)
GOLD (\$/Oz)	1,332	0.1%	4%	3%
SILVER (\$/Oz)	14.84	0.2%	0%	-11%
BRENT CRUDE (\$/Brl)	60.78	0.2%	-15%	-19%
COPPER 3M (\$/Ton)	5807	-1.2%	-7%	-18%
NIFTY	11990	-0.26%	2.37%	13%
HANGSENG	26970	0.28%	-7.67%	-14%
S&P 500	2826	0.82%	-3.63%	2%
INR 1M FWD	0.24	0.01	(0.05)	0.01
INR 2M FWD	0.46	0.00	(0.08)	0.00
INR 3M FWD	0.72	0.03	(0.09)	0.01
INR 6M FWD	1.42	0.04	(0.13)	0.02
INR 12M FWD	2.86	0.03	(0.21)	0.06
	1 DAY	MTD	QTD	CTD
FII INVESTMENT- EQ (\$ Mn)	339	339	3,302	11,529
FII INVESTMENT- DEBT (\$ Mn)	104	104	(929)	340
TOTAL- (\$ Mn)	443	443	2,374	11,868

CURRENCY	ECONOMIC DATA
INR	RBI Meeting
EUR	ECB Meeting

FX VIEW

Credit crises, a feared term in financial markets. India is witnessing one in a slow-motion. Yesterday, rating agencies ICRA and Crisil downgraded rating on Rs 850 crore worth of commercial paper of Dewan Housing Finance Corporation to 'default' from 'A4' due to the mortgage lender's deteriorating liquidity condition. DHFL had missed interest payment and as a result and due to valuation norms all MFs had to mark down their investments in DHFL, which has led to sharp plunge in NAVs of several MF schemes. 165 schemes are exposed to DHFL (as of 30th April 2019) with a cumulative exposure of INR 5336 crore across 24 AMCs. 106 schemes have an exposure of more than 5% of assets making this a significant default for the vast majority of affected mutual funds.

NBFC sector has been in stress since last year and the stress seems like aggravating further. NBFCs, unlike banks, do not have access to the RBI's financing and hence are dependent on private investors or banks. Over the past couple of weeks, RBI has tweaked liquidity norms for NBFCs and also amended the large exposure norms for Banks, which will in turn affect financing of NBFCs. The sector is expected to more consolidation. The fear of the market participants is that there is a risk of a wave of defaults from smaller and medium sized NBFC as their asset quality woes is reaching tipping point. At the same time, several occasions the debt papers of the NBFCs have suffered multiple notch downgrades, which makes the investor even more cautious. Private investors and banks would think twice before trusting a top rated paper, as sudden change in liquidity conditions can make the paper worthless in short notice. In such a scenario, liquidity can dry up quickly for the NBFC. In financial markets, there are times, when liquidity crises, if not attended in time, can morph into solvency crises. We need to keep a close eye on the sector.

Rupee is expected to react negatively to the developments in the NBFC sector. NDF is showing that USDINR spot may open, nearly half a percent higher, around 69.60/65 levels on spot. Oil is down to 60 dollars on Brent and USD is flat against major currencies. Overnight US and European stocks edged higher. All in all there is a risk-on mood but the domestic credit crises could be spoiling the party. We are still inclined to sell on rise as the technical structure remains bearish. We would be sellers on rise. Resistance is around 69.60/70 zone and thereafter closer to 70.00/70.10 zone. Support is around 69.05/10 levels on spot.

Overnight US economic data was weak with ADP job survey showed that companies added only 27,000 jobs in May as against an expectation of 173K. Survey showed that large companies added jobs as they were able to compete better in a tight labour market but smaller and medium sized firms retrenched. In his speech, US Fed Chairman Jerome Powell dropped his standard reference to the bank being "patient" in approaching a rate decision next week, saying instead it would respond as "as appropriate" to trade pressure.

Today is RBI decision day. Market has priced in 25 bps cut with more announcement of OMOs. Focus will be on the new forward guidance. If RBI decides to shift stance from neutral to dovish, it can be very positive for bonds and equity and hence positive for INR. When the mood is risk on, lowering interest rate is generally positive for Rupee due to probability of increase in FPI flows. However, when the template is risk off, then lowering rates can be negative, as lowering of carry can hurt the Rupee. There can be several variations to this template. Not just BI, even ECB is meeting today. The central bank is expected to announce details of the new Targeted Long Term Re-financing Operation (TLTRO) and also release its updated economic projections and new forward guidance. If ECB sounds too dovish, it can cause sell-off in Euro pairs.

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Source: Bloomberg

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