

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	69.42	-0.46%	-2.0%	9%
EUR/INR	79.29	-0.37%	-1.6%	4%
GBP/INR	88.49	0.12%	-2.1%	3%
JPY/INR	64.30	0.08%	2.3%	13%
EUR/USD	1.1422	0.24%	0.4%	-5%
GBP/USD	1.2748	0.20%	0.2%	-6%
USD/JPY	108.12	-0.36%	-4.2%	-5%
USD/CNH	6.8518	-0.21%	-0.5%	5%
10 YR YIELD- IN	7.45	0.02	(0.13)	0.12
10 YR YIELD- USA	2.67	(0.00)	(0.18)	0.19
GOLD (\$/Oz)	1,289	0.3%	3%	-2%
SILVER (\$/Oz)	15.77	0.5%	8%	-8%
BRENT CRUDE (\$/Brl)	57.68	1.1%	-6%	-15%
COPPER 3M (\$/Ton)	5918	3.2%	-5%	-18%
NIFTY	10805	0.72%	1.04%	2%
HANGSENG	25793	0.65%	-1.04%	-16%
S&P 500	2532	3.43%	-3.84%	-8%
INR 1M FWD	0.24	0.00	(0.02)	0.01
INR 2M FWD	0.45	0.00	(0.03)	(0.00)
INR 3M FWD	0.70	(0.01)	0.01	(0.00)
INR 6M FWD	1.42	(0.01)	(0.03)	(0.01)
INR 12M FWD	2.80	0.01	(0.03)	0.03
	1 DAY	MTD	QTD	CTD
FII INVESTMENT- EQ (\$ Mn)	(150)	(145)	(145)	(145)
FII INVESTMENT- DEBT (\$ Mn)	203	158	158	158
TOTAL- (\$ Mn)	53	13	13	13

CURRENCY	ECONOMIC DATA
USD	ISM Non-Manufacturing PMI

FX VIEW

All hands on deck Gentlemen. This is the message that emanated from two major central banks around the world- PBOC & US. It would not be surprising if the moves were co-ordinated. First up, China made its first major monetary policy easing announcement of 2019 on last Friday. China's central bank said that it will cut the amount of money banks are required to hold in reserve with it by one percentage point, a move that could pump \$ 210 billion of additional liquidity into the banking system. This comes on the heels of indications from the Chinese government that Beijing is seeking to implement a "proactive fiscal policy" to stimulate economic activities with China's growth set to decelerate further after the headline gross domestic product (GDP) growth rate dropped to the lowest level in a decade in 2018.

Even before the Fed chair took to the podium, US Fed officials had made overtures about a rethink in the future path of monetary policy. Before Christmas, the Fed's Williams said that "we did not make a decision to change the balance sheet normalization right now, but as I said, we're going to go into the new year with eyes wide open..", while also the Fed's Kaplan last week said that he "ought to be open to adjusting balance sheet runoff if needed". So, there were signs that Fed members are looking to relook at the pace of balance sheet run-off. Then came Powel. First exuded confidence in the US economic growth as he pointed to the stellar job growth and wage gains. However, he soon pointed as the rapid deterioration in the reading of ISM manufacturing. Headline reading of ISM had plunged from 59.3 in November to 54.1 in December, lead by a 11 point plunge in the new orders sub-index. Such massive reversals in the ISM seldom occurred outside recessions. US Fed chair said that the Fed will be patient, as they watch how the economy evolve and there is a need to be prepared with flexible policy. The markets are sending downside risk signals and the Fed will take into account the market's concerns. After last week's development, Fed funds futures are now pricing in barely 5% chance of a rate hike to 2.50-2.75% by end of 2019. The odds were as high as 80% a month back. This is not the first time, rate hike expectations have seen-sawed within a short span of time, but what is interesting this time is the market's expectation for a rate cut by 2020 has soared. Since 2009, global economic cycle have been shorter and brittle and as a result, rates market has exhibited schizophrenia. We could be seeing another such episode. However, as long as it lasts, it is going to be quite positive for EM currencies, like INR, which is enjoying very high real rates and little threat of inflation over the next 9-12 months.

USD also has to grapple with the political showdown in America. US government shutdown continues, hurting the US economy and also raising the risk of debt ceiling fiasco in March of this year. Going into the debt ceiling deadline, we can see US Treasury flood the banking system with US liquidity as they brings down the cash balances with the US Fed. US Treasury would have to do such a thing to avoid being unable to paying the bills as debt ceiling may take time to be raised. Without a higher debt limit, US Treasury would not be able to raise fresh debt. Historically, higher US liquidity in the banking system has driven down the USD values and also tightened credit spreads. Both of these will be positive developments for EM assets and EM FX, like Rupee and Rupee assets

TECHNICAL VIEW

USDINR is homing in on the major breakout zone below 69.00 handle. However, there is a chart gap between 69.10 and 69.40 levels on spot. This gap was formed during first half of 2018. We would not be eager to short as prices are within the gap and above the strong support zone. Folks looking go long USD, can do so with stop below 69.10 on a closing basis. Major resistance around 70.00 and 70.50 levels.

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



Source: Bloomberg

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