kotak Securities

FOREIGN EXCHANGE INSIGHT

FX, RATES & MACRO DESK

JUNE 07'2019

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	69.27	-0.01%	-0.2%	3%
EUR/INR	78.04	0.31%	0.4%	-2%
GBP/INR	87.94	-0.01%	-3.3%	-2%
JPY/INR	63.85	-0.11%	1.4%	4%
EUR/USD	1.1268	-0.07%	0.7%	-5%
GBP/USD	1.2695	0.01%	-2.9%	-5%
USD/JPY	108.48	0.07%	-1.6%	-1%
USD/CNH	6.9380	0.16%	2.1%	8%
10 YR YIELD- IN	6.95	0.02	(0.43)	(1.04)
10 YR YIELD- USA	2.12	0.00	(0.34)	(0.80)
GOLD ($/Oz)	1,333	-0.2%	4%	3%
SILVER ($/Oz)	14.88	-0.1%	0%	-11%
BRENT CRUDE ($/Brl)	62.51	1.4%	-11%	-19%
COPPER 3M ($/Ton)	5808	0.0%	-7%	-20%
NIFTY	11786	-0.49%	2.50%	9%
HANGSENG	26965	0.26%	-8.17%	-14%
S&P 500	2843	0.61%	-1.41%	3%
INR 1M FWD	0.23	0.00	(0.04)	(0.00)
INR 2M FWD	0.48	0.00	(0.04)	(0.00)
INR 3M FWD	0.71	(0.01)	(0.10)	(0.01)
INR 6M FWD	1.41	(0.02)	(0.15)	(0.02)
INR 12M FWD	2.85	(0.01)	(0.22)	0.03

	1 DAY	MTD	QTD	CTD
FII INVESMENT- EQ ($ Mn)	20	358	3,322	11,548
FII INVESMENT- DEBT ($ Mn)	225	330	(703)	565
TOTAL- ($ Mn)	245	688	2,619	12,113

CURRENCY	ECONOMIC DATA
USD	Employment Report (NFP)

FX VIEW

Reserve Bank of India slashed the key policy rate by 25 basis point for the third time this year, taking the repurchase rate to 5.75% and reverse repo rate to 5.50%. The central bank also changed its monetary policy stance from 'neutral' to 'accommodative' but there was no change to the 4.00% cash reserve requirement ratio for commercial banks. The change in stance gave the maximum boost to sovereign bond prices, as 10 year yields dropped from 6.99% to 6.87%, before closing at 6.93%. Dollar Rupee retraced the opening gains and settled around 69.27 levels on spot.

There are three focus areas for RBI, when they set the monetary policy:

1) Growth-

How far away from the potential growth is current and future growth trajectory. If the growth is expected to remain well below potential output, thereby giving rise to a sustained positive output gap, RBI lowers cost of capital to push economy towards potential. One needs to remember, that potential output is a hypothetical exercise and is fraught with model risks.

2) Inflation-

RBI considers a whole variety of indicators before arriving at a conclusion on the direction of inflation. RBI has a mandate to keep inflation within a band of 2%-6% over the medium term. Inflation in this case is as computed by the headline CPI. However, RBI also keeps a close watch on the trajectory of core inflation, ex-food and ex-fuel. If inflation is expected to sustain above the median level of 4% and risk inching towards upper band of 6%, then RBI can look to increase cost of capital. Similarly, if inflation is expected to remain lower bound, then cost of capital can be lowered.

3) Financial stability-

Are there risks to stability in banking and NBFC sector, which can derail growth? If yes, then central bank can lean towards rate cuts even though inflation may not warrant it. Not only that, they can look at targeted refinancing to support the entities facing stress.

Indian economic activity has slowed down due to loss of momentum in growth of household consumption and government spending. Global environment remains gloomy for trade. However, capital flows have not been affected yet, which is a positive. RBI has downgraded their growth forecast for FY20 to 7%. On inflation, outlook remains benign, closer to the lower bound. Financial stability risks have surfaced with DHFL defaulting. Though RBI has not announced any targeted refinancing plan for the shadow banks, but taking into account weak growth, low inflation and credit crunch in NBFC affecting further, RBI decided to lower rates and guide for more cuts. We could see rates decline by another 50-75bps, unless fiscal stimulus comes in a big way or oil prices spiral higher.

The medium term outlook for bond market remains quite bullish as the low oil prices, inverted global yield curves, bid for safety can counter the challenges posed by higher supply of government bonds in FY20. On USDINR, there is not going to be any persistent impact of RBI policy. It will revert to global trend of risk, oil and dollar.

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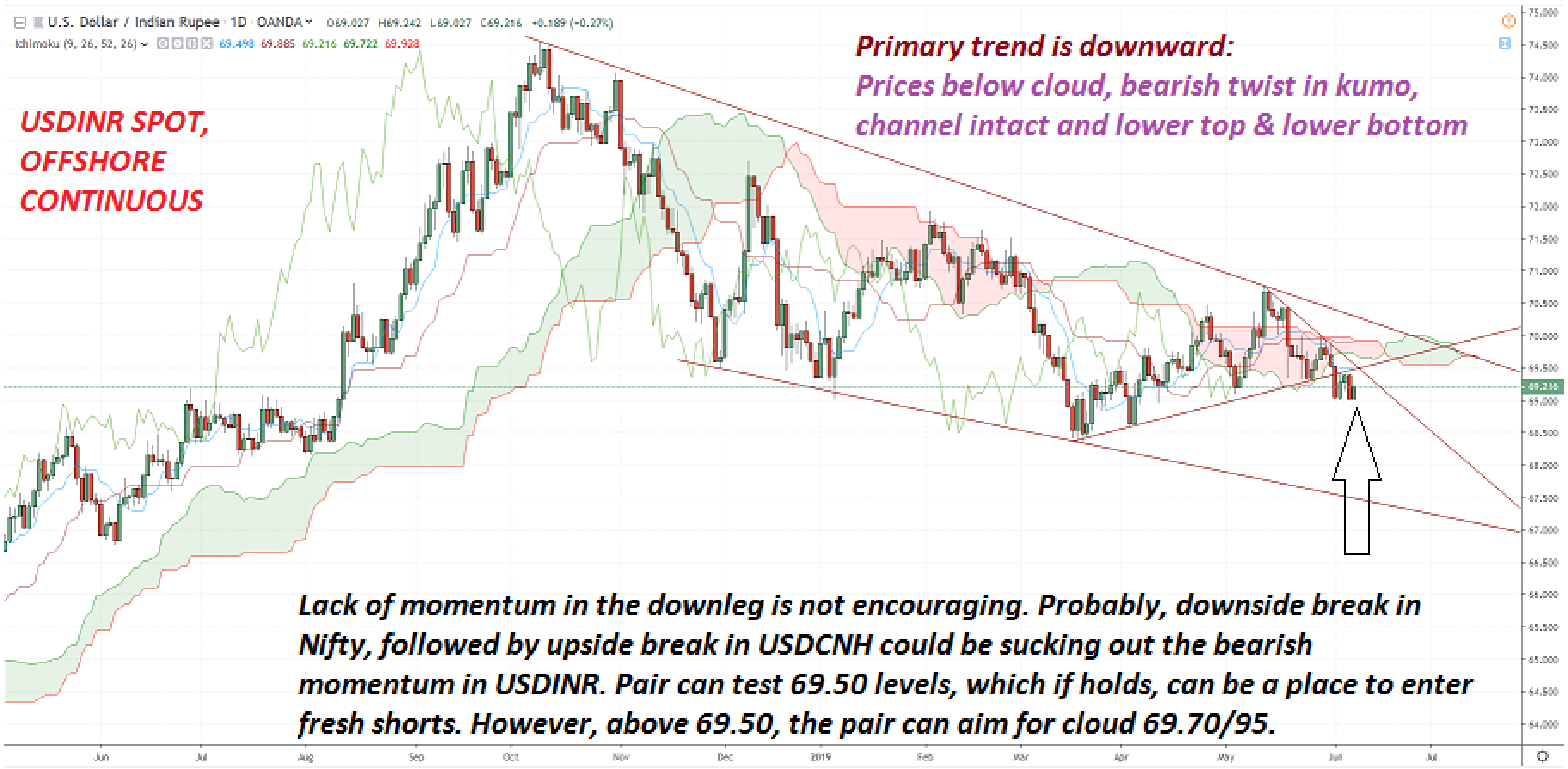

Source: TradingView

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