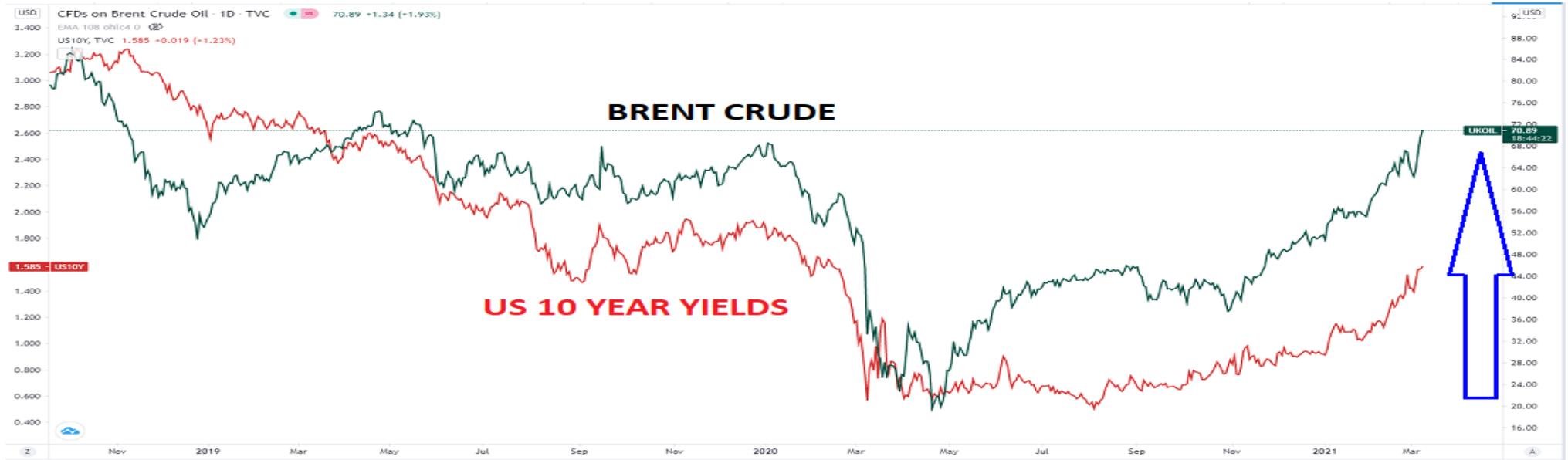




Oil & Yields can unleash the “Tandav Mode” in USD/INR



MACRO STORY

- ✓ Expectation that global economic growth will surge in coming months and cocktail of easy money and tight physical market in oil, **Brent crude oil prices have surged to highest levels since May 2019.**
- ✓ **US central bank is not yet making yet clear whether they will allow banks relief from the SLR rule or not for US Treasury and balances with Fed.** The fear that Fed may not allow the exemption has caused further selling in the US Treasury bonds. Expectation of high growth, high inflation and record fiscal deficit in US has caused US 10 and 30 year yields to surge to highest levels since Feb 2020.
- ✓ **Higher oil prices is a drag on Indian economy** as it reduces household disposable income and may dampen corporate margins. At the same time it raises risk of higher inflation. Effect of these three is that it can trigger outflow from Indian debt and equity markets. Speculators sensing the outflow can begin to cover their shorts on USDINR. This causes the Rupee to depreciate.
- ✓ **Higher US yields raises the cost of financing in US Dollars**, which is the reserve currency and also a funding currency for carry trade in emerging markets. Hence, higher US yields can cause carry trade to unwind and push USDINR higher.



➤ **Recap:** On Friday, a cocktail of higher oil prices and rising US bond yields pushed USDINR March futures from day's low of 72.95 towards 73.34.

➤ **Markets' today:**

- US administration is all set to unveil a fresh stimulus package of \$1.9 trillion. A +ve news for the USD.
- Asian equity markets are up on the back of US stimulus news. USDINR may open higher near 73.40 on Mar.
- Brent crude has jumped by 2% to \$71.20 to highest levels since May 2019**, after reports came over the weekend of rocket attacks on Saudi oil facility in Ras Tanura Port.
- The duet of rising oil prices and rising US bond yields is negative for FPI & speculative flows into Rupee.**

➤ **Trade Pointers:**

- The expected range of 72.80 to 73.50 is playing out in March fut. **Avoid positional trades.**
- One can buy near 72.90/73.00 zone but with a stop below 72.80. Major resistance near 73.50 & 73.80.

➤ **Levels to watch:**

Futures	S1	S2	CMP	R1	R2
USDINR	72.90	73.20	73.30	73.50	73.80



**EUR/USD
&
EUR/INR**

- **Recap:** EURINR March futures closed 46 paise lower at 87.50 as traders bought US Dollar on the back of rising US bond yields making USD more attractive than Euro, which has negative interest rates.
- **Economic data:** On Friday, US jobs report for Feb beat expectations. Jobs growth surged by 3.79 lakhs and unemployment rate declined to 6.2%. With US economy opening up and stimulus cheques coming in, economic growth is expected to pick even more speed in the coming months.
- **Markets' today:**
 - ❑ German industrial production will be the data to watch. Also, keep an eye on US bond yields.
- **Trade Pointers:**
 - ❑ EURUSD is in bearish price trend. Sell on rise as long as the pair holds below 1.2050 levels.
 - ❑ EURINR may fall gradually as weak trend in the EURUSD is somewhat offset by uptrend in the USDINR.

➤ **Levels to watch:**

Futures	S1	S2	CMP	R1	R2
EURINR	87.20	87.45	87.96	87.95	88.20



**GBP/USD
&
GBP/INR**

- **Recap:** GBPINR too succumbed to rise in US bond yields and falling equity markets. GBPINR March futures closed 54 paise lower at 101.18 on Friday.
- **Markets' today:**
 - UK central bank chief, Andrew Bailey is scheduled to speak. GBP traders will watch for hints on mon policy
 - UK economy remains poised for strong growth. However, for **GBPINR to rise global equity markets need to rise and US bonds yields peak out. Therefore, keep an eye on these two.**
- **Trade Pointers:**
 - GBPUSD is in uptrend. Buy on decline advised with stop on a close below 1.3700 levels.
 - GBPINR March fut is a buy on decline with stop below 100.50/70 zone on a closing basis.
- **Levels to watch:**

Futures	S1	S2	CMP	R1	R2
GBPINR	101.00	101.30	101.18	101.75	102.10

**USD/JPY
&
JPY/INR**



- **Recap:** The relentless slide continues in JPYINR. Rising US bond yields continue to drag the JPY lower. JPYINR March futures closed 35 paise lower near 68.05 levels.
- **Trade Pointers:**
 - ❑ USDJPY remains in an uptrend. It has potential to test 109.10/30 levels.
 - ❑ JPYINR remains in a downtrend. Sell on rise. Major resistance zone is between 68.50/70 on March fut.

➤ **Levels to watch:**

Futures	S1	S2	CMP	R1	R2
JPYINR	67.30	67.55	67.60	67.95	68.20

FPI FLOWS

MONTH	(\$ Million)	
	EQUITY	DEBT
Apr-20	(904)	(1,057)
May-20	1,929	(2,902)
Jun-20	2,890	552
Jul-20	1,018	(568)
Aug-20	6,294	368
Sep-20	(1,052)	896
Oct-20	2,661	314
Nov-20	8,132	326
Dec-20	8,420	1,227
Jan-21	2,658	(660)
Feb-21	3,539	(246)
Mar-21	(122)	(603)
FY21	35,585	(1,750)

- The three macro factors that drive the value of USDINR: (i) Carry trade done by speculators by selling USDINR forwards/futures and rolling it (ii) FDI & FPI flows (iii) RBI intervention.
- Alongwith macro and technical factors, Intermarket has significant impact on USDINR. Keep an eye on (i) US Dollar Index (ii) Global equity indices (iii) Oil prices- Oil has been rising but if it begins to sustain above 70, it can a negative factor for the Rupee (iii) Asian currencies against US Dollar
- FPI flows have turned negative in March. If US bond yields continue to rise, then with rising oil prices, can trigger further outflows from Indian debt and even Indian equity. Keep a watch.

Disclaimer

- Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +2267132430. Website: www.kotak.com / www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: INZ000200137(Member of NSE, BSE, MSE, MCX & NCDEX). Member Id: NSE-08081; BSE-673; MSE-1024; MCX-56285; NCDEX-1262. AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97.
- Customer Service Number – 1800 209 9191 email id – service.securities@kotak.com. Compliance Officer Details: Mr. Manoj Agarwal. Call: 02242858484, or Email: ks.compliance@kotak.com. Investments in securities market are subject to market risks, read all the related documents carefully before investing. The information is only for consumption by KSL client and such material should not be redistributed
- [Click here for detailed disclaimer](#)