kotak Securities

FOREIGN EXCHANGE INSIGHT

FX, RATES & MACRO DESK

JULY 08'2019

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	68.58	0.24%	-1.6%	0%
EUR/INR	77.01	-0.05%	-2.3%	-5%
GBP/INR	85.88	-0.01%	-2.8%	-7%
JPY/INR	63.28	0.32%	-1.4%	2%
EUR/USD	1.1228	0.03%	-0.7%	-4%
GBP/USD	1.2522	0.01%	-1.3%	-6%
USD/JPY	108.38	-0.08%	-0.1%	-2%
USD/CNH	6.8949	-0.01%	-0.7%	4%
10 YR YIELD- IN	6.63	(0.07)	(0.35)	(1.25)
10 YR YIELD- USA	2.02	(0.02)	(0.06)	(0.81)
GOLD ($/Oz)	1,399	-0.1%	5%	11%
SILVER ($/Oz)	15.03	0.2%	2%	-7%
BRENT CRUDE ($/Brl)	64.26	0.0%	2%	-17%
COPPER 3M ($/Ton)	5902	-0.3%	2%	-7%
NIFTY	11692	-1.01%	-1.50%	9%
HANGSENG	28306	-1.63%	4.97%	0%
S&P 500	2990	-0.18%	4.07%	8%
INR 1M FWD	0.24	(0.00)	0.01	(0.01)
INR 2M FWD	0.51	0.00	0.03	0.01
INR 3M FWD	0.78	(0.02)	0.06	0.02
INR 6M FWD	1.60	(0.03)	0.17	0.08
INR 12M FWD	3.32	(0.06)	0.47	0.33

	1 DAY	MTD	QTD	CTD
FII INVESMENT- EQ ($ Mn)	81	(456)	(456)	10,883
FII INVESMENT- DEBT ($ Mn)	44	198	198	1,627
TOTAL- ($ Mn)	125	(257)	(257)	12,510

CURRENCY	ECONOMIC DATA
EUR	German Industrial Production

FX VIEW

Last Friday, there were clear divergent moves in the Indian financial markets space. On one hand, bond and Rupee strengthened but equity markets took a beating. The reasons for the divergent trend lay in the Union Budget presented by the Finance Minister on Friday. Budget laid clear emphasis on attracting foreign capital, by way of FDI or portfolio investments and also talked about foreign currency denominated bonds to be issued by GOI to take benefit from interest rates globally. Therefore, it is no surprise that both the rates and currency markets reacted so positively. Even though GoI kept the gross borrowing future unchanged at INR 7.1 lakh crore but a portion of that borrowing will happen in the offshore market, which means, the effective borrowing from the domestic market would reduce. For every $10 billion of borrowing moves overseas, the effective gross borrowing by GoI in the domestic market falls by close to INR 69,000 crore. However, with Government earning revenues in Rupees but servicing the debt in dollars, means the balance sheet of the sovereign will gradually become a bit inverted. Inverted balance sheet amplifies cyclicality. During periods when Rupee will appreciate against Dollar, the debt servicing obligation will fall and vice a versa. Having said that, as long as future government do not become profligate, as has been the case with many emerging market nations, going for overseas borrowing can work, as interest rates are low to negative for the DM sovereigns. In such a scenario, if India can lock into lower rates on long term paper, it would be prudent. RBI, with its large FX reserves can offer comfort to foreign lenders.

Government has announced slew of measures to augment capital flows. The economic survey had spelled out clearly that India's growth path will be investment driven like the Asian economies of the past. However, unlike the Asian economies, India's growth model is reliant heavily consumption. Therefore, it will be prudent for India to source savings from abroad, then trying to generate savings domestically. A country which focusses on generating domestic savings to fund investments, must enact policies to reduce the share of household income to GDP, which in turn supresses the share of consumption to GDP and that is how of share of savings increase, e.g China or Japan or for that matter even German after Hartz reform.

SEBI to increase the minimum level of public shareholding in listed companies to 35% from 25%. To extend the buyback tax at 20% for listed companies. Steep jump in surcharge on individuals earning above 2 crore rupees p.a. Sharp jump in the effective STCG and LTCG on FPI and domestic HNIs with profits above a threshold.

All in all the Budget shows a clear intent to propel the economy towards a USD trillion economy, through higher investments. Ease of doing business as been addressed on multiple fronts. Yes, it can also be argued that the fiscal math is dodgy and unless the non tax revenues pick up substantially, by the end of FY20, the GFD can rise above 3.3% of GDP. However, markets have got used to the game plan, where an aggressive GFD target is published in the Budget and then over the whole year, government gradually manages to convince the bond markets of a higher borrowing. Therefore, we remain bullish on INR and bonds on the back of the Budget. Having said that, we need to keep an eye on Dollar in the global market. Friday, jobs report was better than expected from US but bond market is still pricing a near 100% probability of cut this month. Fed chair will testify this week in front of Congress, that alongwith the Fed minutes will be big events for the market. If Fed conveys a message of no cut, then we can see Dollar rise and bond yields harden and commodities get thrashed, alongwith EM equities too.

USDINR has formed multiple bottom around the 68.35/40 levels on spot. With that the 4 month old range of 68.35 to 70.00 is intact. We would wait for higher levels to sell the pair, as it faces several resistances between 68.80/69.20 zone on spot. Nevertheless, incase of a valid break below 68.30, USDINR can eye 67.50/67.70 levels

ANINDYA BANERJEE- CMT, anindya.banerjee@kotak.com

Source: Bloomberg

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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.: +22 67132430. 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.

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