



***Oil, US yields & high carry may make USDINR ranged***

*Anindya Banerjee, CMT, CFTe, CCRA*



➤ **Recap:** Yesterday, USDINR ticked higher, nearly 10 paise, to close at 73.40 on March futures. As oil prices jumped to 22-month high and US yields touched a fresh 13 month high, Rupee, along with host of other EM currencies depreciated.

➤ **Markets' today:**

- US equity markets** are seeing a churn, as tech-heavy Nasdaq declined but Dow soared to record highs.
- Asian equity markets** are mixed bag. Asian currencies are trading flat against the US Dollar. As a result, USDINR March futures may open flat near 73.40 levels.
- Overnight, **oil prices and US yields** have cooled off from the highs. However, until and unless, these two markets are reversing lower, USDINR may continue to see demand near 73.00 levels on March futures.

➤ **Trade Pointers:**

- High oil and US yields may limit downside but high carry may also cap upside. **Avoid positional trades.**
- One can buy on decline but with a stop below 72.90 levels on March fut. Major resistance near 73.60/70.

➤ **Levels to watch:**

Futures	S1	S2	CMP	R1	R2
USDINR	72.90	73.20	73.39	73.60	73.80



- **Recap:** EURINR March futures closed 25 paise lower at 87.25 levels. EURINR is being driven down by the decline EURUSD, which is caught between divergent trends in the Eurozone economies and the US economy.
- **Economic data:** US President is expected to sign the new the stimulus bill before the end of this week. The new stimulus plan provide significant amount of cash in the hands of US citizens. This coupled with sharp increase in household savings during the COVID lockdowns, mean that consumer spending can come roaring back.
- **Markets' today:**
  - ❑ With no major economic data, focus will be on US bond yields and broader USD trend to guide EURINR.
- **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	86.60	86.80	87.25	87.25	87.50

EUR/USD  
&  
EUR/INR



**GBP/USD  
&  
GBP/INR**

- **Recap:** GBPINR March futures after opening nearly 40 paise higher, around 101.58 levels, remained flat as marginal weakness in GBPUSD was offset by mild strength in USDINR.
- **Markets' today:**
  - UK economic data is expected to improve as the country unlocks thanks to rapid vaccination drive.
  - GBPINR remains quite sensitive to global risk appetite. Risk off can drive the pair lower but a risk on mood can cause recovery in the pair.
- **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:** JPYINR March futures saw some stability yesterday, as the pair closed 6 paise higher. However, the downtrend is intact and hence the pause will be a temporary one.
- **Trade Pointers:**
  - ❑ USDJPY remains in an uptrend. It has potential to test 110.10/110.30 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	66.80	67.10	67.68	67.55	67.75

# FPI FLOWS

( \$ Million)		
MONTH	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	(369)	(663)
<b>FY21</b>	<b>35,585</b>	<b>(1,750)</b>

- 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.

## MACRO STORY

- ✓ A combination of **high oil prices and shortage of US Dollar** have been periods when USDINR has appreciated quite rapidly.
- ✓ This time around, though oil prices have begun to climb higher, but US central bank and US government, using their monetary tool and fiscal lever, wants to flush the global economy with USD.
- ✓ Add to that the high **'carry'** or 'forward yield' in USDINR. There is not much incentive for the speculator to short Rupee and long the US Dollar.
- ✓ Therefore, the buying in USDINR, till forward premium remains high, has to come from the shorts, looking to cover.
- ✓ A glimpse of such unwinding was visible on 26<sup>th</sup> Feb, when USDINR March futures appreciated at the fastest pace since taper tantrum in 2013. However, those gains did not sustain, as once the short covering ended, RBI selling brought the pair back below 73 handle.
- ✓ Therefore, over short to medium term, USDINR may enter into a range between 72.70/80 levels and 73.70/80 levels on March futures.

# 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](http://www.kotak.com) / [www.kotaksecurities.com](http://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](mailto:service.securities@kotak.com). Compliance Officer Details: Mr. Manoj Agarwal. Call: 02242858484, or Email: [ks.compliance@kotak.com](mailto: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](#)