

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	70.42	-0.07%	-1.3%	10%
EUR/INR	81.44	0.93%	0.0%	6%
GBP/INR	90.04	0.43%	-0.7%	4%
JPY/INR	65.26	0.26%	3.5%	13%
EUR/USD	1.1563	0.17%	1.8%	-3%
GBP/USD	1.2787	-0.02%	1.8%	-5%
USD/JPY	107.91	-0.24%	-5.0%	-3%
USD/CNH	6.7912	-0.31%	-1.8%	4%
10 YR YIELD- IN	7.53	(0.11)	0.07	0.19
10 YR YIELD- USA	2.70	(0.01)	(0.16)	0.14
GOLD (\$/Oz)	1,296	0.2%	4%	-2%
SILVER (\$/Oz)	15.75	0.0%	8%	-7%
BRENT CRUDE (\$/Brl)	60.88	-0.9%	2%	-12%
COPPER 3M (\$/Ton)	5958	0.9%	-3%	-16%
NIFTY	10841	-0.13%	3.36%	2%
HANGSENG	26559	0.37%	3.13%	-15%
S&P 500	2585	0.41%	-2.00%	-6%
INR 1M FWD	0.25	0.01	(0.01)	0.02
INR 2M FWD	0.45	0.00	(0.03)	0.00
INR 3M FWD	0.74	0.02	0.03	0.01
INR 6M FWD	1.45	0.02	(0.01)	0.02
INR 12M FWD	2.85	0.01	0.05	0.03
	1 DAY	MTD	QTD	CTD
FII INVESTMENT- EQ (\$ Mn)	(102)	(262)	(262)	(262)
FII INVESTMENT- DEBT (\$ Mn)	(115)	(54)	(54)	(54)
TOTAL- (\$ Mn)	(217)	(316)	(316)	(316)

CURRENCY	ECONOMIC DATA
USD	Fed Chair Powell Speaks

INDIA NEWSWIRE

- The World Bank on Wednesday said the Indian economy would grow at 7.3 per cent in 2018-19 (FY19), slightly higher than the official Advance Estimates of 7.2 per cent. However, it warned developing countries to be ready to cope with turbulence in international trade and manufacturing.

FX VIEW

Overnight the Fed minutes and speeches from Fed members were in focus. Fed minutes were on expected lines, it sounded quite cautious about future hikes. On account of weak growth momentum, tightening financial conditions and global financial market turmoil is now making the Fed go slow on further hikes. Dot plot hints at 2 more hikes in 2019, but market is not expecting any hikes in 2019. However, the rate expectation has high correlation with S&P 500. If the US markets continue to recover, the odds for a hike would recover with it. Therefore, for Fed to stay dovish US stock market and US credit spreads need to remain weak and wide. Furthermore, the dovishness has been echoed by Federal Reserve Bank District Presidents Eric Rosengren and Raphael Bostic who both touched on the idea of the Fed listening to the financial market's reaction to monetary policy tightening and current risks which have plagued investor risk sentiment. Most prominently, the discussion over the tapering of the Fed's balance sheet is now on the table for discussion - this is a bigger takeaway for risk takers than Fed pausing on rates.

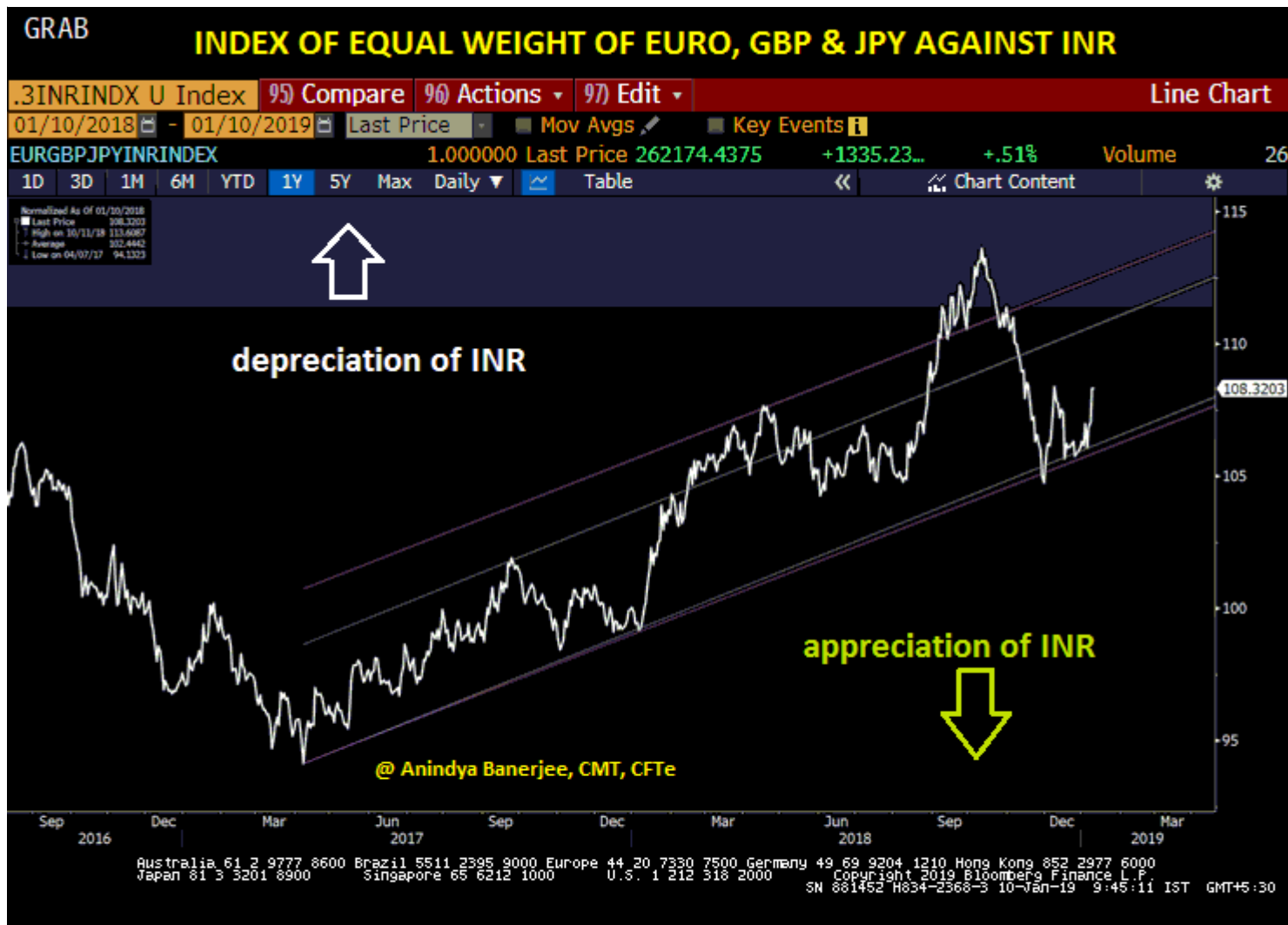
The impact on Rupee, can be quite mixed, depending on the pair you are trading. In the month of January, Rupee is almost the worst performer. Unless oil prices collapse back closer to 50 handle, this equation may not change. Political risk, growth slowdown and fiscal slippage can constrain capital inflow. Historically high valuation premium of Indian equities over DM & EM equities is going to deter capital flows due to the above risks. However, Indian debt has space to attract large cap flows. Inflation is low and rates are high. But, fiscal slippage is not giving comfort. Crude has begun to inch higher, but it could be coupled with US equities. Once US equities tank, so may crude. Therefore, there is still case for FPIs to deploy funds at short end and play carry trade (0-3 years bucket). However, if they see risk on Rupee, they may shy away from the carry play, till election. On valuation front, a quick glance at the BIS broad REER (61 economies) index, Z-score indicates that Rupee is now fairly valued. Therefore, there is scope for a swing to either direction, depending on whether risks materialise or risks abate.

Over the near term, however, if Dollar stays weak globally due to Fed, trade talks and government shutdown, then Rupee may not weaken against Dollar, rather stay within a range, between 69.50 and 71.00, but it can weaken against pairs, like Euro and JPY. As a result, we would tactical long on EURINR and JPYINR on decline. On GBPINR, we have to wait for the outcome on the Parliament vote on January 15th. A no hard Brexit risk is needed to consider long on GBPINR.

TECHNICAL VIEW:

We have been long on USDINR, since 69.30/40 levels and continue to be long on USD. Pair has breached 70.20 levels on spot and can push towards 70.85/71.00 levels on spot. Bias turns neutral if prices slip below 69.90 on spot. On EURINR, buy on decline with stops below 78.00 on spot. On JPYINR, buy on decline as long as prices holding above 62.00 on spot.

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



Long Euro, JPY & GBP and short INR, or short carry Index could pay off. Signs of risk-off over the horizon

Source: Bloomberg

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