



Rupee strengthens as oil & yields pullback...

Anindya Banerjee, CMT, CFTe, CCRA



➤ **Recap:** Yesterday, USDINR shaved off 25 paise from its previous day's close as March futures shut shop near 73.14. Pullback in oil prices, along with US bond yields offered a perfect set of excuse for carry traders to drive USDINR lower.

➤ **Markets' today:**

- US tech heavy Nasdaq surged by over 3% as US bond yields cooled off, setting the risk on mood.
- Asian equity markets are mixed bag. Asian currencies are showing early strength against the US Dollar.
- +ve set of macro news for the Indian economy. First the **passenger vehicle sales** grew by nearly 11%. Also, OECD raised projection for **India's GDP** growth by 4.7% to 12.6% for FY22, one of the **fastest in the world**.
- A cool-off in US bond yields and oil prices and high carry may encourage **fresh selling** from exporters/specs

➤ **Trade Pointers:**

- USDINR, like most major markets have become news driven due to lack of dominant theme.
- As long as the spot remains below 73.60, bias remains bearish. Sell on rise. But above 73.60, turns neutral

➤ **Levels to watch:**

Futures	S2	S1	CMP	R2	R1
USDINR	72.60	72.81	73.14	73.30	73.55



- **Recap:** EURINR front month futures (March contract) closed at **the lowest level since Nov 5th 2020** as weakness in EURUSD and USDINR dragged the pair lower, towards 87.15 levels, down 10 paise.
- **Economic data:** Eurozone GDP estimate for Q4 2020 was revised lower to a contraction of 4.9% y/y, indicating that ongoing lockdowns is taking a toll on the region. Unlike UK or US, Eurozone has been slow in either vaccinating its population and also enacting massive fiscal stimulus program. As a result, **Euro remains weak.**
- **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 1.20 levels.
 - ❑ A weak EURUSD and rangebound USDINR means EURINR a sell on rise for a target of 85.80/86.00.
- **Levels to watch:**

Futures	S2	S1	CMP	R2	R1
EURINR	86.30	86.60	87.15	87.05	87.30

EUR/USD
&
EUR/INR



GBP/USD

&

GBP/INR

- **Recap:** GBPINR March futures closed flat @ 101.54, as strength in GBPUSD offset the weakness in USDINR.
- **Markets' today:**
 - ❑ Net speculative longs in GBPUSD in US exchanges have reached highest levels since April 2018.
 - ❑ Brexit, rapid vaccination and massive fiscal/monetary stimulus have turned the mood quite bullish in GBPUSD. However, near term consolidation and downward correction may continue till the time, USD remains strong against other major currencies.
- **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	S2	S1	CMP	R2	R1
GBPINR	100.80	101.20	101.54	101.55	101.80

USD/JPY
&
JPY/INR



➤ **Recap:** JPYINR front month futures closed at the lowest level since March 2020 as high US yields and weak USDINR dragged the pair lower.

➤ **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	S2	S1	CMP	R2	R1
JPYINR	66.80	67.10	67.32	67.30	67.55

- ✓ The **danger of being too focused on a well controlled currency pair like USD/INR** is that one can miss some trends occurring in other pairs.
- ✓ **Indian Rupee has appreciated quite significantly against several of the major currencies like in European, Asian and EM sphere.**
- ✓ Last year, relentless intervention from **RBI made Rupee one of the weakest currencies in the world**, even though it was well-off its all time lows against the US Dollar. It was due to the massive rally in EM and DM currencies against the US Dollar, which did not translate into gains for the Rupee as RBI remained like a wall, absorbing close to 150/160 billion USD.
- ✓ Rupee, no doubt, faces a cocktail of headwinds by way of rising oil prices and elevated term premium in US Treasuries. These risks needs to be monitored closely.
- ✓ **In a way, these headwinds are being countered by the high carry with 12 month forward yield near 5% and relatively low volatility.** When realized volatility remains low, high carry becomes a turn-off for any major speculator looking to short the Rupee. The question then arise is by paying 1.16 rupees over spot for 3 months, how many will be interested to be long USD and short Rupee?
- ✓ **Till the fact that global flows do not turn away from EMs and or carry does not come off significantly, USDINR uptrend will be dependent on short covering bursts, rather than fresh speculative long positions.** Most of these global risk-off driven short covering bursts tend to fade well within a week, like the one we witnessed during end Feb, which lasted for barely 24 hours.

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	(533)	(838)
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 remains negative in March. US bond yields and oil prices need to cool off for outflows to stop. All eyes will be on Fed meeting next week. If fed can engineer a rally in US bonds, it can be positive news for GOIsecs too.

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