

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	69.59	0.07%	-2.3%	7%
EUR/INR	78.78	0.31%	-1.8%	-2%
GBP/INR	92.16	0.74%	0.9%	2%
JPY/INR	62.38	-0.30%	-3.2%	2%
EUR/USD	1.1321	-0.05%	0.2%	-8%
GBP/USD	1.3243	-0.71%	3.4%	-5%
USD/JPY	111.57	0.36%	1.0%	5%
USD/CNH	6.7171	0.24%	-0.9%	6%
10 YR YIELD- IN	7.38	0.00	0.05	(0.30)
10 YR YIELD- USA	2.63	0.01	(0.03)	(0.19)
GOLD (\$/Oz)	1,304	-0.4%	-1%	-2%
SILVER (\$/Oz)	15.37	-0.5%	-2%	-7%
BRENT CRUDE (\$/Brl)	67.81	0.4%	5%	4%
COPPER 3M (\$/Ton)	6473	0.0%	6%	-7%
NIFTY	11342	0.00%	5.54%	9%
HANGSENG	28800	-0.03%	1.29%	-8%
S&P 500	2811	0.69%	2.37%	2%
INR 1M FWD	0.25	(0.03)	0.01	(0.02)
INR 2M FWD	0.50	(0.04)	(0.03)	(0.01)
INR 3M FWD	0.70	(0.08)	(0.04)	(0.03)
INR 6M FWD	1.35	(0.08)	(0.10)	0.02
INR 12M FWD	2.53	(0.19)	(0.36)	0.02
	1 DAY	MTD	QTD	CTD
FII INVESTMENT- EQ (\$ Mn)	511	1,838	4,134	4,134
FII INVESTMENT- DEBT (\$ Mn)	47	849	(804)	(804)
TOTAL- (\$ Mn)	558	2,687	3,330	3,330

CURRENCY	ECONOMIC DATA
INR	WPI

INDIA NEWSWIRE

- The private sector is scaling down on their new capacity expansion plans, but they have stepped up borrowing for the planned phases, a study by the Reserve Bank of India (RBI) has showed.

WORLD NEWSWIRE

- Growth in China's industrial output fell to a 17-year low in the first two months of the year. Industrial output rose 5.3 percent in January-February. Fixed-asset investment growth quickened to 6.1 percent in the first two months of this year. Retail sales were marginally better than expected, rising 8.2 percent in Jan-Feb.

FX VIEW

Last night RBI moved in, to inject durable Rupee liquidity. On one hand they will inject Rupee liquidity by buying Dollars in spot. On the other hand, they will sell the same Dollars in the forward market with a tenor of 3 years. Banks have to sell dollars to RBI in the spot, thereby sucking out spot Dollars and augmenting Rupee liquidity. At the same time, they will hedge their transaction by selling the same Dollars 3 years out, for which they will get the bids from banks in terms of forward premia. In other words, RBI is giving a Rupee loan to the banking system with tenor of 3 years at a cost of the 3 year forward premia.

Though this move RBI has connected the FX and rates market together. On one hand, as it is a swap, it can be largely spot neutral. As there are no reports any Dollar shortage in the system, the impact should not be much on spot. However, it can have a sentimental impact on USDINR as market can perceive this as hint from RBI that they are not comfortable with the way INR is appreciating.

Currently, a foreign bank can borrow USD at around 3% for a year and then if they can hedge the INR for, paying around 3.5% or lower, all in hedge cost comes to around 6.5%. These funds can then be deployed into corporate bonds yielding well above 8.00% to earn the carry. Forward premium has fallen very sharply, for example, 12 month forwards are down 21 paise since yesterday. Lower forward premia would not only incentivise covered interest rate play but also reduce the cost of dollar borrowing by Indian corporates on a hedged basis. However, at the same time, reduced forward premia can marginally disincentivises uncovered carry traders, who would have sold USDINR forwards and held till expiry.

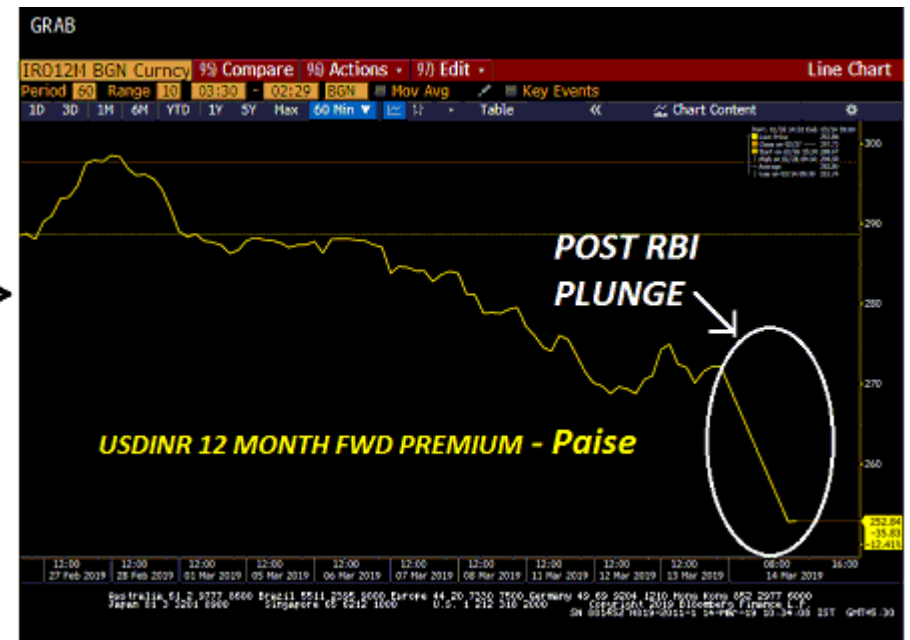
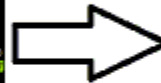
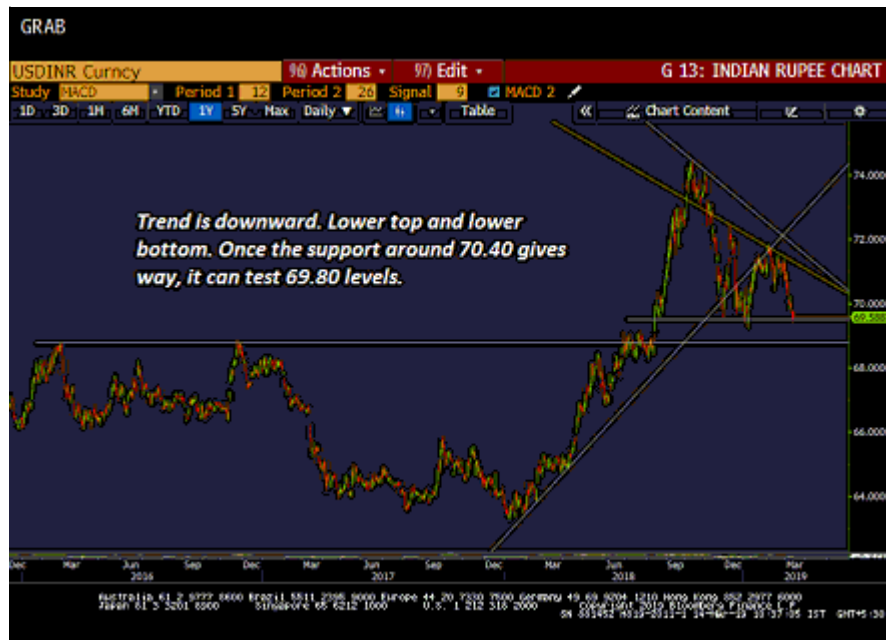
After this liquidity measure of nearly 35,000 crore rupees, need for OMOs would reduce. This is negative for GOIsecs. As a result, GOIsec yield curve can steepen due to twist, as short term yields drop and long term yields rise. This can be beneficial for banks and financial institutions.

In global news, investors are relieved that Britain won't be spiraling out of the European Union with no agreement. In the past 2 days, Parliament rejected Theresa May's withdrawal agreement and voted to rule out a no-deal Brexit. There is a strong possibility that UK may request for a 2/3 month extension and EU would most likely accept it. A short duration extension reduces the uncertainty window & compels UK politicians to reach a deal

TECHNICAL VIEW:

USDINR remains stuck in a downtrend with lower tops and lower lows clearly marked on chart and prices sustaining below trendline. Sell on rise remains the trade as long as the pair holds below 70.00 handle. Nevertheless, in case of a sustained move above 70.00, USDINR can push for 70.40/50 zone on spot.

*** CHART ON NEXT PAGE***



Source: Bloomberg

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