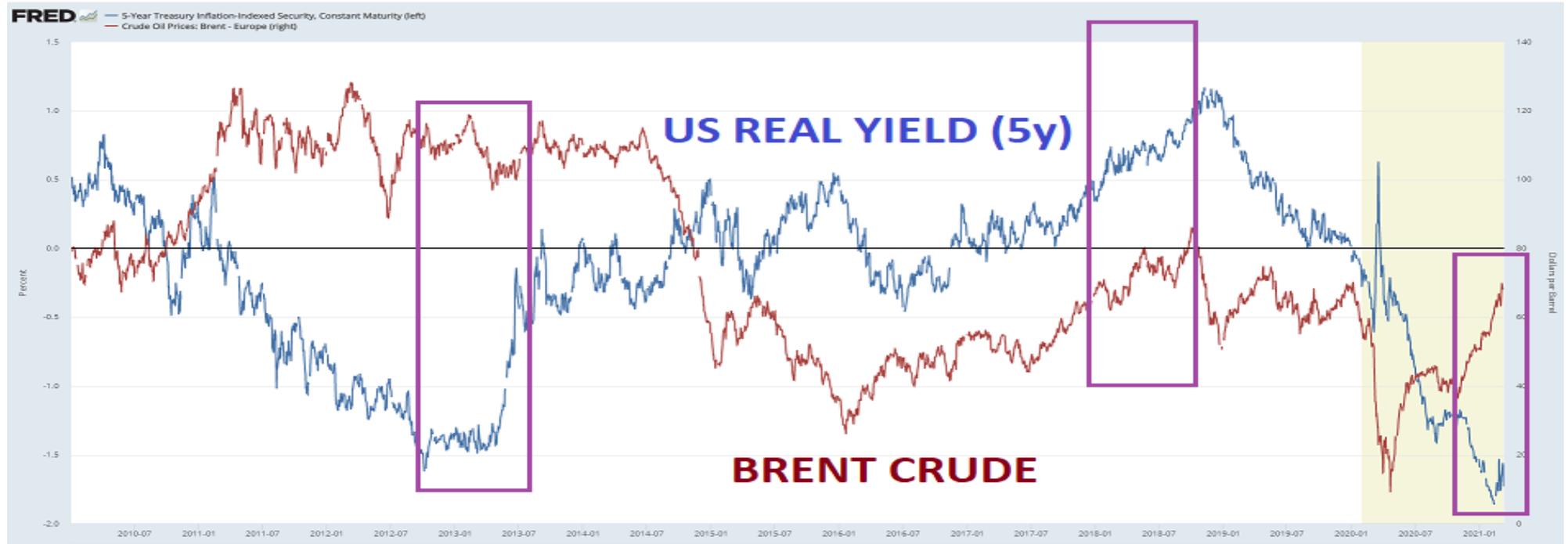




Yields tick higher in the FOMC week

MACRO STORY



- ❑ **US 5 year real yield** is taken from the TIPS market and denotes nominal yield after deducting inflation expectation 5 years from now.
- ❑ **When real yields rise sharply in US**, it tends to draw capital away from EMs and hence causes USD to rise against the EM currencies like the Indian Rupee.
- ❑ **OIL + REAL YIELDS =>** The cocktail becomes even more potent when oil prices are either high or moving towards a higher zone at a time when US real yields are moving up sharply, like it occurred during 2013 and 2018.
- ❑ **This time around**, the real yields have not moved up as much as nominal yields have as inflation expectation has risen at a fast pace. Oil prices are rising. Keep an eye here. If real yields begin to move up sharply, with rising Brent, it can be bad news for Rupee.



➤ **Recap:** On Friday, USDINR March futures closed 25 paise lower at 72.90 levels. Risk on mood in financial markets allowed Rupee to appreciate against the US Dollar. However, \$ purchase from RBI stemmed the decline in the pair.

➤ **Markets' today:**

- Asian equity markets** are moving higher after a strong industrial production and retail sales from China.
- US bond yields** climbed to a fresh 13 month high with 10 year near 1.64%.
- Brent crude prices** are holding near \$70 mark. The cocktail of rising US yields and strengthening oil prices are headwinds for the Rupee.

➤ **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	72.55	72.75	72.90	73.00	73.25



- **Recap:** EURINR March futures closed 12 paise lower at 86.94 as mixture weak EURUSD and weak USDINR dragged the pair down.
- **Economic data:** This week's focus will be US central bank meeting on 17th night. With US growth expectation surging well ahead that of Euro area and US bond yields outperforming bond yields in Euro zone, US Dollar may continue perform quite well against the Euro currency.
- **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	86.60	86.90	86.94	87.25	87.55

EUR/USD
&
EUR/INR



GBP/USD
&
GBP/INR

- **Recap:** GBPINR Mar fut closed nearly flat @ 101.50 levels, as strength in GBPUSD was offset by weakness in USDINR.
- **Markets' today:**
 - ❑ **UK remains in far better shape than Eurozone** as far economic growth expectation, central bank policies and vaccination goes. This will allow GBPINR to continue to outperform EURINR.
 - ❑ **Upside in GBPINR may remain capped** till US Fed as massive overhang of speculative longs in GBPUSD (highest in nearly 3 years) may not allow the pair to move higher, especially when USD remains strong against Euro, thanks to rising US bond yields.
- **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	101.50	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	66.55	66.60	66.89	67.00	67.25

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	(75)	(1,064)
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 on 17th. If fed can engineer a rally in US bonds, it can be positive news for GOIsecs too.

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 / 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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