

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	70.99	-0.07%	-0.8%	10%
EUR/INR	80.95	-0.32%	-0.3%	3%
GBP/INR	91.22	-0.08%	0.9%	3%
JPY/INR	65.42	0.06%	3.0%	12%
EUR/USD	1.1403	-0.09%	0.5%	-7%
GBP/USD	1.2850	-0.09%	1.8%	-7%
USD/JPY	108.50	-0.17%	-4.0%	-2%
USD/CNH	6.7746	0.02%	-1.9%	5%
10 YR YIELD- IN	7.24	-0.01	-0.20	-0.14
10 YR YIELD- USA	2.71	0.00	-0.18	0.17
GOLD (\$/Oz)	1,289	0.0%	3%	-4%
SILVER (\$/Oz)	15.57	0.0%	6%	-9%
BRENT CRUDE (\$/Brl)	60.44	-0.3%	0%	-13%
COPPER 3M (\$/Ton)	5920	0.4%	-3%	-18%
NIFTY	10922	0.32%	1.08%	2%
HANGSENG	26774	-0.21%	2.60%	-16%
S&P 500	2610	1.07%	0.40%	-6%
INR 1M FWD	0.27	-0.01	0.00	0.02
INR 2M FWD	0.46	0.00	-0.01	0.00
INR 3M FWD	0.74	0.01	0.05	0.02
INR 6M FWD	1.45	0.02	0.05	0.01
INR 12M FWD	2.83	0.02	0.12	0.06
	<b>1 DAY</b>	<b>MTD</b>	<b>QTD</b>	<b>CTD</b>
FII INVESMENT- EQ (\$ Mn)	-122	-449	-449	-449
FII INVESMENT- DEBT (\$ Mn)	-27	-75	-75	-75
TOTAL- (\$ Mn)	-149	-524	-524	-524

CURRENCY	ECONOMIC DATA
GBP	BOE Gov Carney Speaks
GBP	CPI

### FX VIEW

U.K. Prime Minister Theresa May had placed a motion before lawmakers in the lower house of Parliament, asking them to rubber stamp her withdrawal agreement with the European Union. The bill was rejected by 432 votes to 202. The 230 vote defeat is thought to be the largest in U.K. political history.

Now there are four possibilities.

1) Either UK and EU hammer out a fresh deal, which is palatable to majority of UK lawmakers. However, a key stumbling block is the Northern Irish "backstop," which acts as a safety net to prevent any hard border with the Republic of Ireland, which is remaining as an EU member country. Many of May's critics see this provision as a way in which Britain could be tied to the European Union indefinitely. The EU has attempted to offer assurances that this would not be the case, but the Northern Irish party that currently supports Theresa May's party in the U.K. government has said it does not go far enough.

2) UK delays the date of leaving EU from March end. This requires all 27 EU members to ratify. This may be expedited as EU would prefer this over uncertainty of a hard Brexit.

3) Second referendum which is expected to swing towards Remain.

4) Hard Brexit. Unlikely.

European Council President Donald Tusk suggested that U.K. lawmakers revoke the country's decision to leave the EU, saying it's the only positive solution left on the table. As of now GBP has shrugged off the outcome as market expects an amicable solution. However, volatility or two way swings can be the order of the day for the next couple of days in GBP pairs.

Dollar Rupee has no takeaway from the Brexit vote. The pair will react to its usual set of factors today. Oil and equity. Oil prices are back above 60 on the Brent, thanks to strength in US equity markets. There are announcements coming from China, about more fiscal stimulus to pump prime the economy. China has exploited this route so much, that it finds its economy in a state of deep imbalance. Now it is caught between a rock and hard place. Unable to navigate between rising risk of hard stop, trade war and political/social implications of a reversal in the debt cycle. However, for the near term, news of more stimulus from China will benefit risk appetite and also oil. Rupee bulls like the former but definitely not the latter.

Dollar Rupee is running solo, with little support from major currencies and also lack of support from Bond and equity markets. This is not the first time, Dollar Rupee has behaved this way but the extent of divergence is eye popping. Since the beginning of January we have been flagging the risk-trinity of politics-growth-China. Add to that the recovery in oil prices.

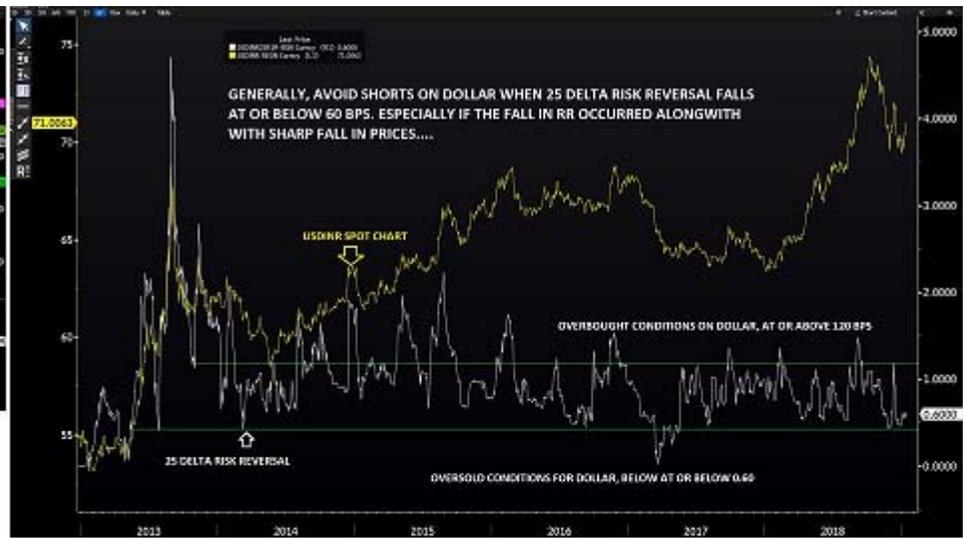
We would not be surprised if foreign investors are looking to hedge their Forex risk in the offshore market. With interest trajectory downward, liquidation Indian debt is not an option yet. Equities, though overvalued relative to world, is still seeing demand, thanks to local money. Therefore, the risk that may make sense protecting first is Rupee. Having said that, for Dollar Rupee to keep pushing higher, it also needs the support of risk aversion or oil price rise. Downside appears limited, thanks to the above risks as well as demand for Dollars from RBI. RBI has all the reasons to buy dollars in spot, as there is a need to infuse Rupee liquidity, prevent Rupee from becoming overvalued, support exporters and also replenish reserves.

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



↑  
USDINR CHART

RISK REVERSAL →



25 DELTA RISK REVERSAL IS THE DIFFERENCE IN THE IMPLIED VOLATILITY OF 25 DELTA CALL OPTION OVER 25 DELTA PUT OPTION ON USDINR FOR 1 MONTH EXPIRY. WHEN TOO MANY PLAYERS ARE LONG ON DOLLAR, DEMAND FOR OUT OF MONEY CALLS WOULD BOOST THE IV OF CALLS OVER PUT OPTIONS, CAUSING RISK REVERSAL TO INCH ABOVE 1.00. 1.00 DENOTES 100 bps.

WHEN TOO MANY PLAYERS ARE SHORT ON DOLLAR, DEMAND FOR OUT OF MONEY PUTS WOULD BOOST THE IV OF PUTS OVER CALL OPTIONS, CAUSING RISK REVERSAL TO FALL TO AND BELOW 0.60 or 60 bps.

**RISK REVERSAL IS AN EFFECTIVE BAROMETER OF TRADER SENTIMENT IN THE USDINR MARKET. IT CAN BE CONSIDERED AS THE INDIAN CFTC REPORT ON A REAL TIME BASIS.**

Source: Bloomberg

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