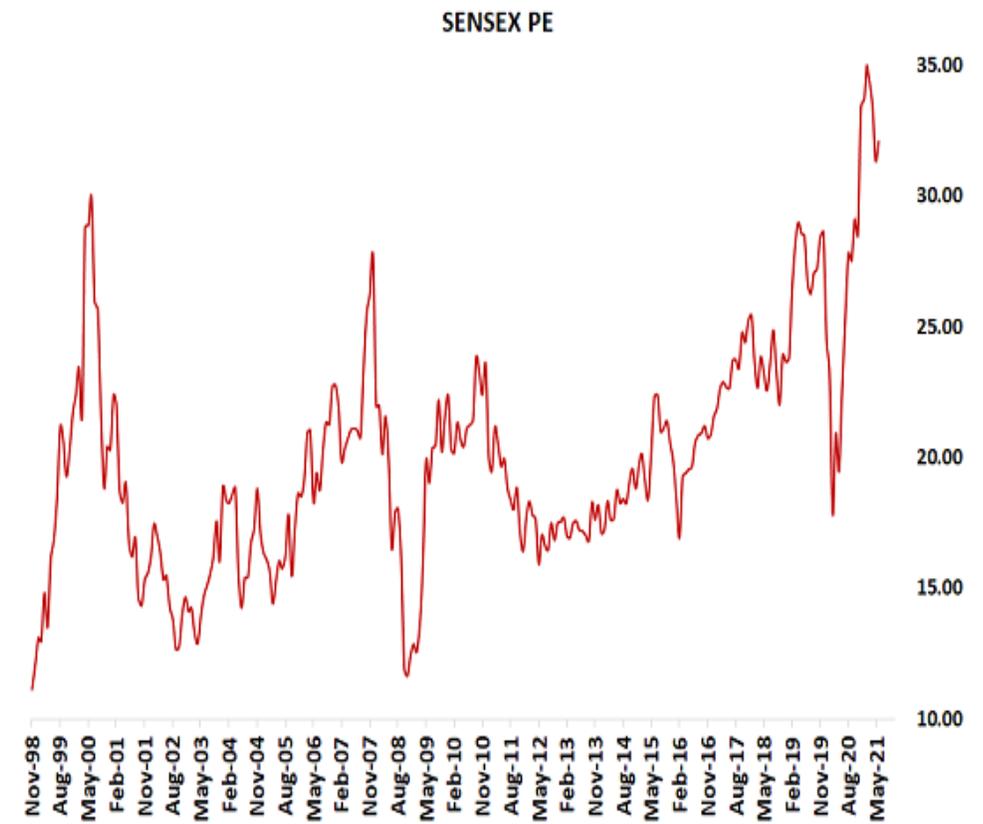
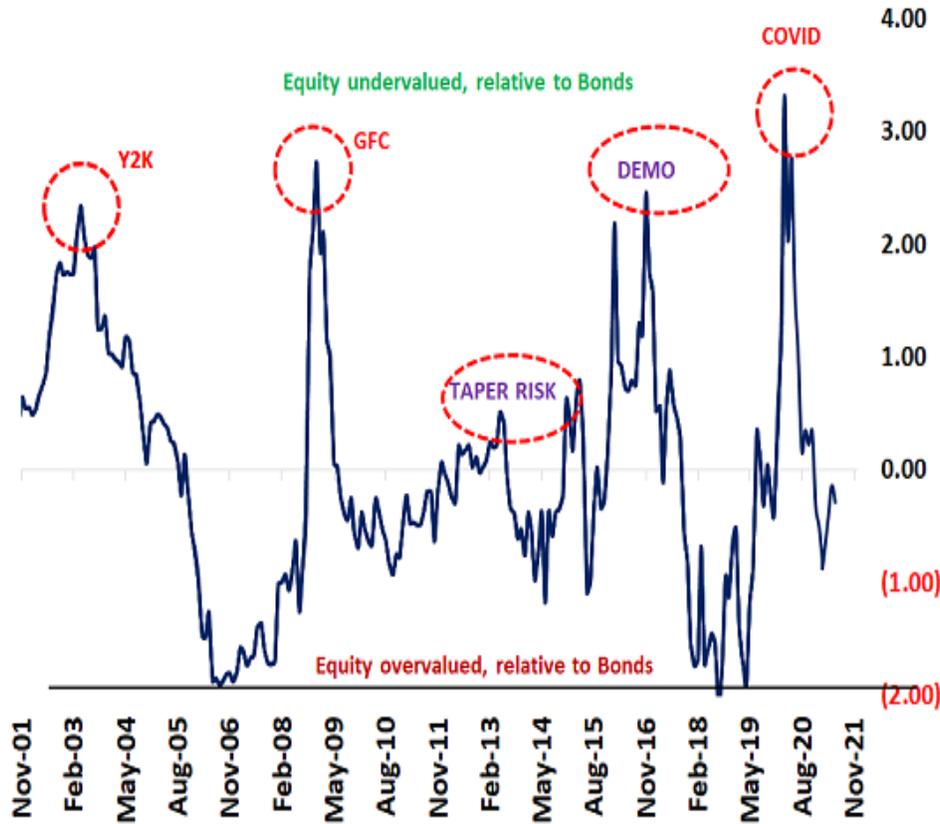


*Volatility* returns in FX...

Hope rally



- ❑ On one hand the PE ratios of major indices are now off-charts for Indian equity markets but on the other hand, the relative valuation is looking comfortable. This is an interesting divergence.
- ❑ This shows, that the current uptrend in equities are a function of three assumptions:
  - ❑ *Earnings will jump significantly over next 12 months to compress PE*
  - ❑ *Abundant \$ liquidity and Rupee liquidity will continue*
  - ❑ *GOIsec yields will not harden by more than 50 bps.*
- ❑ If any of these above assumptions are challenged, equity multiples can contract.

USD/INR, D, Real-time FX - O 73.595 H 73.685 L 73.595 C 73.605

## USD/INR SPOT PRICES



### ➤ Storyboard:

- ❑ Fed's forecast and future actions swayed markets overnight. However, the shift from Fed this time around, unlike in past, seems quite measured and gradual. None of the moves were unexpected and hence though US Dollar has been bid up but the extent of its rise against EM currencies, high yielders remain muted. However, I expect the up move in US Dollar to continue for a few more trading session as positions are rebalanced.

### ➤ Trade Pointer:

- ❑ Upside towards 74.25/30 appears possible as short USD trade is unwound by carry traders and call option writers. Buy on decline with stop below 73.25 on a daily closing basis.

### ➤ Levels to watch:

Futures	S2	S1	CMP	R1	R2
USDINR	73.35	73.65	73.85	74.00	74.30



**EUR/USD  
&  
EUR/INR**

➤ **Storyboard:**

- ❑ US Fed has made it clear that carry trade needs to shift away from US towards other funding currencies like Euro and JPY. This shift in theme will continue to exert downward pressure on EURUSD. EURUSD can retrace the entire rally from 1.1700.

➤ **Trade Pointer:**

- ❑ Trend has turned bearish. Sell on rise with SL above 1.2150, target 1.1700/1.1730. EURINR to drift slowly downward as rising USDINR offset some of the losses in EURUSD.

➤ **Levels to watch:**

Futures	S2	S1	CMP	R1	R2
EURINR	88.15	88.45	88.61	88.80	89.00



GBP/USD  
&  
GBP/INR

➤ **Storyboard:**

- ❑ GBPUSD took a beating after a hawkish US FOMC. Cable has been struggling to move higher due to lack of fresh triggers and overhang of record speculative long positions. Fresh rift lines between EU and UK has not helped matters.

➤ **Trade Pointer:**

- ❑ GBPUSD is corrective phase with 1.3850 acting as major support zone. GBPINR is also in a consolidation phase between 102.50 and 104.10.

➤ **Levels to watch:**

Futures	S2	S1	CMP	R1	R2
<b>GBPINR</b>	103.00	103.20	103.34	103.50	103.70

**USD/JPY  
&  
JPY/INR**



➤ **Trade Pointer:**

☐ USDJPY remains a buy on decline with stop below 108.35. Target 111.00. JPYINR remains in a bearish trend.

➤ **Levels to watch:**

Futures	S2	S1	CMP	R1	R2
JPYINR	66.40	66.65	66.74	66.90	67.10

# FPI FLOWS

( \$ Million)		
MONTH	EQUITY	DEBT
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	1,444	902
Apr-21	(1,294)	108
May-21	(389)	131
Jun-21	2,349	(359)
<b>LTTM</b>	<b>33,780</b>	<b>2,439</b>

- 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.
- Along with 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- The negative impact of oil on Rupee is more pronounced when period of high oil prices coincide with period of USD shortage (iii) Asian currencies against US Dollar
- June started off well after a lackluster first two months of FY22 in terms of flows into equity segment. Flows in debt has turned outward in June till date, due to increase in negative real yields on GOIsec and possibility of increased issuance.

# 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](http://www.kotak.com) / [www.kotaksecurities.com](http://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.
- Customer Service Number – 1800 209 9191 email id – [service.securities@kotak.com](mailto:service.securities@kotak.com). Compliance Officer Details: Mr. Manoj Agarwal. Call: 02242858484, or Email: [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com). Investments in securities market are subject to market risks, read all the related documents carefully before investing. The information is only for consumption by KSL client and such material should not be redistributed
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