kotak Securities

FOREIGN EXCHANGE INSIGHT

FX, RATES & MACRO DESK

MARCH 18'2019

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	68.86	-0.35%	-3.6%	5%
EUR/INR	78.04	-0.22%	-3.5%	-3%
GBP/INR	91.49	-0.14%	-0.9%	0%
JPY/INR	61.73	-0.62%	-4.5%	1%
EUR/USD	1.1334	0.07%	0.2%	-8%
GBP/USD	1.3287	-0.02%	2.8%	-5%
USD/JPY	111.55	0.06%	0.8%	5%
USD/CNH	6.7155	0.03%	-0.9%	6%
10 YR YIELD- IN	7.30	(0.04)	(0.07)	(0.26)
10 YR YIELD- USA	2.60	0.01	(0.07)	(0.25)
GOLD ($/Oz)	1,299	-0.2%	-2%	-1%
SILVER ($/Oz)	15.28	0.0%	-3%	-6%
BRENT CRUDE ($/Brl)	67.02	-0.2%	1%	1%
COPPER 3M ($/Ton)	6431	0.4%	4%	-7%
NIFTY	11459	0.28%	7.69%	12%
HANGSENG	29224	0.73%	3.09%	-7%
S&P 500	2822	0.50%	1.69%	3%
INR 1M FWD	0.29	(0.01)	0.03	(0.03)
INR 2M FWD	0.50	(0.01)	(0.04)	(0.05)
INR 3M FWD	0.72	(0.00)	(0.02)	(0.05)
INR 6M FWD	1.32	(0.02)	(0.17)	(0.08)
INR 12M FWD	2.48	(0.02)	(0.46)	(0.11)

	1 DAY	MTD	QTD	CTD
FII INVESMENT- EQ ($ Mn)	280	2,436	4,731	4,731
FII INVESMENT- DEBT ($ Mn)	228	833	(819)	(819)
TOTAL- ($ Mn)	508	3,269	3,912	3,912

CURRENCY	ECONOMIC DATA
USD	NAHB Housing Market Index

FX VIEW

In the NDF, USDINR spot reference is trading below 69.00 handle, around 68.98. On Friday, it had shut shop around 69.09 levels. FPIs have been pouring money into debt and equity segments. In the equity alone, over USD 4 billion has been invested. FPIs are mopping up corporate bonds too, due to attractive risk adjusted spreads over the GOIsecs. Over the past week, forward premium have come off quite sharply. For example, USDINR 1 year forward is down from 272 to 250, in just one week. Further erosion is expected. As the forward premium would decline, it would incentivise the FPIs to invest more in Indian corporate debt paper, on a FX hedged basis. Higher flows would offset any attempts by RBI to prop up the US Dollar via intervention. There is another INR 78,403 crores of unutilised limits in corporate bonds for FPIs to invest, which tantamount to USD 11.3 billion.

Rupee traders also have to keep an eye on major currencies and their economic data releases for direction. The main event for the U.S. Dollar is the meeting of the U.S. Federal Reserve, which ends on Wednesday, March 20. The main focus will be on the Fed's economic forecasts, the updated dot-plot diagram which shows the Fed's expectations for the future course of interest rates, and the commentary of Fed Chairman Powell. Though Fed members have hinted at an extended pause in rate hikes, but the Fed's dot plot is yet to reflect that stance. December dot plot had two hikes in 2019. We expect Fed to update the market view in their update of the dot plot. The consensus is that Fed will point out that no more rate hikes will be done in 2019 and that can hit the Dollar hard. However, if Fed decides to leave the door open for a solitary hike in 2019, then it can trigger a surprise rally in the Dollar. Since January of 2019, risk appetite has improved dramatically in global equity markets. Credit spreads have contracted and even commodity prices have bounced. There is hope of an extended truce in the trade war between China and US. As a result, Fed may sound less dovish than anticipated.

From Eurozone, ECB economic bulletin will watched closely. Apart from that, manufacturing and service sector PMIs and ZEW will be the data to watch for. PMI's are an important leading indicator.

GBP continues to show strong two way movement. Currently GBPUSD is attempting a break above 1.33 handle. This week, cable traders need to keep the eyes glued on Brexit votes and headlines. It is highly likely that the government will try, for the third time, to get its Brexit deal approved by Parliament. The latest reports from Brussels are suggesting the EU may try to make a delay in Brexit process conditional on either the UK having a second referendum, a general election or a very firm plan. Therefore, two possibilities opened up for GBP, either, UK passes the PM's negotiated Brexit plan, or that Brexit is delayed on the condition of a referendum or general election being held. Both these outcomes can be positive for GBP on a varying scale. We have been buying GBP against USD on decline and would continue to do so as the risk of a hard Brexit is out of the way.

TECHNICAL VIEW:

USDINR, we continue to remain tactically short on this pair. A short covering rebound will be welcome as the downtrend needs some room to flex its stretched muscles. Corrective rallies can face fresh supply between 69.40/60 zone on spot. Change of polarity will be observed between 68.60/85 zone on spot. Between 2013 and 2018, this zone held as the resistance, which has become the support. Over the medium term, if USDINR manages to break below 68.60 and sustain, then it can open up downside targets of 67.50 and even 67.00 on spot. Nevertheless, a rebound from 68.60/85 zone would be a sign of a near term bottom.

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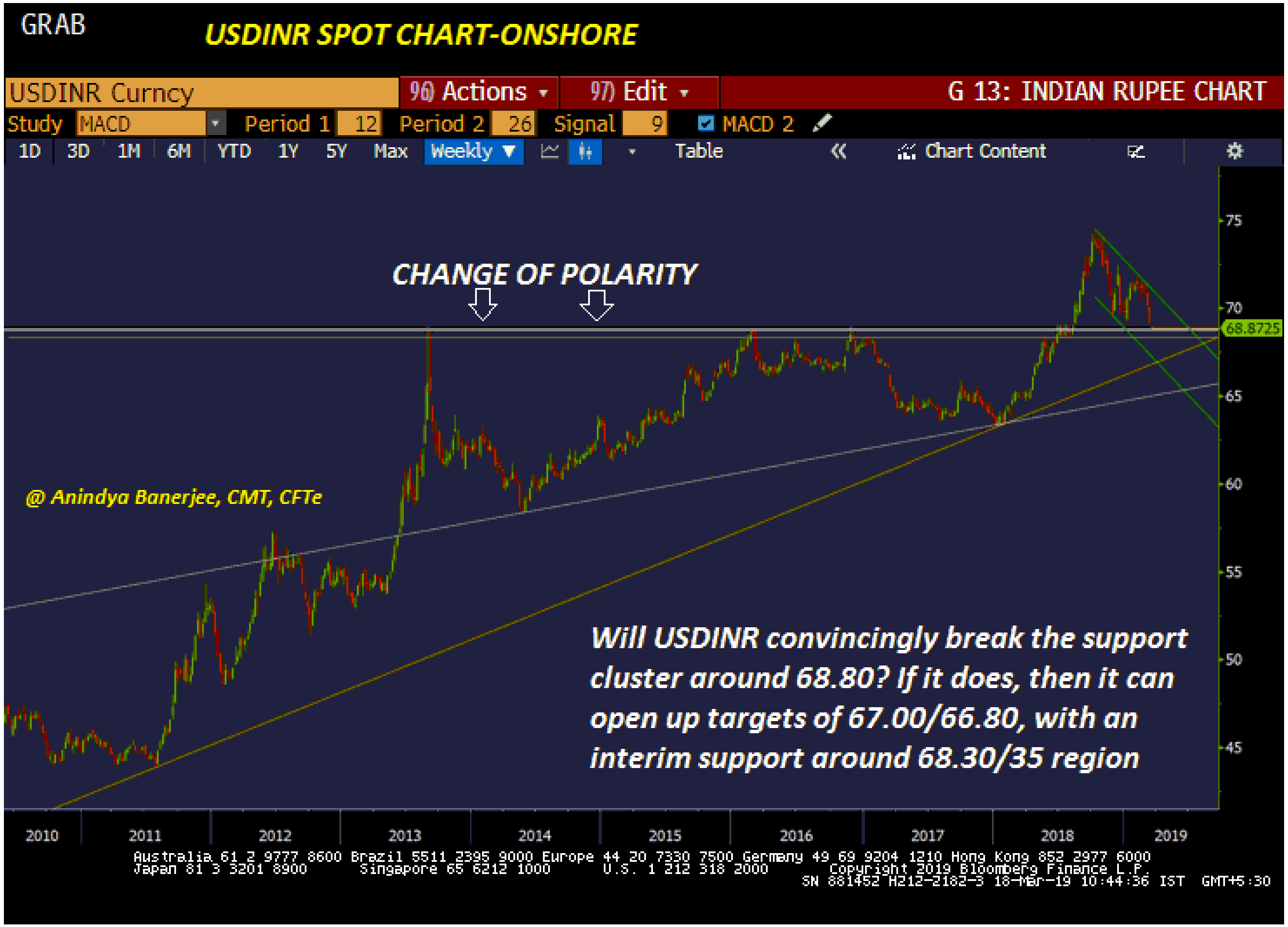

Source: Bloomberg

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