

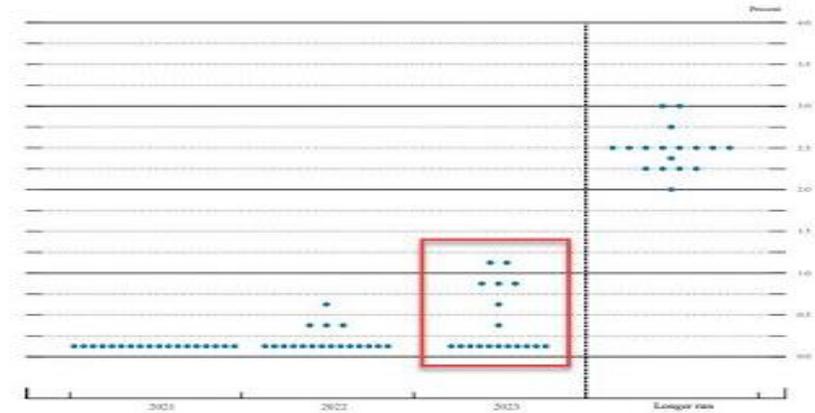
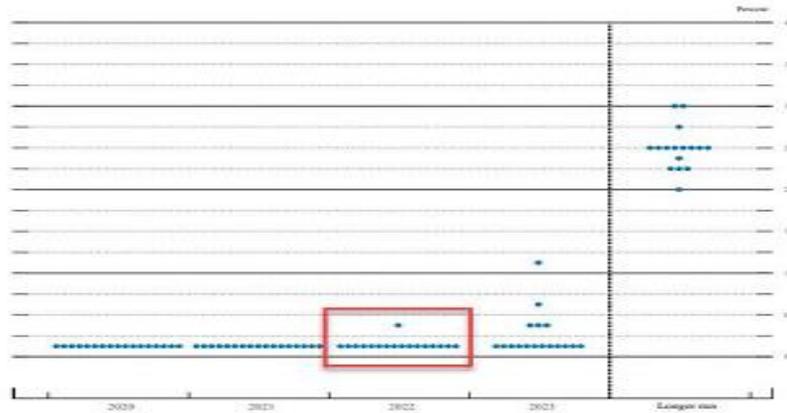


Fed remains dovish. +Ve for Rupee...

FOMC Dots

Dec 2020

Mar 2021



MACRO STORY

- ❑ US Fed upgraded its GDP forecast from 4.2% to 6.5% for FY21. It also upgraded its inflation forecast to 2.4% by Q4 and then staying above 2% for 2022-2023. This means Fed is comfortable with inflation remaining above their goal. Fed remains committed to easy monetary policy.
- ❑ Last years COVID related disruption to demand and supply is far from over, even though economies are gradually recovering. However, it has made data extremely noisy. Last year, the fear was of a global depression and this year the fear is of the inflation becoming higher for longer. **The question remains, like the depression fears, will the inflation fears provide transitory and only 2022 phenomenon? It seems so.**
- ❑ It is obvious Fed will learn from its experience. Since GFC in 2008 and Eurocrises and taper tantrum and Fed lead rate scares all are very much part of the institutional memory. It is natural that this time Fed feels that it will be appropriate to look past the noise in the data. They also want to see how long the impact of stimulus sustains?
- ❑ Policymaking is quite challenging during such times, where unlike a trader, a central bank can not afford to be fickle. He has err on the side of caution and also be patient, to allow for prudent decision making.



➤ **Recap:** USDINR Mar fut closed 4p higher around 72.66 as traders remained non-committal ahead of US FOMC.

➤ **Markets' today:**

- ❑ **US central bank's message was clearly dovish and hence -ve for USD.** Yes they upgraded their forecast for growth in FY22 to 6.5% from 4.2% previously and also sees higher inflation 2021 but that is not enough to convince Fed to remove the support of QE and zero bound interest rates.
- ❑ Overnight US stocks closed at a fresh record high. **Risk on mood prevails in Asia as well.** SGX Nifty is showing gains of 1% & USDINR is expected to open gap down, near 72.45 levels on March futures.

➤ **Trade Pointers:**

- ❑ USDINR futures is able to attract sellers thanks to the significantly higher carry (futures/fwd premium).
- ❑ Sell on rise. We have been structurally bearish since June 2020 @ 76.00. Watch for RBI intervention.

➤ **Levels to watch:**

Futures	S2	S1	CMP	R1	R2
USDINR	72.10	72.30	72.66	72.65	72.85



**EUR/USD
&
EUR/INR**

- **Recap:** EURINR Mar fut closed 25p lower as weakness in EURUSD dragged the pair down.
- **Economic data:** Attention will switch from US central bank meeting towards China-US formal meeting in Alaska tonight. It is expected that US's line of discussion will be political but China will take an economic hardline, asking for rollback of hike in tariffs. Though not much is expected from talks but still this is one event, I will keep an eye on.
- **Markets' today:**
 - ❑ EURINR may see limited upside as weakness USDINR may offset much of the Fed driven boost in EURUSD.
- **Trade Pointers:**
 - ❑ EURUSD is in bearish price trend.
 - ❑ 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	R1	R2
EURINR	86.25	86.50	86.55	86.90	87.15



GBP/USD
&
GBP/INR

- **Recap:** GBPINR Mar fut closed 44 paise higher as risk on mood lifted GBPUSD above 1.3900 levels.
- **Markets' today:**
 - Various surveys are pointing to the fact that rapid vaccination in UK will lead to a very strong rebound in economic activity over there. **This is a major supportive factor for GBP.**
 - GBP will continue to outperform Euro as the latter remains bogged down by weak macros.**
 - UK central bank is expected to sound less dovish as economy shows of signs of strong revival. +ve for GBP.**
- **Trade Pointers:**
 - GBPUSD is in uptrend. Buy on decline advised with stop on a close below 1.3700 levels.**
 - GBPINR remains a buy on decline with stop below 100.00 levels.**
- **Levels to watch:**

Futures	S2	S1	CMP	R1	R2
GBPINR	100.50	100.85	101.04	101.25	101.50

USD/JPY
&
JPY/INR



- **Recap:** JPYINR March futures closed flat around 66.62 levels. Traders remained cautious ahead of US FOMC.
- **Trade Pointers:**
 - ❑ With USDJPY approaching a major resistance zone ahead of US FOMC, we decided to switch from bullish to neutral. It proved well timed. We remain on sidelines as of now.
 - ❑ **We have been bearish on JPYINR since the break of key support near 69.80.** That has played out well. Trend remains down but also remains stretched. Hence, we would advise refraining from taking overnight short positions and stick with intra day opportunities to sell on rise. A corrective up move may occur.

➤ **Levels to watch:**

Futures	S2	S1	CMP	R1	R2
JPYINR	66.05	66.30	66.61	66.65	66.90

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	1,329	(750)
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- 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
- Equity inflows are rising in March. In FY21, except for April and September, FPI flows have been positive in the equity segment. However, debt continues to witness relentless outflows, due to adverse macro mix and high borrowing.

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