



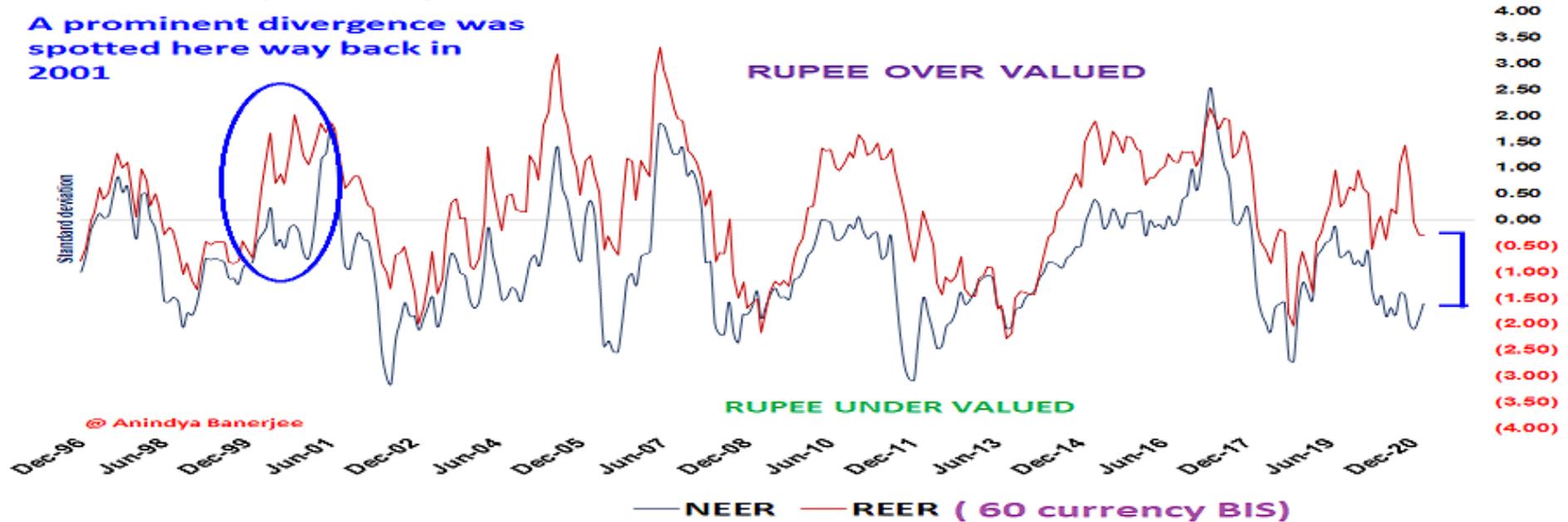
# CORONAVIRUS

## 2nd WAVE

*If we have a 2<sup>nd</sup> wave, it can weaken INR & hit stocks*

Relative move in Rupee v/s 60 major currencies- REER & NEER

A prominent divergence was spotted here way back in 2001



USD/INR

- ✓ Asian equity markets are trading higher and so are the US bond yields. With governments around the world focusing on transferring funds to households and corporates directly there is growing fear of inflation rearing its ugly head soon. However, that is not yet a worry for EM currencies or EM equities but yes bonds are under fire.
- ✓ A few states across India has seen a sustained uptick in fresh daily COVID cases, increasing the risk of a second wave. However, state administrations have responded and are taking decisive steps to curb the rise in infections. This will be one factor both domestic stock market and Indian Rupee will be watching. As a second wave can derail the bullish rise in both.
- ✓ TRADE BIAS: We have been bearish on USDINR since June 2020, when it used to trade near 76.00 on spot. We continue hold that view. Sell on rise. Resistance is near 73.20 & 73.50 on Feb futures. Nevertheless, incase USDINR trades above 74.00, our bearish bias would require a rethink.



- ✓ **EVENT TO WATCH:** In spite of the lockdowns, forward looking components of the sentiment indicators from Eurozone has been quite optimistic. Today traders await the release of German IFO, business sentiment. An improvement in the reading for Feb can send the Euro higher.
- ✓ **There is a clear divergence between situation in EU and US.** Unlike US, EU has failed to come up with an adequate fiscal response. Economy remains in far stronger footing in US, than in EU. Slow vaccination means that Europe will take more time to recoup its pandemic losses than US. All these factors may ensure that uptrend in EURUSD is slow.
- ✓ **TRADE BIAS:** EURINR is a buy on decline with stop below 87.00 with a target of 89.00.
- ✓ **LEVELS TO WATCH:** Support @ 87.80 & 87.50 on Feb fut. Resistance @ 88.25 & 88.50.

EUR/USD  
&  
EUR/INR



**GBP/USD  
&  
GBP/INR**

- ✓ **EVENT TO WATCH:** Today UK Prime Minister Boris Johnson is expected to set out before parliament a plan for enabling residents and the economy to exit 'lockdown'. GBP has benefitted from rapid vaccination and expectation of unlocking in UK.
- ✓ **TRADE BIAS:** With the bullish bias being intact in GBPUSD as long as the pair holds above 1.35, GBPINR too remains in an uptrend as long as the pair holds above 98.20 levels.
- ✓ **LEVELS TO WATCH:** Support @ 100.70 & 100.40 on Feb fut. Resistance @ 101.10 & 101.50.

USD/JPY  
&  
JPY/INR



- ✓ As long as US bond yields continue to rise and global equity rally remains strong, JPY can weaken as Japanese investors selling JPY and buy foreign assets including US Treasury to earn better yields. Yen carry trade adds further pressure on JPY.
- ✓ **TRADE BIAS:** If JPYINR were to break below 68.70 and sustain, it can be an opportunity to short for a target of 67.50 and 67.00 levels. The pair is at a key support zone. Needs to be watched.
- ✓ **LEVELS TO WATCH:** Support @ 68.60/70 and 68.00 on Feb fut. Resistance @ 69.25 & 69.55.

# 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      | 3,321         | 189            |
| <b>FY21</b> | <b>35,367</b> | <b>(1,315)</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) capital flows including 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 (iii) Asian currencies against US Dollar
- ✓ FPI flows have turned positive so far in Feb, but cocktail of rising oil prices and hardening US yields can risk reversing that trend. Need to be careful here.



| <b>FX PAIR</b> | <b>POSITIONAL VIEW (1 to 2 MONTH)</b>   |
|----------------|---|
| <b>USD/INR</b> | <p>We have been bearish since 76, in June 2020 and continue to be so. High carry and positive capital flow environment from improving economy will allow INR to appreciate. RBI remains a spoilsport but there massive intervention program has not just made INR undervalued on NEER basis but also attractive in terms of low volatility and high carry. We look for a test of 71.80/72.00 levels over the near term. We need to keep an eye on oil prices. But Oil may become a factor, if it continues to move higher, possibly above 70 dollars level.</p> |
| <b>EUR/INR</b> | <p>As long as EURUSD maintains the uptrend by holding above 1.1950 levels and moving towards 1.2350, EURINR will remain a buy on decline with SL below 87.50 for a target of 89.50.</p>   |
| <b>GBP/INR</b> | <p>GBPUSD and GBPINR can continue to move higher as global asset managers rebalances their holdings of UK assets from underweight to par. GBPINR is a buy on decline with SL below 98.20 for a target of 102.50</p>   |

**\*\*\* For intra-day and short term calls kindly refer to our trading calls issues via email \*\*\***

**TACTICAL  
BETS**

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- 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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