INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	71.22	-0.32%	1.5%	10%
EUR/INR	80.94	-0.23%	1.2%	3%
GBP/INR	92.24	0.01%	3.8%	4%
JPY/INR	64.94	-0.55%	2.2%	11%
EUR/USD	1.1366	0.05%	-0.4%	-8%
GBP/USD	1.2951	-0.02%	1.9%	-7%
USD/JPY	109.69	0.29%	-0.7%	-1%
USD/CNH	6.7895	-0.39%	-1.7%	6%
10 YR YIELD- IN	7.29	(0.01)	0.02	0.04
10 YR YIELD- USA	2.75	0.01	(0.04)	0.13
GOLD ($/Oz)	1,283	-0.1%	1%	-4%
SILVER ($/Oz)	15.37	0.2%	4%	-10%
BRENT CRUDE ($/Brl)	61.50	0.0%	14%	-12%
COPPER 3M ($/Ton)	5935	-0.8%	-1%	-16%
NIFTY	10922	0.00%	1.57%	-1%
HANGSENG	27022	0.06%	4.93%	-18%
S&P 500	2633	-1.42%	8.95%	-7%
INR 1M FWD	0.25	(0.01)	(0.00)	0.01
INR 2M FWD	0.47	(0.01)	(0.01)	0.01
INR 3M FWD	0.74	(0.00)	0.04	0.01
INR 6M FWD	1.46	(0.02)	0.02	0.05
INR 12M FWD	2.91	0.00	0.14	0.16

	1 DAY	MTD	QTD	CTD
FII INVESMENT- EQ ($ Mn)	119	(435)	(435)	(435)
FII INVESMENT- DEBT ($ Mn)	(149)	(343)	(343)	(343)
TOTAL- ($ Mn)	(30)	(778)	(778)	(778)

CURRENCY	ECONOMIC DATA
EUR	Consumer Confidence

FX VIEW

Overnight US stocks swooned as media reports surfaced that US has cancelled next week's trade talks. However, President Donald Trump's top economic adviser denied of any such cancellation as he added that the scope of U.S. trade talks with Beijing is broader and deeper than ever before but a final outcome would ultimately depend on verification of Chinese commitments. He said, "Promises are great but enforcement is what we want -- things like deadlines and timetables and full coverage of the various structural issues," he said. "Will this all be solved at the end of the month? I don't know. I wouldn't dare to predict." If trade talks with China don't produce a deal by March 1, the White House has scheduled an increase in tariffs to 25 percent from 10 percent on USD 200 billion of Chinese goods. Till then expect a lot of rumours and counter-rumours or shall we say, fake news and counter fake news. Market will sway to every piece of such news.

We are seeing Asian equities trade flat and US equity index futures rebound. Indian Rupee opened quite stronger, around 71.14/15 levels on spot. A 2% drop in oil prices is helping the Rupee trade strong at the open. Indian bond yields are getting capped, which augurs well for Rupee going into the Union Budget. Dollar Rupee has a very high positive correlation with oil prices. We are not naïve to say that it is only oil which is wagging the INR pair but keeping a watch on oil to trade short term is advisable. Check the chart on next page. Range 71.00-71.50.

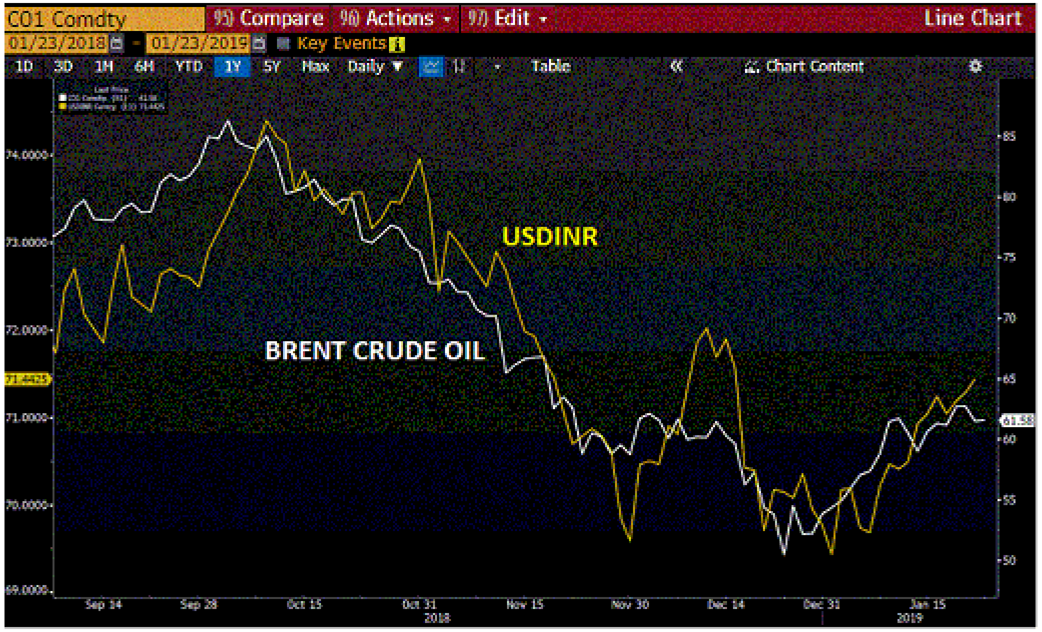
U.S. government shutdown going on for 32 days, the cost to the economy could exceed USD 6 billion and the economic impact will be more significant than past years. The Senate will hold competing votes on Thursday on President Trump's proposal to spend USD 5.7 billion on a border wall and on a Democratic bill that would fund the government through Feb. 8 without a wall. It will be the first time the Senate has stepped off the side-lines to try to end the month-long government shutdown. With government shutdown hurting growth and raising political risk and Fed now on pause, one would have thought that US Dollar would have witnessed a far bigger cut, but that has not happened. The question now is, once the shutdown ends it can propel the USD higher.

On the global front we also need to keep a watch on the Chinese economy. Various MNCs have warned about a slowing down of Chinese consumption demand, starting from Apple to Hyatt Hotels. Chinese government, along with Chinese central bank has stepped up the efforts to once again pump prime the economy. China has been pump priming for over a decade, with disastrous debt problem as the cost. However, as they fear political/social backlash, Chinese leaders may not show sense of good economics and would continue to rely on fiscal expenditure, greater lending and easy money to support the economy.

All these measures are taking toll on Chinese yields. Check the chart on next page. The spread between Chinese 10 year government bond yield and US govt bond yield is fast approaching zero. Already at the short end, Chinese GOIsecs are quoting lower yields than US Goisecs. For a Chinese fearing economic slowdown, financial shocks and possible political fallout and even risk of higher inflation, would look to park his or her savings into Dollar. It is therefore no surprise that capital outflow from private sector has become a major phenomenon since 2012. As China is forced to ease more, we expect the outflows to pick up pace. Therefore, it will exert a downward pressure on Chinese currency and also domestic dollar liquidity. Chinese central bank would have to continue to supply USD to support CNY value, but it will come at the cost of CNY liquidity. In order to prevent a CNY liquidity squeeze, they have to ease, more, feeding the outflow frenzy, a vicious trap. Watch out for it in 2019.

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

ANINDYA BANERJEE- CMT, anindya.banerjee@kotak.com



Source: Bloomberg

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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.: +22 67132430. Website: www.kotak.com / 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), AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97.

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