kotak Securities

FOREIGN EXCHANGE INSIGHT

FX, RATES & MACRO DESK

JAN 28'2019

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	71.08	-0.13%	1.6%	11%
EUR/INR	81.19	0.56%	1.3%	3%
GBP/INR	93.85	0.70%	5.5%	5%
JPY/INR	64.98	0.02%	2.4%	10%
EUR/USD	1.1422	0.14%	-0.2%	-8%
GBP/USD	1.3203	0.05%	4.0%	-6%
USD/JPY	109.40	-0.14%	-0.8%	0%
USD/CNH	6.7414	-0.18%	-2.1%	6%
10 YR YIELD- IN	7.32	(0.01)	(0.06)	0.01
10 YR YIELD- USA	2.75	(0.01)	0.03	0.09
GOLD ($/Oz)	1,303	-0.2%	2%	-3%
SILVER ($/Oz)	15.80	0.2%	3%	-8%
BRENT CRUDE ($/Brl)	61.39	-0.4%	18%	-13%
COPPER 3M ($/Ton)	6056	2.3%	2%	-15%
NIFTY	10714	-0.61%	-1.34%	-3%
HANGSENG	27684	0.42%	8.55%	-16%
S&P 500	2665	0.85%	7.20%	-7%
INR 1M FWD	0.23	(0.01)	(0.02)	0.02
INR 2M FWD	0.46	(0.01)	(0.02)	0.03
INR 3M FWD	0.75	0.01	0.05	0.04
INR 6M FWD	1.46	0.00	0.03	0.03
INR 12M FWD	2.92	0.01	0.13	0.14

	1 DAY	MTD	QTD	CTD
FII INVESMENT- EQ ($ Mn)	(27)	(550)	(550)	(550)
FII INVESMENT- DEBT ($ Mn)	77	(317)	(317)	(317)
TOTAL- ($ Mn)	50	(867)	(867)	(867)

CURRENCY	ECONOMIC DATA
EUR	ECB President Draghi Speaks
GBP	BOE Gov Carney Speaks

FX VIEW

It is going to be an eventful week, with a number of high profile events lined up from India and abroad. From India, the Union Budget will be keenly watched. Government has ways and means to keep the Gross Fiscal Deficit from breaching the 3.5% mark, even if they fail to meet the target of 3.3% of GDP. FM is expected to announce income support schemes for the economically backward sections of the society. Income support packages may be unveiled for the farm sector. Even then the FM can keep GFD within 3.5%, if they can complete the disinvestments over the next two months. Bulk of the expenditure on these new programs will occur in the future years. FM can also defer some of the expenditures into next financial year to balance books. With bond yields hovering around 7.3% on the new issue of 10 year GOIsec, question remains, how much of positive news is already priced in? Last 3 years, yields have softened post Union Budget, we have to wait and see, whether it repeats this as well or not.

It is not just the Budget, which will be keenly watched. Manufacturing PMI for January will be released on Friday. Consumption growth has slowed down in the economy due to farm distress, slowdown in employment growth and adverse impact on credit disbursal for stress in the NBFC sector. We are seeing the impact on consumption of autos and housing. Trend may last for now.

Global backdrop to remains challenging, as growth slowdown is everywhere, from Europe to North America to Asia. Chinese economy is facing the brunt of slowdown, not only in its corporate sector but also in consumption. China has followed an economic model of suppression of household income share of GDP through number of measures from FX to rates to laws, which penalises the households and incentives producers or businesses. China depended on the world to consume the produce, as Chinese households share of income and consumption was appalling low at below 40% GDP. Chinese used the ability of central bank to print Yuan and buy dollars to suck demand from the world economy. West build debt and consumed and China kept on pushing ahead with this economic model. Before they could embark on the rebalancing, away from production to consumption, debt crises hit the west in 2007-08 and since then the debt crises and economic crises has swept various parts of the world economy in a chronological order. This mean that the Chinese model was in jeopardy.

China instead of letting mark forces take control and re balance the economy, albeit painfully, went for debt funded investments. The nexus with public owned banks, state governments, government owned enterprises and politically connected enterprises helped China in that endeavour. Massive amounts of fixed assets were built, which were simply unproductive. China's consolidated debt to GDP, which was constant around 150% GDP between 1998-2008, has ballooned to over 300% GDP. Household's too levered up significantly, as their debt to disposable income ratio has ballooned from 40% in 2008 to over 120% now. High debt is affecting consumption. Impact is being on car sales, retail sales, demand for housing etc. Going forward, if Chinese continue to pursue the route of stimulus it can make this worse. Monetary stimulus can trigger more outflow of capital as resident Chinese seek higher rates of return in Dollar assets. Therefore, China will remain a major issue for the world in 2019.

We expect Dollar Rupee to remain on bid going into Union Budget. Our tactic is to buy the dip towards 71 or below and fade the rally towards 71.40/71.50 zone on spot. Around mid of the week, we would also look to go long as straddle/strangle in USDINR options for February series, as option volatility remains attractively low.

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

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INDIA EQUAL WEIGHT ALL CAP INDEX: NIFTY INDEX, MID CAP INDEX & SMALL CAP INDEX

Source: Bloomberg

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