

INSTRUMENT	LAST PRICE	1 DAY	1 MONTH	1 YEAR
USD/INR	69.05	-0.42%	-2.5%	6%
EUR/INR	77.57	-0.40%	-4.1%	-4%
GBP/INR	90.28	-0.70%	-4.4%	-2%
JPY/INR	62.40	-0.34%	-1.9%	2%
EUR/USD	1.1232	0.10%	-1.2%	-9%
GBP/USD	1.3073	0.22%	-1.4%	-7%
USD/JPY	110.70	0.06%	-0.6%	4%
USD/CNH	6.7345	-0.07%	0.5%	7%
10 YR YIELD- IN	7.33	0.00	(0.08)	(0.07)
10 YR YIELD- USA	2.40	0.01	(0.31)	(0.34)
GOLD (\$/Oz)	1,290	-0.1%	-2%	-3%
SILVER (\$/Oz)	15.02	0.1%	-4%	-8%
BRENT CRUDE (\$/Brl)	68.09	0.4%	3%	-3%
COPPER 3M (\$/Ton)	6360	0.4%	-2%	-5%
NIFTY	11586	0.14%	7.35%	15%
HANGSENG	29025	0.87%	1.37%	-4%
S&P 500	2815	0.36%	1.11%	7%
INR 1M FWD	0.30	0.02	0.01	0.06
INR 2M FWD	0.54	(0.01)	(0.04)	0.06
INR 3M FWD	0.77	0.03	(0.04)	0.06
INR 6M FWD	1.39	0.01	(0.14)	0.03
INR 12M FWD	2.61	0.03	(0.31)	0.05
	<b>1 DAY</b>	<b>MTD</b>	<b>QTD</b>	<b>CTD</b>
FII INVESTMENT- EQ (\$ Mn)	199	4,258	6,553	6,553
FII INVESTMENT- DEBT (\$ Mn)	(138)	2,358	705	705
TOTAL- (\$ Mn)	61	6,615	7,258	7,258

CURRENCY	ECONOMIC DATA
USD	Core PCE Price & Chicago PMI

#### FX VIEW

Till 4:00 pm yesterday drama unfolded in the OTC market. Exchange traders may have missed it, but not us. There was excess Dollars in the system and it was playing havoc with the forward rates at the short end. Let me explain

What augmented Dollar liquidity?

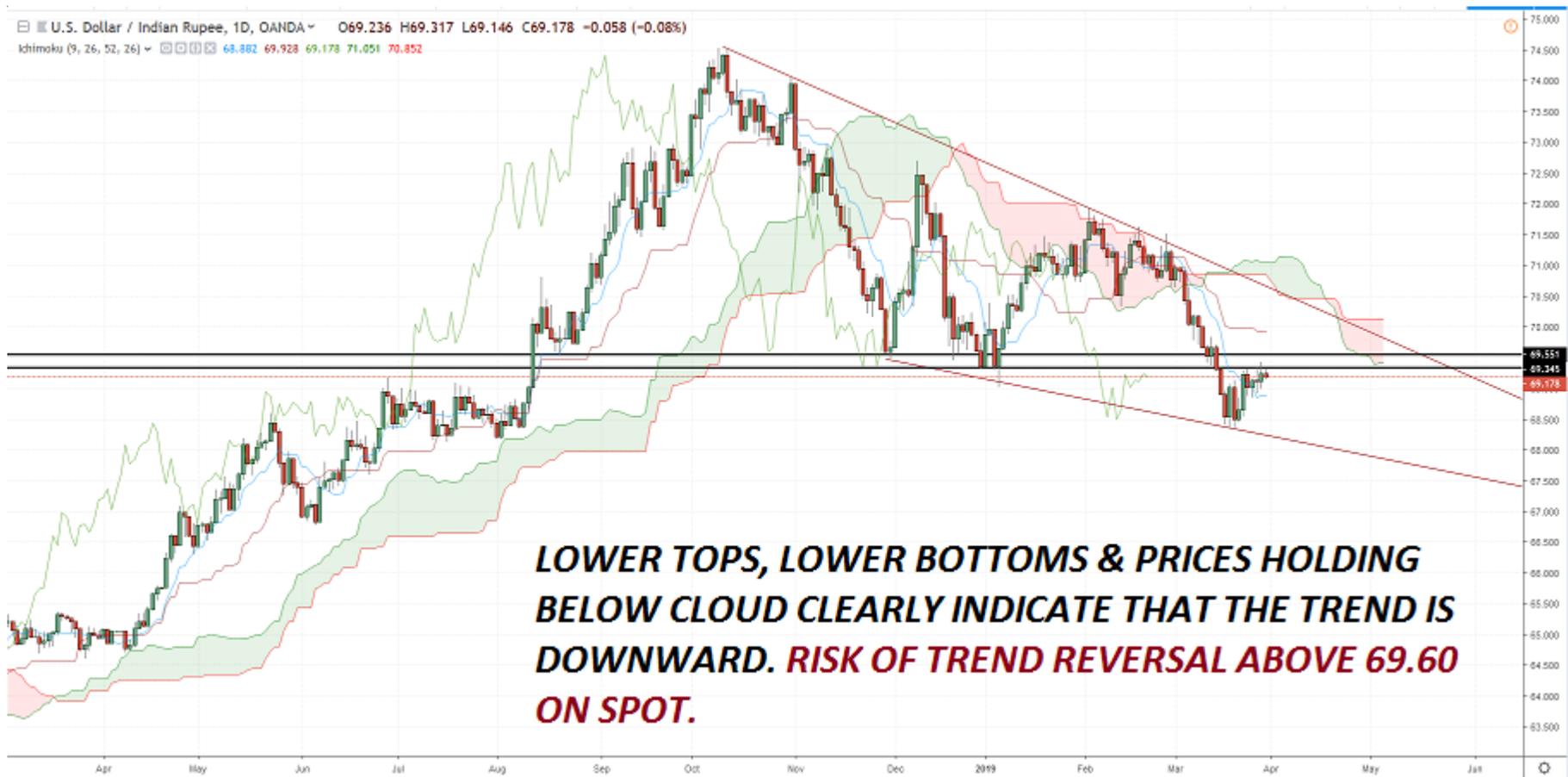
1. It is year end, exporters are happy to sell Dollars more aggressively than usual, as many of them have bunched up dollar balances in their EEFC account.
2. PSU banks had borrowed dollars aggressively to bid in the just concluded FX swap. Contrary to their expectation, there were too many offers for Dollars in the swap. Banks offered 16 billion against a swap of 5 billion dollars. A chunk of the market was left holding the excess dollars.
3. We are at the financial year end, and there is little incentive to hold dollars for the Indian banks. With too much dollars in the system, Indian banks have two options:
  - (a) Lend dollars in the Euro dollar market abroad- Many of them could not tap this route as they had breached their dollar lending limits
  - (b) Roll over Dollars by paying the forward premium. As more folks take this route forward premia explodes higher, leading to a big cost for banks holding excess dollars.
4. FPIs had oversubscribed to CPSE ETF and that money is yet to leave the system.
5. General FPI flows continue to be robust in the bond and the equity segment. Its FOMO out there.

Yesterday, since morning, the massive overhang of Dollar liquidity kept pushing the spread between spot and cash wider. It went from 9 paise to almost 35 paise. Generally, during the year end, there excess dollars due to repatriation from corporate. As a result, the premium that the spot trades over cash touches levels of 15-17% p.a. Yesterday, due to the factors I outlined above the premium of spot over cash blew up to nearly 40% p.a. Therefore, a bank holding dollars, which they are unable to lend abroad, and having to rollover had to pay 40% p.a cost.

There was growing demand for RBI to intervene. Market even feared some large corporate flows, from likes of Arcelor Mittal to the tune of 1-2 billion dollars. RBI finally relented and intervened in cash post 4 pm. They bought dollars indiscriminately in cash and as a result, USDINR spiked from 68.90 to 69.35 on spot.

It can be argued that RBI may have adopted a less efficient way of intervening in the market. A chunk of the excess dollars would be transitory due to seasonal and some event factors. Therefore, it would have been sensible for RBI to have swapped their cash purchase of US Dollars to forward dates. They could have bought in cash and sold in forwards, say, 1 or 2 weeks out, to ensure that there is no structural shortage of Dollars in the system.

Today, is the final day of FY19. There are still talks of excess Dollar liquidity. What will RBI do? Will they buy cash like yesterday and create another spike in spot or will they be more prudent and sensible by entering into a 1 week buy-sell swap of USDINR. If they chose to enter into a swap, it will have a salutary impact on USDINR spot as well as forward premia and cash-spot rates. Keep a watch.



Source: Bloomberg

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