

| INSTRUMENT | LAST PRICE | 1 DAY | 1 MONTH | 1 YEAR |
|------------------------------|--------------|------------|------------|------------|
| USD/INR | 68.92 | 0.09% | 0.0% | 1% |
| EUR/INR | 76.88 | 0.15% | -1.8% | -5% |
| GBP/INR | 83.76 | 0.04% | -4.1% | -8% |
| JPY/INR | 63.43 | 0.08% | -0.3% | 3% |
| EUR/USD | 1.1155 | 0.00% | -1.2% | -5% |
| GBP/USD | 1.2153 | 0.01% | -3.9% | -7% |
| USD/JPY | 108.59 | -0.02% | 0.1% | -3% |
| USD/CNH | 6.8873 | -0.03% | 0.4% | 1% |
| 10 YR YIELD- IN | 6.38 | (0.01) | (0.50) | (1.39) |
| 10 YR YIELD- USA | 2.05 | (0.00) | 0.05 | (0.91) |
| GOLD (\$/Oz) | 1,428 | -0.2% | 3% | 17% |
| SILVER (\$/Oz) | 16.49 | -0.5% | 9% | 6% |
| BRENT CRUDE (\$/Brl) | 65.21 | 0.8% | -2% | -12% |
| COPPER 3M (\$/Ton) | 5948 | -1.2% | -1% | -5% |
| NIFTY | 11040 | -0.41% | -6.35% | -3% |
| HANGSENG | 27895 | -0.89% | -2.27% | -2% |
| S&P 500 | 3013 | -0.26% | 2.43% | 7% |
| INR 1M FWD | 0.22 | 0.02 | (0.04) | (0.03) |
| INR 2M FWD | 0.42 | 0.00 | (0.09) | (0.08) |
| INR 3M FWD | 0.69 | 0.01 | (0.08) | (0.06) |
| INR 6M FWD | 1.46 | 0.03 | (0.13) | (0.04) |
| INR 12M FWD | 3.04 | 0.01 | (0.23) | 0.04 |
| | 1 DAY | MTD | QTD | CTD |
| FII INVESTMENT- EQ (\$ Mn) | (54) | (1,623) | (1,623) | 9,716 |
| FII INVESTMENT- DEBT (\$ Mn) | (17) | 1,065 | 1,065 | 2,493 |
| TOTAL- (\$ Mn) | (72) | (558) | (558) | 12,209 |

| CURRENCY | ECONOMIC DATA |
|----------|--------------------------------|
| EUR | CPI Flash Estimate |
| USD | ADP Non-Farm Employment Change |
| USD | US FOMC |

FX VIEW

Ahead of tonight's Fed rate cut, the only lingering question is whether it will be 25bps - which is now fully priced in and may disappoint markets, especially if it is framed in a hawkish tone and optimistic outlook - or the Fed goes all the way, and cuts by 50bps. For the Fed to not reduce interest rates appear highly unlikely as they would not like to shock the money markets at a time when the US economic growth is being dragged down by soft housing activity and global economic slowdown.

The bigger question remains what may prompt the Fed to reduce rates by 50 bps, a low probability outcome. There are three reasons:

1) USD funding market has tightened as is evident from widening FRA-OIS spreads and also widening cross-currency basis swaps for USD funding. Rich levels of USD hedge cost makes it difficult for offshore players to borrow in dollars.

2) The tight USD liquidity can aggravate due to US Treasury going for large scale issuance of bonds and Bills as the debt ceiling has been hiked. US Treasury has announced they intend to replenish the Dollar balances with Fed, which they had drawn down to prevent US government shutdown. This can put further pressure on funding cost and also on Dollar levels against other currencies. Tight Dollar liquidity can be blamed as one reason why Dollar has remained more or less stable to strong against other currencies, inspite of Fed fund futures market pricing in rate cuts.

3) With market having already priced in 25 bps, Fed would need to deliver a 50 bps if it has to have a favourable impact on bonds, equity and Dollar. Favourable impact would mean higher equity prices, weaker dollar and lower rates.

Apart from the rates, market would watch whether Fed announces an end to the balance sheet run-off, which is also weighing on USD liquidity.

Impact under various scenario:

1) Fed cuts by 25 bps but sounds like this is one and done for now: Indian equity and Rupee may weaken. USDINR can test 69.10 on spot.

2) Fed cuts by 50 bps: EM stocks and currencies will strengthen. Rupee will strengthen too. It can test 68.10/30 levels on spot against the US Dollar.

3) No cut: Rupee, INR bonds and equity falls. USDINR can aim for 69.50.

4) 25 bps cut and keeps door open for more cuts: Rupee strengthens but not as much as under scenario 2. USDINR may fall towards 68.60/70 levels on spot.

TECHNICAL VIEW ON USDINR:

Primary downtrend is intact in USDINR. Short term trend is sideways. USDINR face resistance around 69.10/20 levels on spot, which if conquered can open doors for a move towards 69.50/60 zone on spot. Intra-day shorts on USDINR can be done closer to 69.00 levels on spot, but we would advise covering those shorts if the pair trades above 69.20 .

*** CHART ON NEXT PAGE ***



Source: Bloomberg

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