MONTHLY ANALYSIS REPORT

- Rupee Performance
- Rupee Outlook
- Markets Round-up

GREENBACK ADVISORY SERVICES PVT LTD

How did the Indian Rupee perform in the month of August'18?

August will definitely be called as one of the most memorable months of 2018. This month gave some arresting events to the market audience, prompting some to stay risk-off while others on speculator mode. This mentality created a havoc like situation for the world equities and currencies. The Indian currency too wasn't spared. It opened the month at 68.55 levels and turned north throughout the month, pushing the currency to its life time low levels of **71.00** levels towards the end of the month.

Explaining in detail the price movement of the Indian Rupee

After opening the month at 68.55 levels, the Indian Rupee embarked on a positive trend for some time as markets discounted the outcome of RBI Policy Statement where the committee hiked rates by 25 basis points to 6.50 percent and maintained a 'neutral' stance in the policy as it aimed to contain inflation while not choking growth. But the positive trend was short-lived on back of sudden fall in Yuan currency (6.87 levels) after the dragon nation vowed to retaliate to the US President's threats. The PBOC tried to intervene by adjusting the Reserve Requirement on FX forwards to 20 percent which calmed all other Asian currencies but not for long. News of US Administration imposing 25 percent tariffs on $16 billion of Chinese imports from Aug. 23 kept Yuan and other Asian currencies under pressure.

Also, the re-imposition of Iran sanctions coupled with increased fears between US-Russia after the former threatened to impose fresh sanctions on the latter in relations to the nerve agent attack on a former Russian spy in the UK acted as a negative factor.

If this was not enough, crisis in Turkey hit the markets and affected all other currencies displaying the domino effect. Apparently, Turkey had imprisoned a US pastor on charges of terrorism which angered the US President who after many threats made a statement on doubling steel and aluminum tariffs on Turkey which led to weakness in Turkish Lira by almost 30 percent in matter of 15 days affecting all other emerging market currencies as well including Rupee which weakened to 69.48 levels.

To curb the growing weakness in Lira, the Central Bank of Turkey commented on using all instruments to calm its currency which worked for all currencies. After enjoying its short nap in the on account of market holidays, Rupee was once again cornered prompting it to cross the 70-mark. Reasons for the same could be attributed to rising crude prices after Saudi Arabia announced to cut production along with the unresolved issues between Turkey-US and US-China that kept the currencies a bit volatile.

Plus, offshore market was driving the weakness in the Indian Rupee which pushed the currency to 70.41 levels. However, there was some relief seen later which pushed the local unit to 69.52 levels. The news that US and China would be holding a meeting on 22-23 August infused a wave of optimism in the markets as investors expected a breakthrough deal. Adding to this strength in Rupee was the remark made by the US President who expressed his dissatisfaction on the fed rate hike pace while accusing China and EU in currency manipulation which pushed the global dollar lower.

But this strength was also short-lived on back of sudden surge in global dollar post the FOMC Meeting Minutes where the committee discussed raising interest rates sooner to counter excessive economic strength but also examined how global trade disputes could batter businesses and households. Moreover, market sentiments were dented as the US and China meeting ended with no major breakthrough as their trade war escalated with activation of another round of dueling tariffs on $16 billion worth of each country's goods which weakened the Yuan currency affecting all other Asian currencies as well.

Towards the end, Rupee initially made a positive start tracking the appreciating trend in Yuan and weakness in global dollar. The PBOC announced of tweaking its methodology for the fixing of Yuan's daily midpoint in an effort to stabilize the currency market while the US Fed Chair made a dovish comment in Jackson Hole Symposium announcing that future rate hikes shall be gradual in nature as the US inflation rate remained in the target range. However, the appreciating trend was short-lived as Rupee turned north on rumors of defense payments being made by India. Further, continued weakness in Indian Rupee in the NDF market created havoc for the Indian Rupee.

Huge sell off from the emerging market economies continued to tumble after Argentina peso hit a record low against the dollar. Apparently, the country's president asked the IMF to speed up the release of funds from its $50 billion credit line. To curb the sudden weakness in Peso, the Central Bank of Argentina increased its interest rates to 60 percent. Further, the Brent crude edged higher amid falling US inventories along with rising trade fears of Iran Sanctions, US-China trade war and Turkish sanctions which hampered the risk appetite of the investors prompting them to exit from Emerging Markets hampering local equities and its unit. The Indian Rupee touched its all time low of 71.00 levels and closed the month of August at 70.99 levels on 31st August'18.

How will the Indian Rupee perform in the month of September '18

All is not well in the global arena which is why the Indian Rupee faced the brunt in August 18 by depreciating almost by 3.58 percent. The acquired weakness will not leave the side of Indian Rupee any time soon which means that the local unit is set to depreciate more in the days ahead. USDINR could see the levels of 71.50 levels. A break of which could push the rupee towards 72.00 mark. On the downside, there is a possibility Rupee could even touch 69.80 levels reasons which has been given below.

Major events that could cause hiccups in Rupee are:

- Emerging Market Crisis
- US Fed Rate hike
- Crude oil crisis
- Trade war fears
- US government shutdown

Emerging markets have taken a centre stage; all thanks to the catastrophe struck in Argentina, China, Russia, Iran, Saudi Arabia and Turkey that has dwindled the markets forcing investors to book their profits and leaving emerging markets for good (for now at least). ***The MSCI Emerging Market price index which was at 1263 levels in the beginning of the year of 2018 has declined to 1022 levels in August***. The losses in emerging markets is expected to extend in September as well acting as a domino effect on other emerging markets as well including India.

Turkey – The country is fight with its political crisis, mounting debt levels, rising inflation rates, no rate hikes and fallout with the US which has affected the Lira. In fact a recent report that the central bank's deputy governor was set to resign has only added to the woes. To curb the sudden jitters in Turkish Lira, the official have lowered the level of withholding tax on lira bank deposits of more than one year to zero from 10 percent, while raising the tax level on foreign currency deposits of up to one year bringing some relief to Lira. In the coming days, Turkish Lira could bring cautiousness into the markets once again back to the markets as the Monetary Policy of the country is to be held soon. Plus, the recent comment by the FM that the US Sanctions will affect Middle-East and Europe too could affect the mind-set of the investors prompting them to remain risk-off.

Argentina – The country is fighting with higher inflation which has affected the growth rate. Moreover, with natural calamity being struck on them some months before which has destroyed their main export crops i.e. soybean and corn. This could affect their exports adversely affecting the economy all the more. Recent news that Argentina's government had unexpectedly asked for the early release of a $50 billion loan from the IMF created an uproar in the To curb the losses, the Central Bank of the country hiked their interest rates to 60 percent from 15 percent which pushed the currency to 38.00 levels. Markets feel that more drama is to come from the country which could possibly default soon which could keep the currency pressurized.

Crude Prices – The bullish trend in crude is not ready to leave. The global demand has been on the rise which is not being met by the global supply. With the renewed sanctions on Iran, the supply is set to be reduced all the more. Plus, the trade war between US-China may not curb China's appetite for US crude boosting the price for crude all the more. This could definitely affect India who is now in a fix since it imports oil and this upward movement in crude would not only increase inflation but also widen the trade deficit affecting India's GDP in turn.

Trade War – The fight between the two power houses has trampled other economies in the process. As per the latest update, the US President has voiced his support for moving forward with more proposed tariffs on an additional $200 billion in Chinese goods as early as next week. This would mean that more than half of all Chinese imports would be subject to tariffs. Investors are taking this escalation in rising trade tensions seriously which shall affect Yuan and other Asian currencies as well in the coming days.

US Government Shutdown – Recently, the Senate passed an $857 billion bipartisan spending bill a move that Republicans and Democrats hope will avert the threat of a government shutdown in September. The massive bill includes more money for the military as well for as the departments of Health and Human Services and Education. However, not everyone wants to vote for Trump's funding for a border wall which has prompted the President to shut down the government if he doesn't get any in the next eleven working days. Markets will surely get an opportunity to speculate in the next few days as volatility is set to rise which could keep the Dollar Index jittery.

Apart from the above main factors, there is a growing fear of failed Brexit Negotiation along with investigation between the Trump campaign and Russia ahead of the 2016 election that has picked up pace. Also, the possible US rate hike in the (25-26) Sep'18 FOMC policy meeting could push the Dollar Index higher which could add to Rupee's pressure. Nevertheless, there are important economic datasets from the US (ADP/NFP Employment, Retail Sales, Manufacturing/Service PMI, CPI and Consumer Confidence) and India (CPI, WPI, IIP, Manufacturing PMI, Service PMI, CAD and Balance of Trade) which could keep the Rupee volatile. Also, the continuous weakness in offshore Rupee could drive the spot rate of USDINR.

However, there is a possibility of NRI Bonds hitting the market soon which could soothe the ongoing crisis in Indian Rupee. As per a recent report published by a well-known bank, the Reserve Bank is likely to issue non-resident bonds worth $30-35 billion if Rupee plumbs the 70-mark and if overseas inflows do not revive. Also, as a defensive measure, RBI could come up with its time tested measure of special oil window for oil marketing companies which could ease of the dollar demand from the spot market. Further, excessive one sided move could invite RBI intervention, thereby prompting the rupee to retrace back towards 69.80 levels.

Technical Outlook

USDINR – Weekly Chart

The pair has given an extremely bullish close on the weekly and monthly charts while is moving within the trend channel on the weekly charts signalling continuation of the northward movement. On its up move, the pair shall face resistance at 71.65 levels (upper trend line) whereby it could meet some resistance. However, the technical indicators like RSI is signalling caution on the up move. Only a convincing break and close above 71.65 levels shall open up the gateway for a swift up move to 72.00 and 72.60 levels. On the flipside, any resistance around 71.65 levels shall retrace the pair back towards 70.50 and 69.80 levels which shall act as a key support for the short term. Only a break and close below 69.80 levels would negate the above view and push the pair towards 69.00 levels. Next key support lies at 68.50 levels.

Key Support	**S1**	**S2**	**S3**	**S4**	**S5**
	70.50	70.00	69.80	69.00	68.50
Key Resistance	**R1**	**R2**	**R3**	**R4**	**R5**
	71.65	72.00	72.60	73.00	73.50

Strategy

Importers are advised to cover their near-term payables on dips towards 70.50 levels and increase coverage on any dip towards 69.80-70.00 levels. Exporters are advised to cover their near to mid-term receivables in a staggered manner on spikes towards 71.65 levels and increase coverage on any spike towards 72.00 levels.

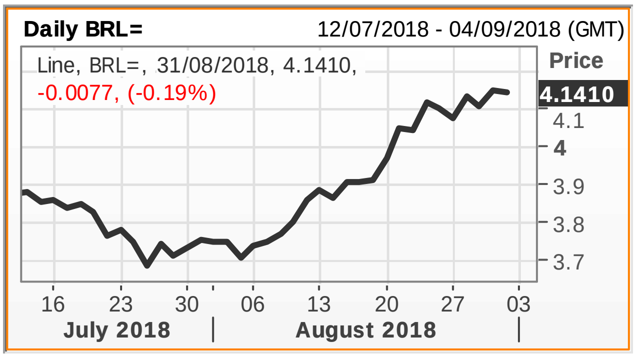
Markets Round-up

Performance of Major Asian Currencies			
Currency	1-Aug-18	31-Aug-18	% Change
INR	68.43	70.99	-3.74%
CNY	6.8154	6.8342	-0.28%
KRW	1118.49	1116.71	0.16%
SGD	1.3615	1.3715	-0.73%
THB	33.15	32.75	1.21%
PHP	52.98	53.47	-0.92%
MYR	4.064	4.108	-1.08%

Performance of Major Equity Indices			
Currency	1-Aug-18	31-Aug-18	% Change
Sensex	37521.62	38645.07	2.99%
Hang seng	28340.74	27888.55	-1.60%
Nikkei	22746.7	22865.15	0.52%
CAC	5498.37	5410.21	-1.60%
Dowjones	25333.82	24667.78	-2.63%
DAX	12737.05	12392.55	-2.70%
Shanghai	2824.5337	2725.2499	-3.52%

Emerging Market Currencies

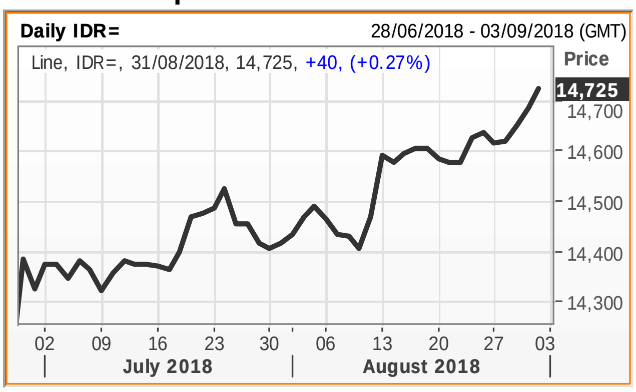
Brazilian Real



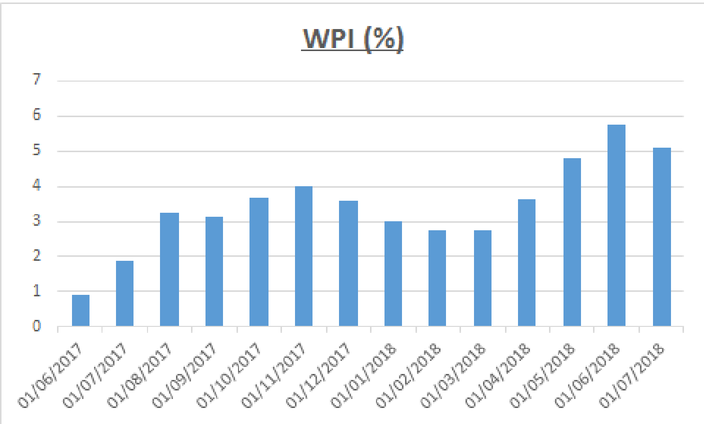
Turkish Lira

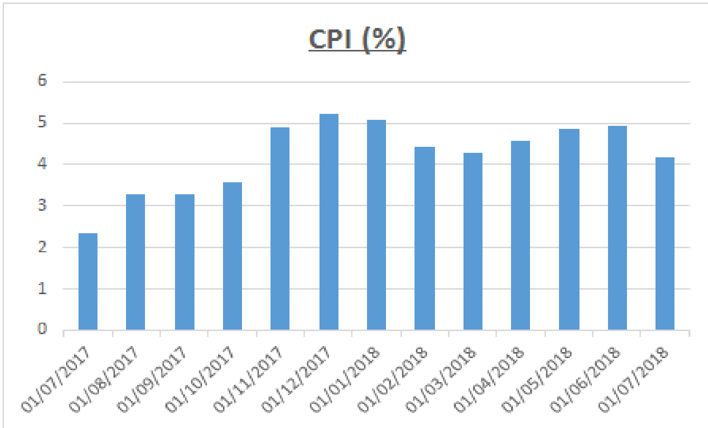
Argentina Peso

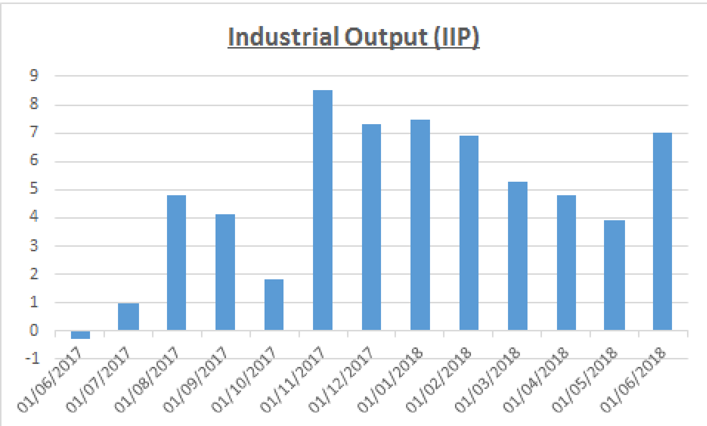
Indonesian Rupiah

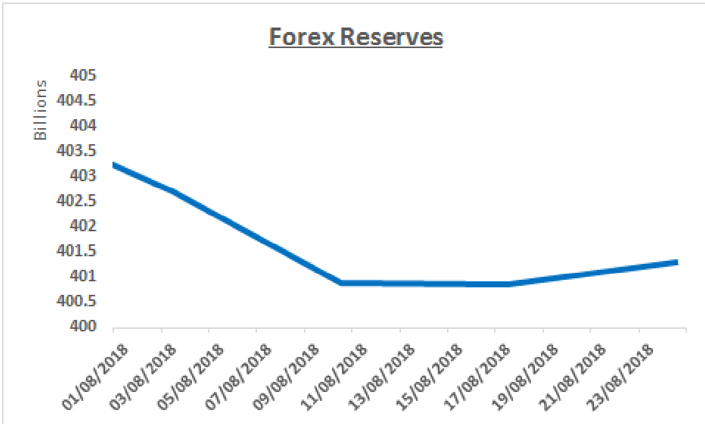


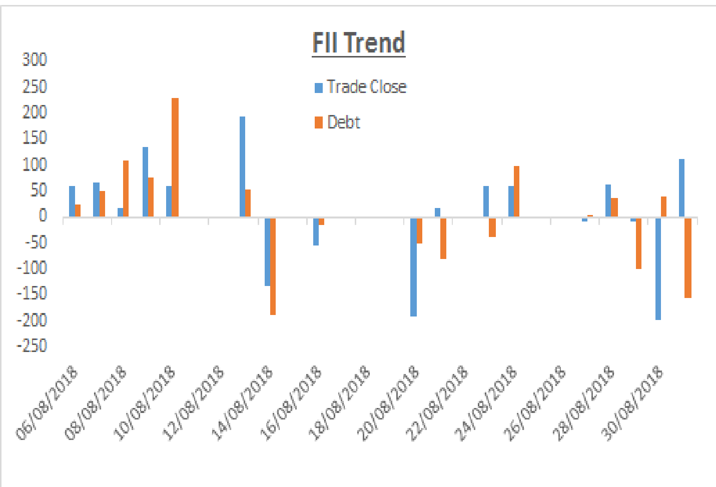
Indian Economy at a glance

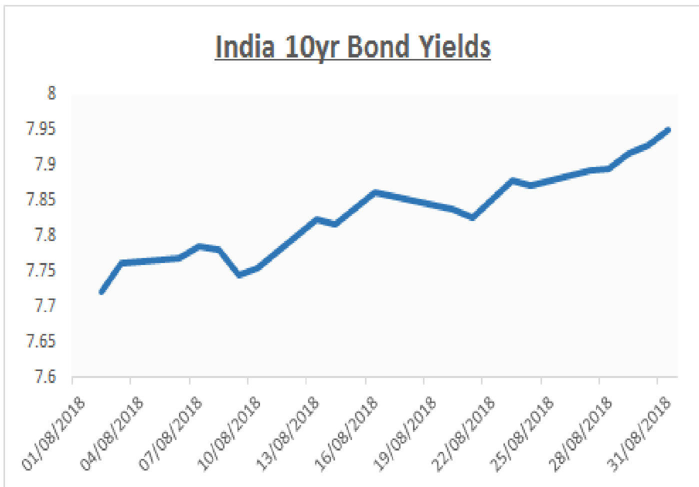












Disclaimer: