



USDINR Gone By

2nd April 2018

A lot has happened in the month of March'18 which has kept the markets on edge creating a wave of volatility and uncertainty which simultaneously governed the trend of the Indian Rupee. It started off the month at 65.20 levels made a few high low movements in between and finally closed the month or better the fiscal year 2017-18 at 65.17 levels.

In the initial few days, the Indian currency appreciated towards 64.80 levels. Reason behind the same could be attributed to the robust release of GDP data from the nation that came at 7.2 percent from prior 6.5 percent. Further, the ruling Bharatiya Janata Party's win in the assembly elections conducted in the North-Eastern states boosted the market sentiments in turn helping the local unit to stay supportive. Furthermore, the weakness in the global dollar was another factor for the Rupee's strength.

Apparently, the US President signed two proclamations that levied a 25 percent tariff on steel and a 10 percent tariff on aluminum imported from all countries except Canada and Mexico which kept the greenback pressurized in turn boosting the demand for the Indian currency. Not only this, the news of US President's Economic Advisor resigning added to the woes. Gary Cohn was opposed to Trump's plan of imposing tariffs and his resignation rekindled fears of trade wars between the U.S. and other major economies.

However, sharp gains in the Rupee was restricted on back of increased dollar demand by importers and banks at lower levels that kept the Indian Rupee pressurized. Also, the RBI suspended issuance of Letter of Undertaking (LoU) and Letters of Comfort (LoC) that created a lot of jitters in the markets. Not only this, the news of US President imposing new tariffs on China kept the Asian markets in red which impacted the Indian equities and its currency too. Moreover, traders adopted a risk-off approach after the comments from President Donald Trump's new economic adviser who stated that a strong and stable dollar was important for US economic health which boosted the demand for the American currency. All of the above factors kept the Rupee pressurized pushing it lower towards 65.24 levels.



The weakness in the currency could not stand for long and the trend once again reversed as markets discounted the robust release of Trade Deficit data from India that narrowed to \$12.00bln from previous month's \$16.30bln. Not only this, the news of Indian Finance Ministry and RBI, discussing on potential revision of foreign investment limit in government bonds boosted the market sentiments in turn helping the Indian Rupee to stay positive. Also, the outcome of FOMC Monetary Policy Statement came in line with the market expectations. The committee decided to raise rates by 25 bps but forecasted at least two more hikes for 2018 along with a less hawkish tone than expected, which kept the global dollar pressurized against the majors. This worked in favor of the Indian currency.

Once again this positivity in Rupee was short lived. RBI's decision to stop buyer's credits led to short term demand pressure in dollar which acted against the Indian currency. Also negative in global and local markets added to the woes. The US President Donald Trump hit China with around \$60 billion of trade tariffs which kept the markets in red. In a counter-move, China responded by hitting \$3 billion of US goods with sanctions which further ignited the fear of global war. This created a wave of uncertainty in the markets kept the local equities and local unit pressurized. However, with surplus forex reserves in its kitty the Reserve Bank of India intervened the markets at higher levels and kept the Rupee stable. Also, with IPO-related fund flows and dollar conversions by exporters ahead of the financial year end the local unit was trading mostly on the positive side.

Towards, the end of the week there was a lot of volatility seen in global markets that spread through Indian markets as well in turn hampering the Indian currency. Initially there was some strength seen in the local unit on back of huge foreign inflows prior to the starting of the FY 2018-19 coupled with lower global dollar amidst trade policy uncertainty. Further, the Indian government announced a borrowing program, lower-than-expected of 2.88 trillion rupees in the first six months of 2018-19 which boosted the market sentiments. Also, reports of China and the US working towards resolving their trade differences kept the global markets in green in turn helping the Indian markets and its currency too.



However, things got a bit jumpy in the last two days of the month following Trump's attempt to block Chinese investments in US technology that resulted in a mild global sell off. Moreover, with holiday shortened week the premiums dropped significantly as the "last day first day" premiums move out. Furthermore, PNB bank settled approximately Rs 6500 crores via dollar buying that weakened the Indian Rupee to 65.30 levels on the last trading day of the month as well as the FY 2017-18. Due to possible RBI intervention at higher levels the Indian Rupee recovered and closed the month at 65.17 levels on 28th March'18.



USDINR Outlook

The month of March'18 has spiced up the plate giving April'18 a host of reasons to act volatile. This volatility could see Rupee trading broadly in a range between 64.50 to 65.50 levels with in the month of April'18. Reason behind this sort of price trend could be attributed to the following factors arising from both domestic and international arena.

In the initial few days, there is a possibility of Rupee to strengthen on back of fresh inflows into the markets considering it is the start of a new fiscal year. Soon the positive trend in the Rupee shall be reversed prior to the upcoming RBI Monetary Policy Meeting that is scheduled to be held on 5th April'18 that could keep the investors on an edge. The April month's policy shall be an important one considering it is the first one of the new fiscal year and could give us a direction in terms of the policy and outlook on inflation as well as growth. Hence, we could see some weakness happening during this period. A break of 64.70-64.80 levels on the downside can bring in further dollar selling by exporters and take rupee towards 64.50.

Nevertheless, the uncertainty in global arena could add to the woes. The latest element that has created an uproar in the markets is the trade tariff war which involves the US and China. Donald Trump has signed two proclamations that levied a 25 percent tariff on steel and a 10 percent tariff on aluminium imported from all countries except Canada and Mexico, a move that has sparked fears of a global trade war. Not only this, he has hit China with around \$60 billion of trade tariffs which has not only angered China but also nations world wide as this has just added fuel to the uprising trade war fire.

In retaliation, China responded by hitting \$3 billion of US goods with sanctions. Further, the Trump administration has been finding a crackdown on Chinese investments in US technologies so as to punish the former for violations of intellectual-property rights. These developments has already created a wave of uncertainty in the markets and is likely to create more in the coming days. Any unusual update from the West could result in global sell-off which shall not only affect the Indian equities but also its local unit; keeping it pressurised. Further, there is a host of



economic data releases from the US which could keep the American currency volatile in turn affecting the Indian rupee. There is ADP and NFP Employment Change coupled with unemployment and inflation rate which could create a little bit of jitters in the markets considering the kind of volatility took place in the previous month. Rupee has witnessed resistance at 65.30 levels possibly due to RBI intervention. If 65.30 breaks on upside, panic buying by importers may emerge and take rupee towards 65.50-65.60 levels.

However, sharp losses in the Rupee shall be capped owing to the following factors that has been listed below. The Indian government and the Reserve Bank of India have been discussing the possibility of raising the Foreign Portfolio Investment (FPI) limit in long-term government securities (G-secs). However, there has been no official comment been made on how much the increase could be in percentage or absolute terms. Also, recently the Indian government announced of borrowing a lower amount via bonds in the first half of 2018-19, in order to ease the pressure on the local debt markets. The committee plans to borrow Rs 2.88 lakh crore between April-September in FY19 compared to Rs 3.72 lakh crore in the same period of FY18. This has already created a wave of positive environment in the markets and is expected to create more in the coming days thereby helping the Indian Rupee to stay supportive in turn.

With Karnataka Election data decided (May 12th, 2018) there could be some up's and down's seen in the markets with campaigning seen on the horizon. Mr. Modi has stated that he wants to free Karnataka from the dynasty rule of the inefficient Congress which would also mean putting an end to corruption and dirty politics. Hence, there is expectation of a cut-to-cut competition between the parties which could give rise to volatility.

Nevertheless, towards the end of the month there are a host of important economic data releases from the United States like the manufacturing/non-manufacturin PMI, retail sales, consumer confidence, Advance GDP etc could keep the US Dollar Index volatile which eventually shall affect the Rupee's price movement. Not only this, the economic indicators from India like IIP, manufacturing/service PMI, current account deficit, CPI/WPI rate etc in the coming days shall keep the Rupee on the edge as well. However, with huge forex reserves of \$421.33 billion in its kitty the Reserve Bank of India shall very well intervene the markets to keep the Indian Rupee stable.



Overall, the Indian Rupee shall trade between the range of 64.50 to 65.50 levels with an extended range of 64.30-65.75 levels. The main events that could keep the markets in jitters is the trade tariff war between the US and China and the RBI Monetary Policy Meeting. However, events such as the hike in FPI bond limit and reduction in government borrowing plan shall keep the market sentiment boosted in turn helping the Indian Rupee to stay positive.



Key Economic Events In March'18

- India's February exports came in at \$25.8 bln v/s \$ 24.4 bln prior.
- India's February Imports came in at \$37.80 bln v/s \$ 40.68 bln prior.
- India's February CPI stood at 4.44% v/s 5.07% prior.
- India's February WPI Inflation came at 2.48% against the previous of 2.84%.
- India's February Fuel Inflation stood at 3.81% vs 4.08% prior.
- India's February Manufacturing Inflation printed a reading of 3.04%.
- India's February Food Inflation printed a reading of 0.88% vs 3.00% prior.
- India's February Trade Deficit Data came in at \$ 11.98 bln vs \$ 16.30 bln.
- India's GDP growth for the fiscal year 2016-17 came at 6.% vs 7.1% prior.



USDINR- Technical Take

Chart 1: USDINR - Weekly Chart



USD/INR has held the trend resistance on the monthly charts while has retraced 38.2% of the move from 68.8650 to 63.2500 levels signalling an likely downmove towards 64.80 and 64.60 levels. Only a convincing break and close below the same shall push it to 64.25 levels (trendline support). However, the pair could take support at these levels and resume its upmove targeting 64.80 and 65.20 levels. Any break above 65.25 shall open up the gateway for a swift upmove towards 66.00 levels. Further resistance lies at 66.55 levels (Technical gap). On the flipside, any break and close below 64.25 levels shall negate the above view and open up the target towards 63.80 and 63.50 levels. Technical indicators are mixed.

	S 1	S 2	S 3	S 4	S 5
Key Supports	64.80	64.60	64.25	63.80	63.50
	R 1	R 2	R 3	R 4	R 5
Key Resistances	65.25	66.00	66.55	67.20	67.50



Strategy

Exporters are advised to cover their near to mid term receivables in a staggered manner on spikes towards 65.50 levels. Importers are advised to cover their near term payables on dips towards 64.70 levels and increase coverage for further tenures on any dip towards 64.50 levels.



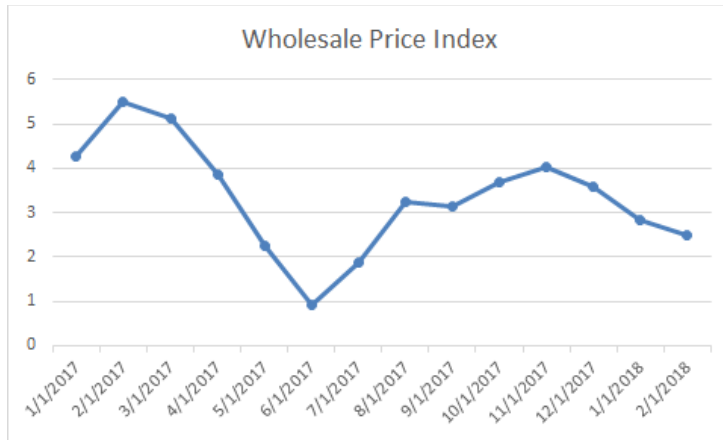
Markets Round up

Performance of Major Equity Indices			
Indices	1-Mar-18	28-Mar-18	% Change
Sensex	34046.94	32968.68	-3.17%
Hang seng	31044.25	30022.53	-3.29%
Nikkei	21724.47	21031.31	-3.19%
CAC	5262.56	5130.44	-2.51%
Dowjones	24608.98	25029.2	1.71%
DAX	12190.94	11940.71	-2.05%
Shanghai	3273.7549	3122.2895	-4.63%

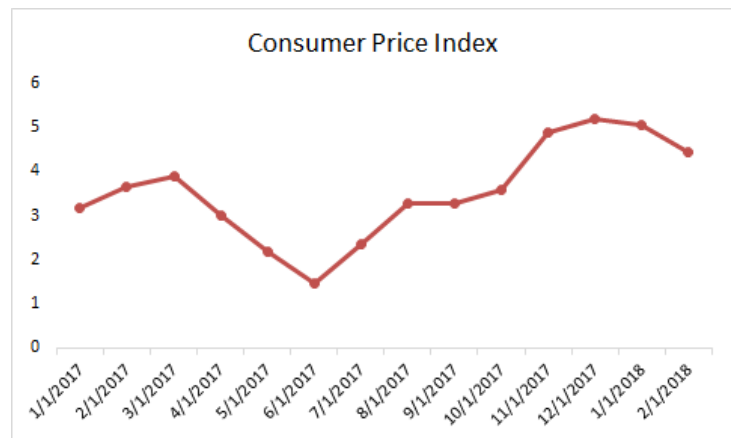
Performance of Major Asian Currencies			
Currency	1-Mar-18	28-Mar-18	% Change
INR	65.17	65.17	0.00%
CNY	6.3565	6.2946	0.97%
KRW	1081.83	1063.55	1.69%
SGD	1.3227	1.3114	0.85%
THB	31.49	31.27	0.70%
PHP	51.799	52.289	-0.95%
MYR	3.927	3.862	1.66%



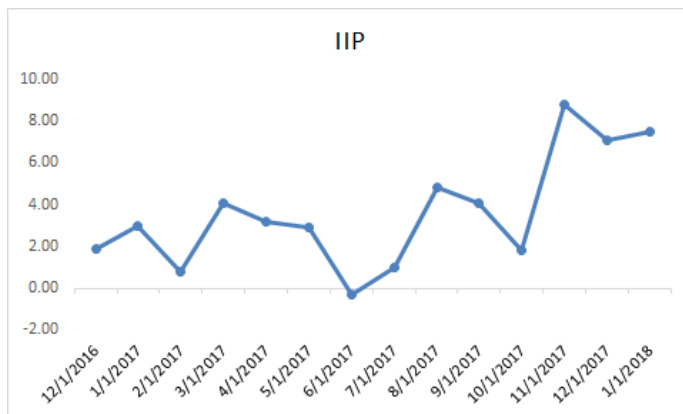
Graph'o'nomics



Indian WPI Trend



Indian CPI Trend

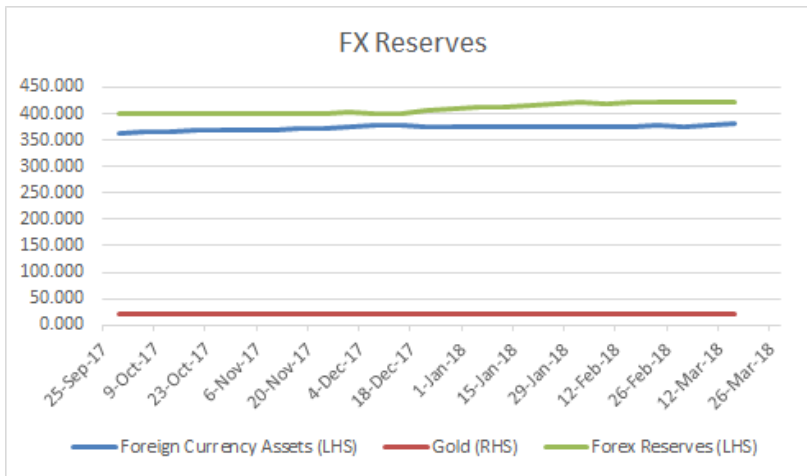


Indian IIP Trend

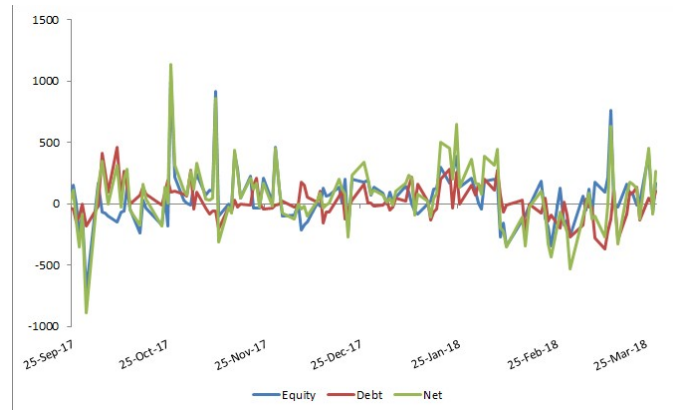


MONTHLY REPORT

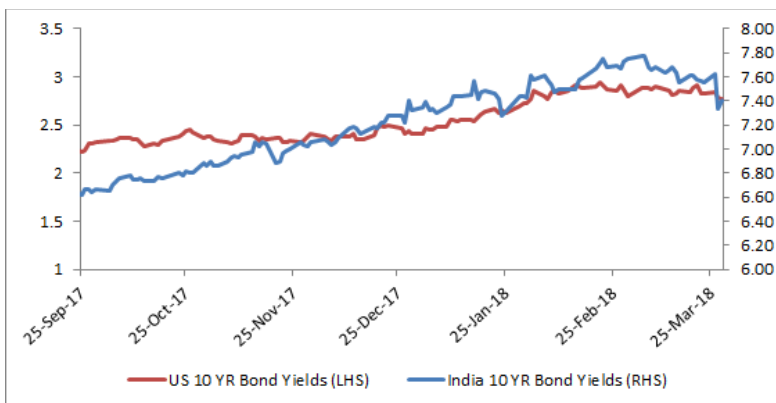
Graph'o'nomics



Indian Forex Reserves Trend



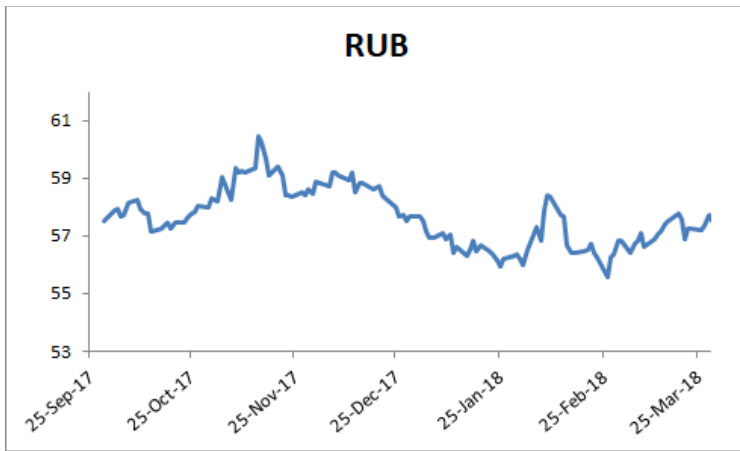
FII Trend in Indian Markets



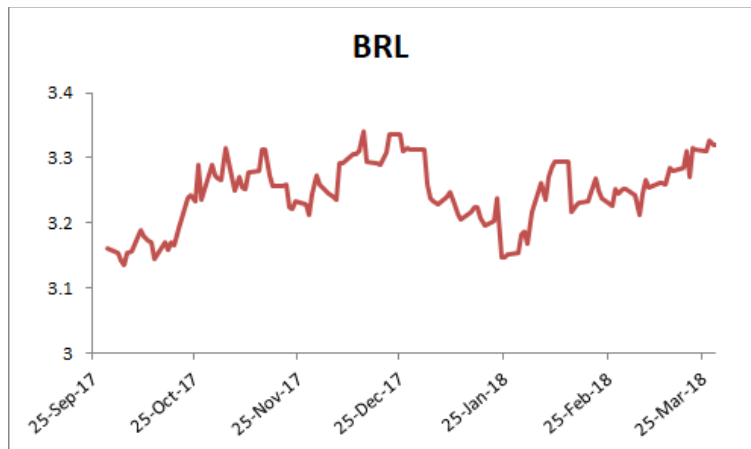
US Bond Yields v/s Indian Bond Yields



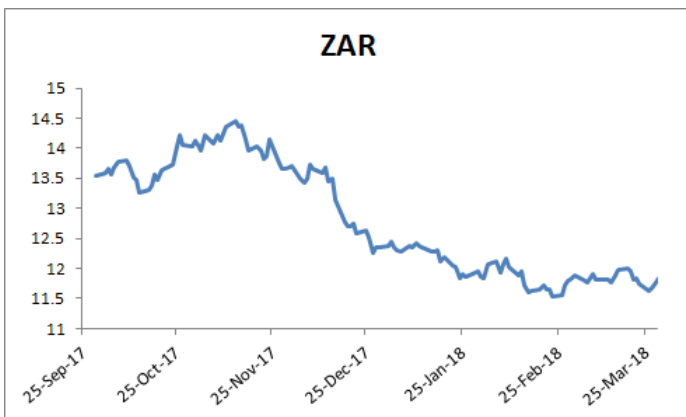
Emerging Market Currencies



Russian Ruble



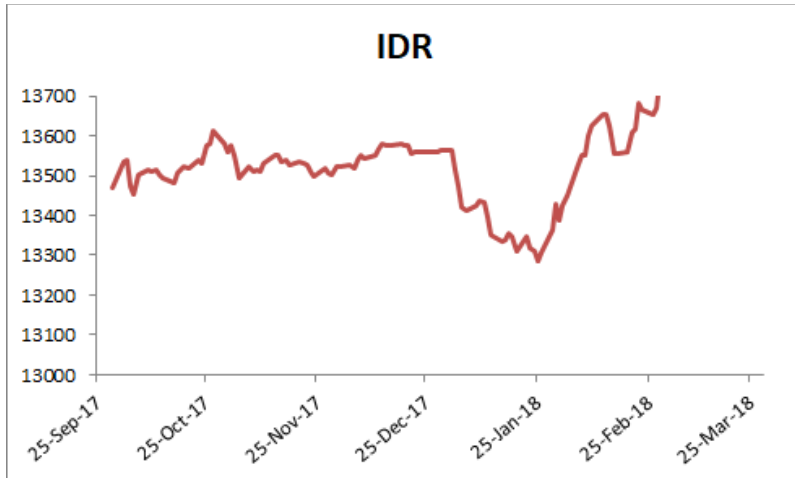
Brazilian Real



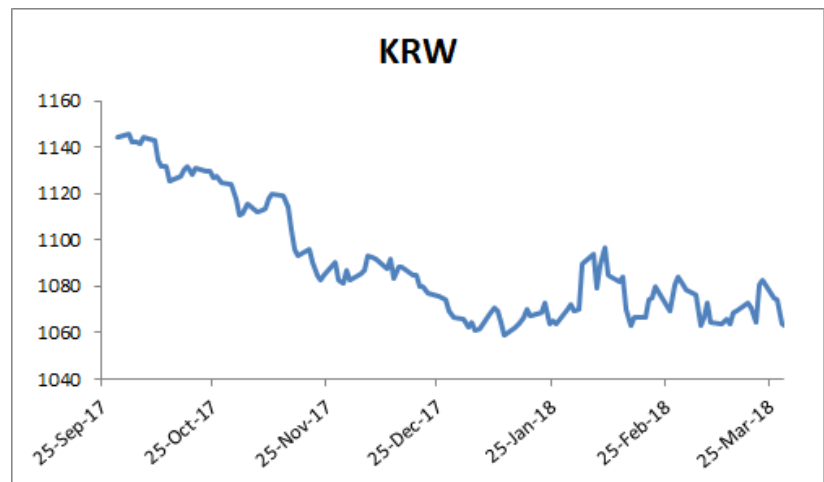
South African Rand



MONTHLY REPORT



Indonesian Rupiah



Korean Won

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