



## USDINR Gone By

29<sup>th</sup> September 2017

Rupee opened the month at 63.92 levels and weakened above 64.00 levels after India's economic growth slowed down unexpectedly to three year low at 5.7% in the June quarter, the slowest pace in three years, underlining the disruption caused by the uncertainty related to the roll-out of the goods and services tax even as the Indian economy is struggling to recover from a shock demonetization. The local unit continued to depreciate at 64.18 levels as investors remained cautious following North Korea's latest provocation, when it conducted over the weekend a test of a hydrogen bomb intended to be mounted on an intercontinental ballistic missile, which was considered to be North Korea's most powerful nuclear test. However, the Rupee soon reversed some losses as the Greenback turned lower after the release of downbeat US Factory orders data, sparking concerns over the strength of the US manufacturing sector. The currency unit continued to trade strong after taking a dip to 64.2625 levels as the Dollar remained broadly lower after release of disappointing US service sector activity data which was lower than expected. The Dollar also remained under pressure after Federal Reserve official Lael Brainard said that the central bank should delay raising interest rates until it is confident that inflation, which is now "well short" of target will rebound. Going ahead, the Rupee continued to trade strong as the Dollar remained broadly weaker after the release of downbeat US jobless claims data coupled with investor's caution ahead of the ECB meet. The Rupee moved to 63.7750 levels on broad Dollar weakness against a stronger Euro post the ECB meet where President Mario Draghi added that the outlook for growth and inflation in the Euro remained broadly unchanged. Further, sentiment on the Greenback was also vulnerable as markets monitored the advancement of Hurricane Irma, which was set to hit Miami over the week-end. However, the local unit soon reversed gains tracking losses in the Asian currencies markets after the US dollar rebounded from a 2015 low amid easing concern over Hurricane Irma and as the United Nations prepared to vote on tougher North Korean sanctions. Going ahead, the local unit continued to weaken around 64.05 levels on persistent demand for the American currency from banks and importers with its sentiment lifted by improving investor risk sentiment after North Korea did not conduct a nuclear test over the weekend as feared. Further, the Rupee continued to weaken to 64.17 levels on broad Dollar strength after the U.S. house speaker Paul Ryan said a tax plan outline backed by tax writing committees was set to be released on September 25.



Going forward, the U.S. inflation report showed that the consumer prices rose in August at the fastest rate since January renewing hopes of a US Federal Reserve rate hike. The weakness in rupee was quantified and rupee weakened above 64.40 levels after the news of stimulus package by the Indian government to spur growth led to fears of reduced fiscal discipline which could also diminish any hopes of India rating upgrade, which markets have been betting for a very long time. Further, the Fed signaled that it expects one more rate hike by the end of the year and three hikes in next year, despite a recent bout of low inflation. The Fed also said it would begin reducing its \$4.2 trillion in holdings of U.S. treasury bonds and mortgage backed securities which was acquired after the 2008 financial crisis. The weakness in Indian currency was added up by rating downgrade of China by S&P for first time in 18 years. Break of 64.80 levels triggered unwinding of short dollar position, and pushed rupee towards 65.20 levels after North Korea's foreign minister said that they could test a hydrogen bomb in the Pacific. The gap in the Onshore and offshore NDF market triggered further dollar buying in the onshore markets, which was enhanced by fall in Domestic equities on fiscal spending and Chinese rating downgrade. Going ahead, the local unit continued to depreciate and hit its monthly low of 65.89 levels on back of demand of safe haven assets as geopolitical tensions escalated after North Korea's foreign minister said that the U.S. President had declared war on the country and that Pyongyang reserved the right to shoot down U.S. bombers. Further, strength in the Dollar was also supported by renewed hopes for a tax reform after President Donald Trump's speech where he hailed the tax reform plan as a "once in a generation opportunity". However, the Indian currency soon reversed losses as equities rose after the sharp fall. This along with RBI intervention and quarter end Dollar selling by exporters specially IT companies helped rupee to regain its ground. Break of 65.50 triggered sharp move lower towards 65.2400 before ending the month at 65.2800 levels.



## USDINR Outlook

*Rupee is likely to open around 65.20 levels but trade with caution ahead of the Reserve Bank of India's monetary policy decision which could see minimal volatility in the currency unit initially. Break of psychological figure of 65.00 shall be crucial and could see movement towards 64.70 levels amid stop loss selling by exporters. The increase in Government Debt limits and Corporate bonds shall help bring in the FII inflows. A further move towards 64.40-64.50 on the downside cannot be ruled out if equities keep recovering and regain the momentum. However, if rupee fails to breach 65.00-65.20 on the downside, then dollar buying may re-emerge following the dollar strength globally. The fundamentals of India too are suddenly under scanner with growth slowing, current account deficit increasing, fears of fiscal discipline slippage and reversal in inflation which shall maintain pressure on rupee. The weakness in Chinese Yuan along with fears of US rate hike in December and its balance sheet reduction program shall add to rupee's weakness. On the upside, reversal above 65.50 shall open the doors for 65.80-66.00 levels again. Any instance of arbitrage opportunities arising between Onshore and Offshore NDF markets shall further weaken the rupee.*

With the release of the Reserve Bank of India's monetary policy meet decision, due on Oct 3rd-4th, Rupee could be under pressure as the central bank is widely expected to refrain from slashing interest rates at its policy this time. The Indian central bank is in fact expected to hold policy steady till well past next year as well, amid weak economic growth and signs inflation may soon overshoot its target. Asia's third-largest economy started losing momentum after the government scrapped 86% of currency in circulation late last year, hurting demand in India's cash-reliant economy, and the slowdown was compounded by the implementation of a new tax system. In August, despite a neutral policy bias, India's central bank cut the key policy rate after lowering its economic growth forecast in June to 7.3% from 7.4% for the current fiscal year. At this policy, although, the central bank is expected to hold its key Repo rate at a seven-year low of 6% next week, it will downgrade its growth forecast again following disruptions caused by the new tax. Introduced on July 1, the national tax system caused confusion over product pricing and pushed activity in India's private sector into contraction. Economic growth slowed to a three-year low last quarter, prompting most economists to lower their outlook.



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Rupee could, however, get some respite from the US ADP employment change data which is expected to decline towards 173,000 for the month of September, which could make investors worry about the US Fed's future rate hike plans. Similarly, the US non-farm payrolls and unemployment rate data also, if they fail to post upbeat numbers, the Dollar could sink against all major currencies. However, the release of the minutes of the Federal Reserve's latest policy meet could further put pressure on the Indian unit, as the minutes could once again reiterate the central bank's plans of increasing interest rates once more this year, even though the inflation conditions in the world's biggest economy have not moved anywhere closer to the central bank's target of 2%.

The month of October will also mark the beginning of the Federal Reserve's balance sheet tapering program, as the central bank chief had mentioned at their latest policy meeting. The US central bank announced it will begin to roll off its \$4.5 trillion balance sheet in October. Most of these assets consist of the Treasuries and mortgage-backed securities it acquired under a program known as quantitative easing. The Fed for the first time did provide a formal timetable for how the operation will take place. Instead of reinvesting all the proceeds of its massive bond portfolio, the Fed will allow \$10 billion to roll off at first, increasing quarterly in \$10 billion increments until the total hits \$50 billion starting in October 2018. The balance sheet grew as the Fed began QE in late 2008, during the worst of the financial crisis and the Great Recession. The intent of the program at first was to keep mortgage rates low, but grew to a general attempt lower short-term rates and provide liquidity to the economy.

Rupee could continue to track the domestic equities very closely over the coming month as the earnings season start. Inflows into the debt market could also aid to gains in the Rupee after the Reserve Bank of India increased the investment limit for foreign investors on both Government securities and state development loans. The Indian unit, however, could go under hibernation as the nation goes into the festival mode during Diwali celebrations. Towards the end of the month, the currency unit could yet again trade with caution ahead of the US Federal Reserve's monetary policy meet due on the last day of the month, wherein the central bank is yet again expected to maintain status quo in terms of interest rates and strike a hawkish tone in terms of the future interest rates.

*Overall, the currency unit could trade in a wide range between 64.50-66.20, with the major volatility concentrated around the RBI's policy decision, US-North Korea tensions and movement in local equities.*



## Key Economic Events in August

- India's August Exports came in at USD 23.82 bln vs USD 22.54 bln prior
- India's August Imports came in at USD 35.46 bln vs USD 33.99 bln prior
- India's August Trade Deficit Data came in at USD 11.64 bln vs USD 11.45 bln
- India's July Industrial Output stood at 1.20% against the previous of -0.10%
- India's August WPI Inflation came in at 3.24% against the previous of 1.88%
- India's August Fuel Inflation stood at 9.99% vs 4.37% prior
- India's August Food Inflation printed a reading of 5.75% vs 2.15% prior.
- India's August Manufacturing Inflation printed a reading of 2.45% vs 2.18% prior
- India's August CPI Inflation came in at 3.36% against the prior of 2.36%



## USDINR- Technical

Chart 1: USDINR - Weekly Chart



The pair breached its key 65.80 trend resistance on the medium term charts but failed to give a close above the same. Further, on the daily charts the pair has formed a bearish engulfing pattern signaling a move lower towards 65.00 levels. A convincing break could see it testing 64.75 and 64.50 levels. However, any convincing break and close above 65.80 levels shall open up the target towards 66.20 levels (50% Fibonacci retracement). A convincing break and close above the same shall see it testing 66.55 (technical gap) and 66.80 levels (61.8% Fibonacci retracement). Technical indicators are signaling a bearish momentum.

	S 1	S 2	S 3	S 4	S5
Key Supports	65.40	65.00	64.75	64.50	64.20
	R 1	R 2	R 3	R 4	R5
Key Resistances	65.80	66.20	66.55	66.80	67.20



## Strategy

*Exporters are advised to cover their near to mid term receivables on spikes towards 65.50-65.80 levels in staggered manner. Importers are advised to keep covering their one month payable on rolling basis on dips towards 65.00 and lower levels.*

**Markets Round up**

<b>Performance of Major Asian Currencies</b>			
<b>Currency</b>	<b>31-Aug-17</b>	<b>29-Sep-17</b>	<b>% Change</b>
<b>MYR</b>	<b>4.269</b>	<b>4.219</b>	<b>1.17%</b>
<b>PHP</b>	<b>51.149</b>	<b>50.791</b>	<b>0.70%</b>
<b>SGD</b>	<b>1.3556</b>	<b>1.356</b>	<b>-0.03%</b>
<b>THB</b>	<b>33.17</b>	<b>33.29</b>	<b>-0.36%</b>
<b>CNY</b>	<b>6.5888</b>	<b>6.648</b>	<b>-0.90%</b>
<b>KRW</b>	<b>1123.85</b>	<b>1141.52</b>	<b>-1.57%</b>
<b>INR</b>	<b>63.9</b>	<b>65.28</b>	<b>-2.16%</b>

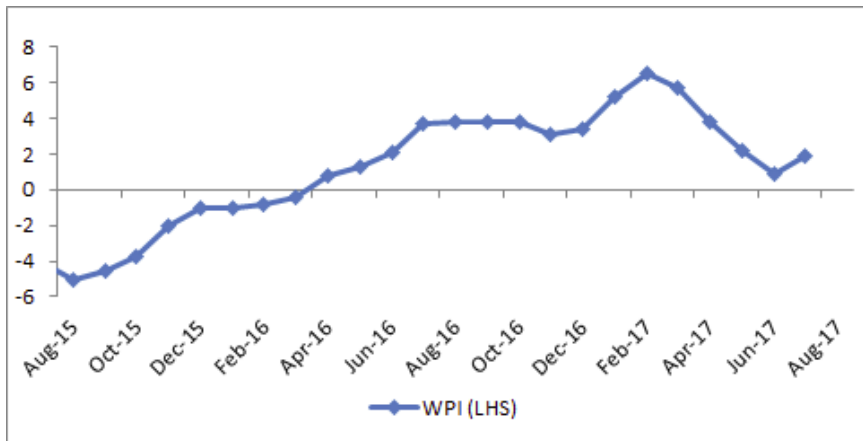
<b>Performance of Major Equity Indices</b>			
<b>Indices</b>	<b>31-Aug-17</b>	<b>29-Sep-17</b>	<b>% Change</b>
<b>DAX</b>	<b>12055.84</b>	<b>12750.55</b>	<b>5.76%</b>
<b>CAC</b>	<b>5085.59</b>	<b>5290.14</b>	<b>4.02%</b>
<b>Nikkei</b>	<b>19646.24</b>	<b>20356.28</b>	<b>3.61%</b>
<b>Dowjones</b>	<b>21948.1</b>	<b>22381.2</b>	<b>1.97%</b>
<b>Shanghai</b>	<b>3360.8103</b>	<b>3348.9431</b>	<b>-0.35%</b>
<b>Sensex</b>	<b>31730.49</b>	<b>31283.72</b>	<b>-1.41%</b>
<b>Hang seng</b>	<b>27970.3</b>	<b>27554.3</b>	<b>-1.49%</b>



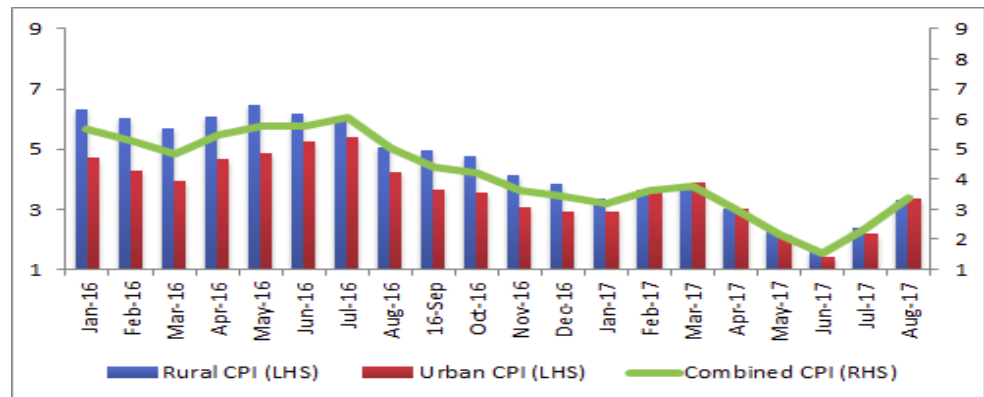


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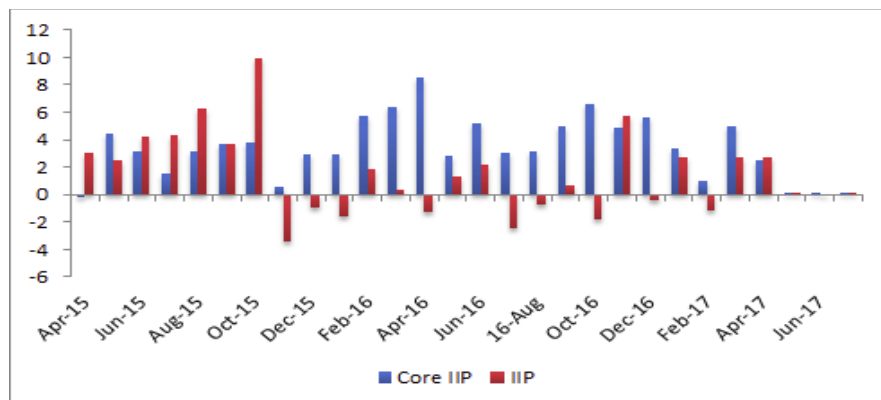
## Graph'o'nomics



Indian WPI Trend



Indian CPI Trend

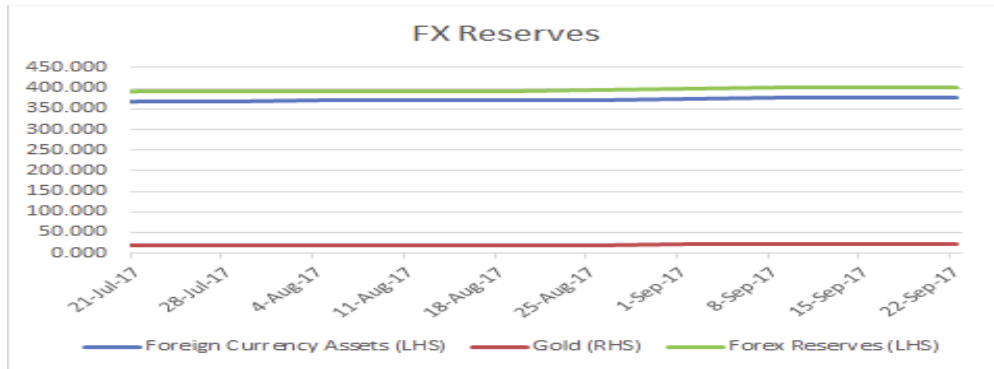


Indian IIP Trend

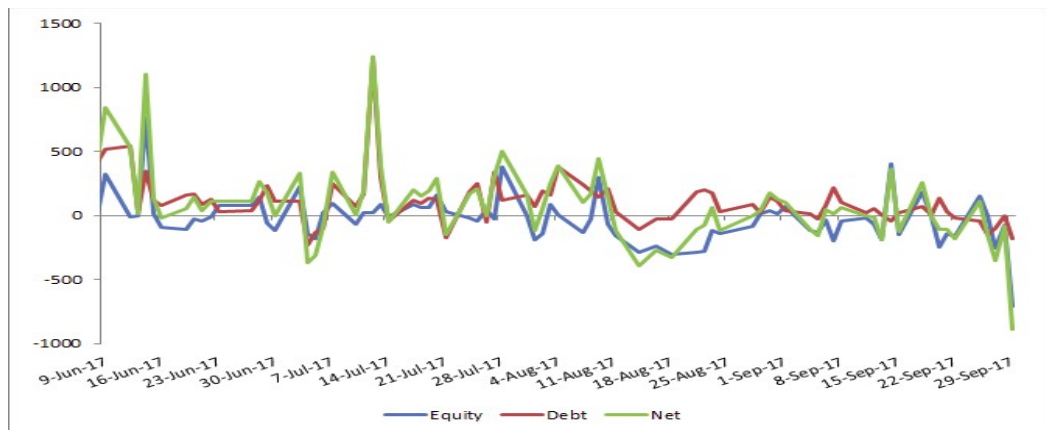


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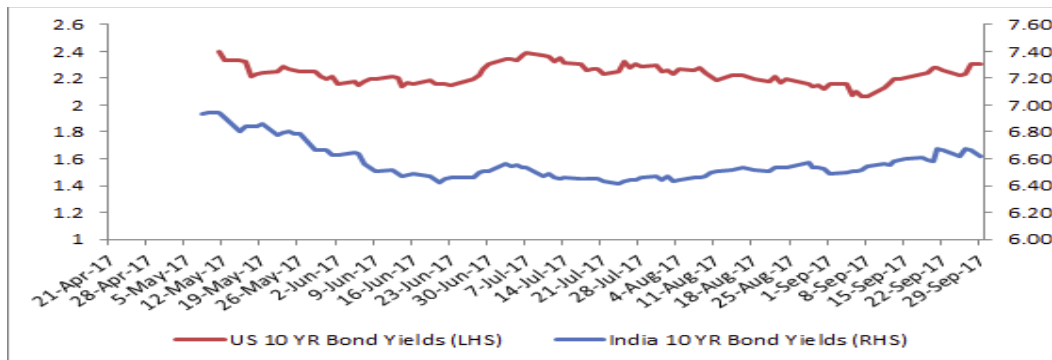
## Graph'o'nomics



## Indian Forex Reserves Trend



## FII Trend in Indian Markets

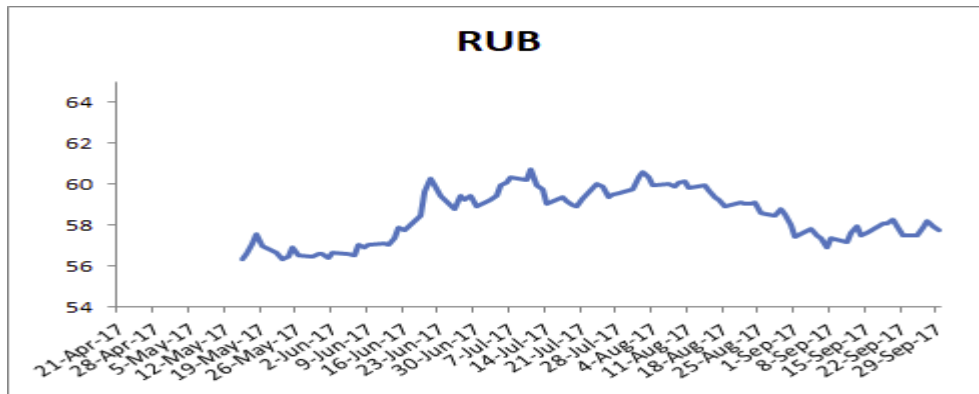


## US Bond Yields v/s Indian Bond Yields

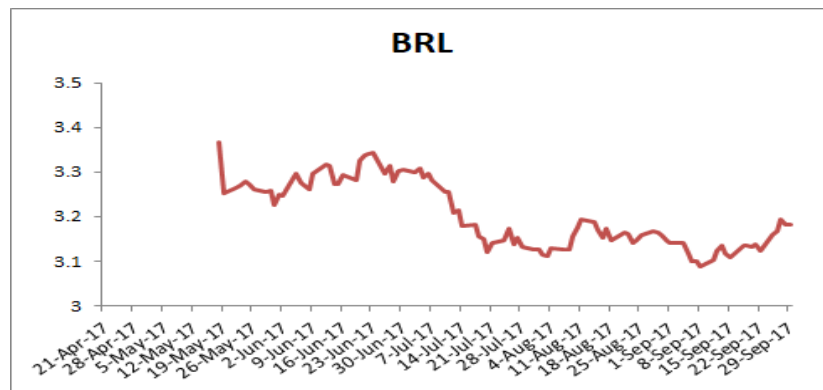


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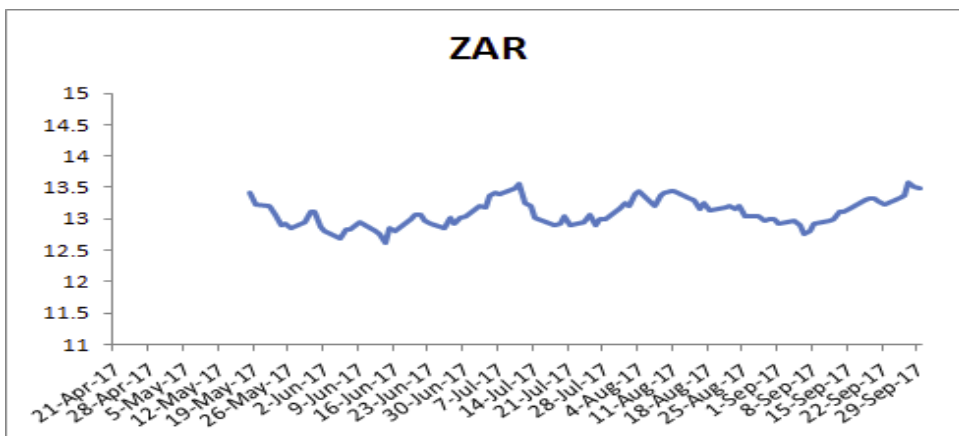
## Emerging Market Currencies



**Russian Ruble**



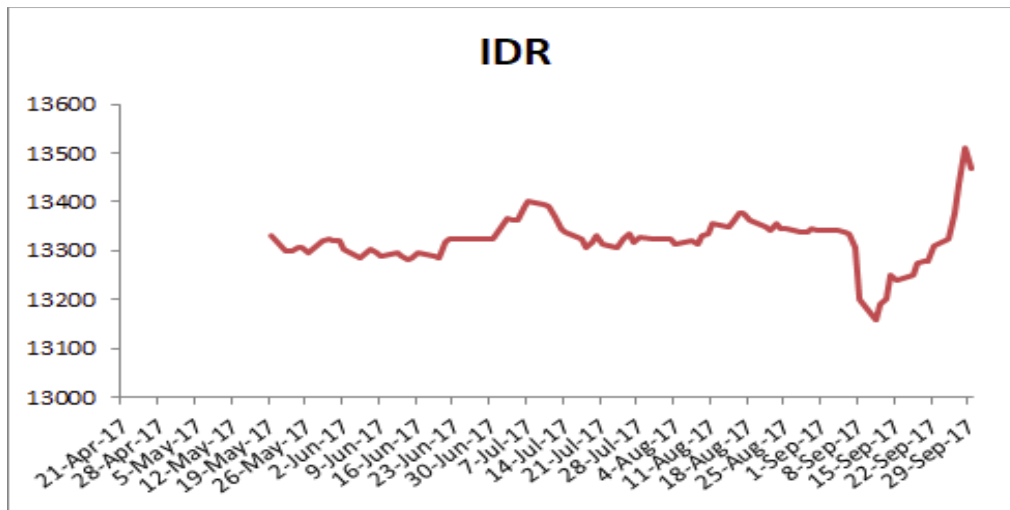
**Brazilian Real**



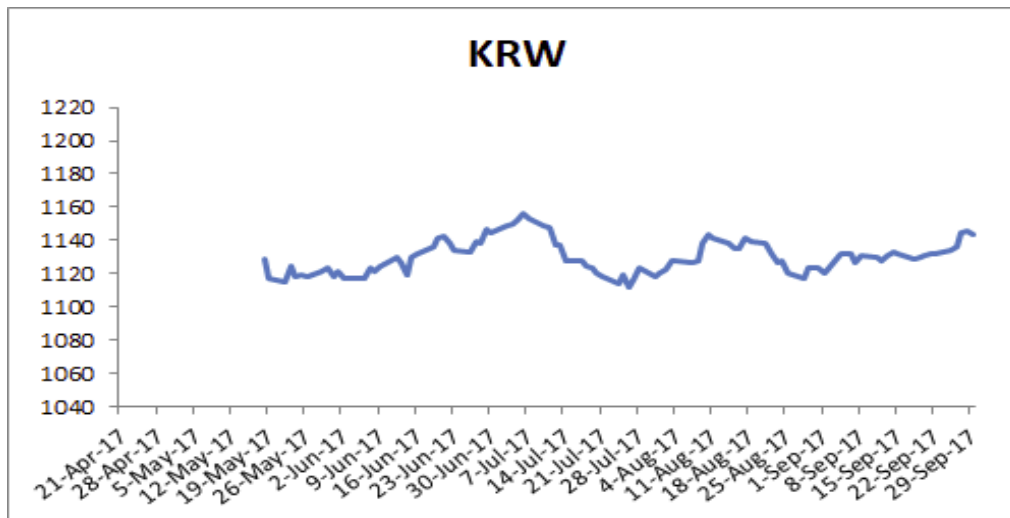
**South African Rand**



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**Indonesian Rupiah**



**Korean Won**

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