



## USDINR Gone By

30<sup>th</sup> April 2018

The Indian Rupee started the month at 65.08 levels and traded higher on back of fresh inflows that kept the local equities in green coupled with lower global dollar on soaring tensions between China-US. The local unit turned a little bearish after the US President unveiled a list of Chinese products on which he planned to impose tariffs. This prompted China to retaliate by announcing new tariffs on 106 US products thereby denting market sentiments that kept the investors on risk off mode. On the next day, markets initially traded in a range bound manner as both US and China tried to play down the trade war fears. Apparently, the White House had expressed willingness to negotiate with China on trade matters which helped global markets to recover sharply.

The Indian currency appreciated to 64.8450 – its monthly high levels - as markets discounted the release of RBI Monetary Policy Statement where the interest rates were left unchanged. Plus, the committee lowered the inflation forecast for coming quarters. According to the committee, inflation trajectory in Q1 2018-19 is expected to be lower than the projection in the February statement, with risks tilted to the upside. Also, GDP growth is projected to strengthen from 6.6 percent in 2017-18 to 7.4 percent in 2018-19; with risks evenly balanced. Rupee was also aided by weakness in the American currency after the release of US NFP Employment Change data that came lower than the expected levels coupled with persistent trade tensions between China-US. Further, markets discounted the recent hike in FPI purchase limit that kept the market sentiments boosted in turn keeping the Rupee positive. This appreciating trend continued on the next day too tracking positive sentiments in Asian markets after the Chinese President commented that China will protect legal intellectual foreign property of foreign firms and will lower import tariffs for autos and other products.

However, sharp gains in the Rupee was restricted after crude prices surged on Geo-political tensions surrounding US-Syria-Russia. The US President threatened of imminent US military action in Syria that rattled investors and sent oil prices higher. Reports of Essar Oil Company, buying dollars to pay dues to Iran also weighed on rupee's weakness along with stronger American currency after the US President commented on delaying the missile attack on Syria. He also affirmed that US could rejoin the Trans Pacific Partnership trade deal. With US imposing sanctions on Russia, investors



were concern with Russia's potential reaction to these new sanctions that added to the woes. The weakness in rupee continued as rising crude prices infused jitters in the markets as investors thought that it could create additional pressure on the already ballooning trade deficit and Rupee. Meanwhile, Global markets were taken by storm after the US President commented on Twitter that "Russia and China were playing a currency devaluation game as the US kept raising interest rates," which he said was "not acceptable." Also, there was news in market of PNB making payments against pending LoUs related to PNB -LoU scam, which kept rupee on weak note. Rupee breached 66.00 levels as markets discounted the RBI Monetary Policy Meeting Minutes that had a hawkish tone to it. Further, a jump in US Treasury yields, rising crude prices and negative sentiments in the Indian equities were another factors for Rupee depreciation. The currency unit moved further north as markets discounted the hawkish statement of one of the US policymaker. He stated that the American economy was capable of handling further interest rate hikes which gave a boost to the American currency.

The weakness in rupee continued owing to volatility in the Indian bond markets that led to huge outflows of funds from the debt market. Reason behind this volatility could be blamed to the rising US Treasury yields that touched 3 percent spreading through other global bond markets as well. This led to sudden surge in the global dollar price which acted against the Indian currency. This weakness in rupee continued, pushing the rupee to its monthly low of 66.9075. Plus, bearish sentiments in the local equities coupled with fresh dollar buying by the importers added to the woes.

Towards the month end, there was some stability seen in the Indian markets that supported the Indian currency as well. The recent rally seen in the US Treasury yields eased keeping the greenback calm and rupee strong. Also, news of possible sanctions on Iran by the US prompted the traders to make less investment in dollar denominated assets which worked in favor of the Indian currency. The Indian currency strengthened on account of dollar selling by exporters owing to two day rally in equity markets and possible RBI intervention at higher levels. USD/INR ended the month at 66.66 levels.



## USDINR Outlook

After its depreciating stint in the previous month, the Indian Rupee shall once again trade with volatility; witnessing both way movements between the range of 65.60 to 67.20 levels. Markets shall be presented with some strained events in the beginning like the FOMC Monetary Policy Meeting along with the Karnataka Elections in the middle and some important economic datasets coming from both India and the US which could influence the trading minds of the investors.

Rupee in the initial few days shall trade with a positive bias. Reason behind the same could be attributed to the latest move undertaken by the RBI for the bond market which could boost foreign fund flows into Indian debt and cool off the borrowing costs at a time when yields are on an upward trajectory. Apparently, RBI has revised its rules for investments by FPI's in Indian bondmarkets by reducing the residual maturity, withdrawing the auction mechanism and revising one of the cap on aggregate FPI investments in a single security. This could keep attracting inflows in debt markets turn keeping the Rupee supportive. Break of 66.20 shall be crucial for its further direction as exporter selling could be witnessed on its break, and a move to 65.80 can be witnessed in such scenario.

There is FOMC Monetary Policy Statement release on the 2nd of May'18 which shall create a little bit of volatility if only the committee makes predictable statements which the markets already know. Previously, few of the US policymakers have shown their confidence on the US economy being capable enough to handle "slightly steeper" interest rate hikes over the next few years than previously thought. However, any unusual statement apart from this could bring the volatility back to the markets in turn keeping the Rupee topsy turvy. A failure to break 66.20 along with increased chances of US interest rate hike, shall push rupee back towards 66.80 and higher levels.

Not forgetting the fading uncertainties in the global arena that shall prompt the investors to rebuild their portfolio after the recent hullabaloo seen in global markets; all thanks to the rising US Treasury Yields. The recent meeting between North and South Korea went on a smooth note with North Korea agreeing to shift its time-zone 30 minutes earlier to align with South Korea



starting May 5. This was taken as a first practical step for national reconciliation and unity which has infused positivity in the markets.

The next gang-ho event shall be the Karnataka Elections which is scheduled to take place on the 12th of May 2018. A BJP victory would boost the party's pan-India march towards the south, especially after extending its influence in the north-east in recent assembly elections. However, if things go haywire and Congress gets the maximum seats, it would only reinforce the party's claim that the BJP's brand of politics does not have takers everywhere. Nevertheless, this assembly election shall bring in a lot of drama and fights which could swoon the domestic markets in its charm in turn creating an appalling like situation for the Indian currency.

There are also many economic data releases from the United States towards the end of the month like the manufacturing/non-retail sales, inflation, consumer confidence, FOMC Meeting Minutes 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. To curb the excess volatility in the local unit, the RBI could selectively intervene the market reason being the release of US Treasury Report that commented on keeping India on the watch list of currency manipulation list along with China.

***Overall, the Indian Rupee shall trade between the range of 65.60 to 67.20 levels with a negative bias. The main events that could keep the markets in jitters is the FOMC Monetary Policy Meeting and the Karnataka Elections that could keep the Rupee pressurized. However, the recent development in the Indian bond markets by the RBI shall keep the market sentiment boosted in turn helping the Indian Rupee to stay positive.***



## **Key Economic Events In April'18**

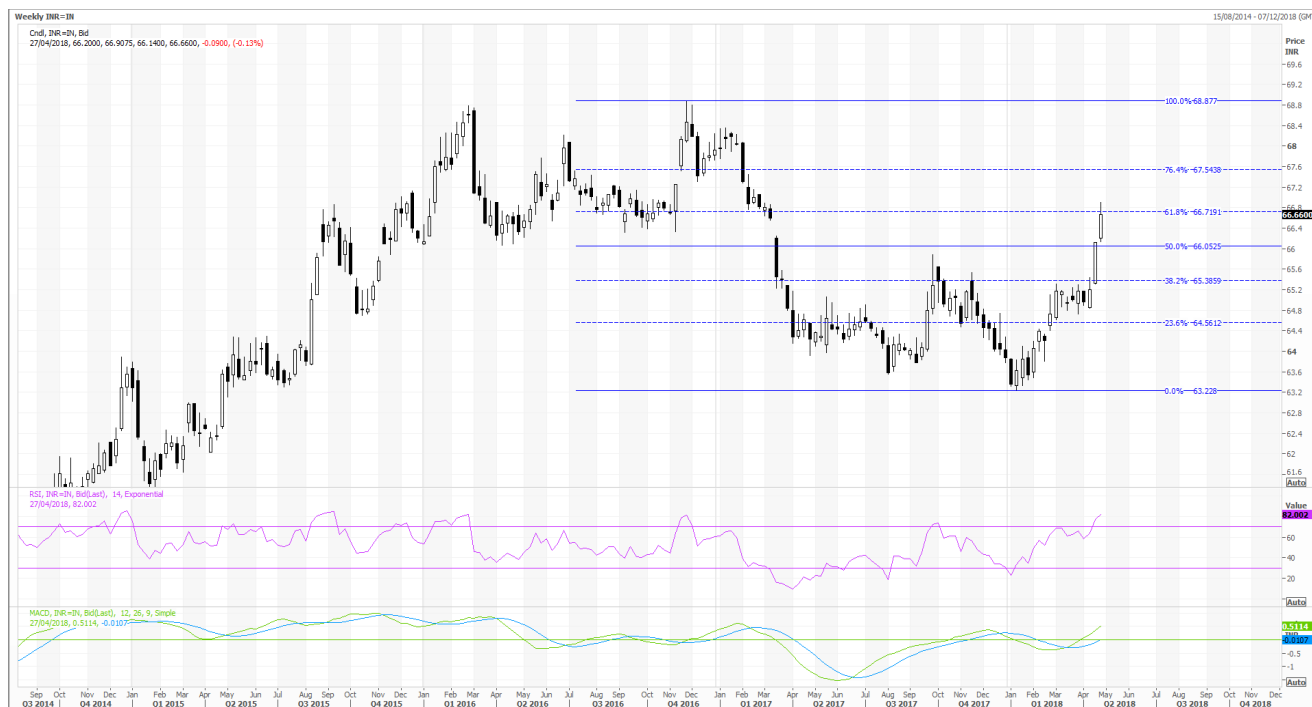
- India's March Exports came in at USD 29.11 bln vs USD 25.80 bln prior.
- India's March Imports came in at USD 42.80 bln vs USD 37.80 bln prior.
- RBI kept Repo and Reverse Repo rate unchanged at 6% and 5.75% respectively. Also, maintained CRR at 4%.
- India's March CPI stood at 4.28% v/s 4.44% prior.
- India's March WPI Inflation came at 2.47% against the previous of 2.48%.
- India's March Fuel Inflation stood at 4.70% vs 3.81% prior.
- India's March Manufacturing Inflation printed a reading of 3.03%.
- India's March Food Inflation printed a reading of -0.29% vs 0.88% prior.
- India's March Trade Deficit Data came in at USD 13.70 bln vs USD 12 bln.



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## USDINR- Technical Take

Chart 1: USDINR - Weekly Chart



The pair has given a bearish close on the daily charts while has retraced 61.8% of the fall from 68.8650 to 63.2400 levels on the monthly chart signaling an downmove towards 66.25 levels. A convincing break and close below the same shall open up the gateway for a swift downmove towards 65.85 levels(Technical gap). However, given a bullish close medium term charts, the pair could take support at these levels and resume its upmove again towards 66.50 and 67.00 levels. Next key resistance lies at 67.45 levels. On the flipside, any break and close below 65.85 levels shall open up the gateway for a swift downmove towards 65.30 levels. Technical indicators like RSI is heavily over bought and signaling an caution on the upmove.

Key Supports	S 1	S 2	S 3	S 4	S 5
	66.25	65.85	65.30	64.80	64.50
Key Resistances	R 1	R 2	R 3	R 4	R 5
	66.90	67.45	67.80	68.30	68.86



## Strategy

*Exporters are advised to cover their near to mid term receivables in a staggered manner on spikes towards 66.80 and 67.20 levels. Importers are advised to cover their short term payables on dips towards 65.85 levels and increase coverage for further tenures on any dip towards 65.60 levels.*

**Markets Round up**

<b>Performance of Major Asian Currencies</b>			
<b>Currency</b>	<b>2-Apr-18</b>	<b>30-Apr-18</b>	<b>% Change</b>
<b>INR</b>	<b>65.17</b>	<b>66.66</b>	<b>-2.29%</b>
<b>CNY</b>	<b>6.2785</b>	<b>6.3325</b>	<b>-0.86%</b>
<b>KRW</b>	<b>1056.16</b>	<b>1068.69</b>	<b>-1.19%</b>
<b>SGD</b>	<b>1.3124</b>	<b>1.3236</b>	<b>-0.85%</b>
<b>THB</b>	<b>31.22</b>	<b>31.55</b>	<b>-1.06%</b>
<b>PHP</b>	<b>52.079</b>	<b>51.734</b>	<b>0.66%</b>
<b>MYR</b>	<b>3.86</b>	<b>3.92</b>	<b>-1.55%</b>

<b>Performance of Major Equity Indices</b>			
<b>Indices</b>	<b>2-Apr-18</b>	<b>30-Apr-18</b>	<b>% Change</b>
<b>Sensex</b>	<b>33255.36</b>	<b>34969.7</b>	<b>5.16%</b>
<b>Hang seng</b>	<b>30180.1</b>	<b>30280.67</b>	<b>0.33%</b>
<b>Nikkei</b>	<b>21388.58</b>	<b>22467.87</b>	<b>5.05%</b>
<b>CAC</b>	<b>5152.12</b>	<b>5483.19</b>	<b>6.43%</b>
<b>Dowjones</b>	<b>23644.19</b>	<b>25029.2</b>	<b>5.86%</b>
<b>DAX</b>	<b>12002.45</b>	<b>12580.87</b>	<b>4.82%</b>
<b>Shanghai</b>	<b>3163.179</b>	<b>3082.2316</b>	<b>-2.56%</b>





## Graph'o'nomics



**Indian WPI Trend**



**Indian CPI Trend**

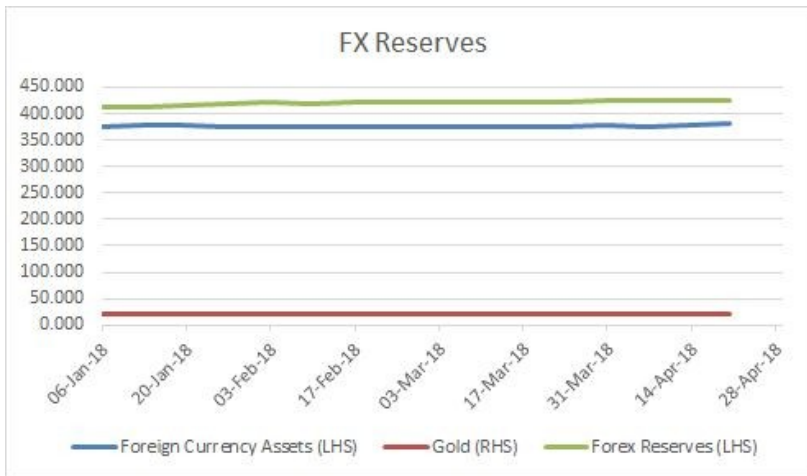


**Indian IIP Trend**

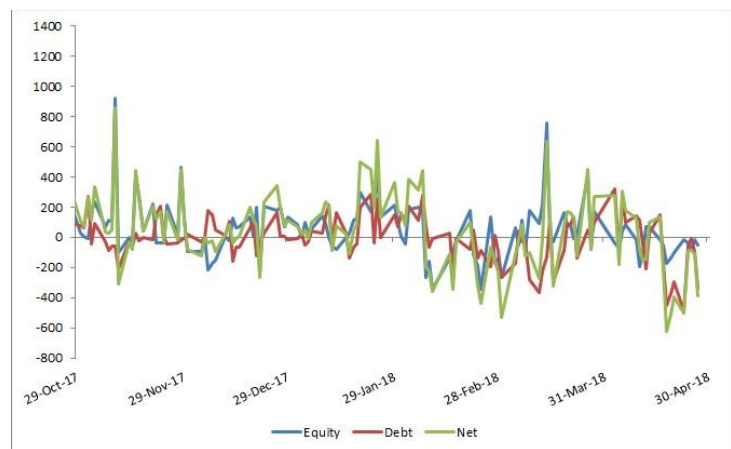


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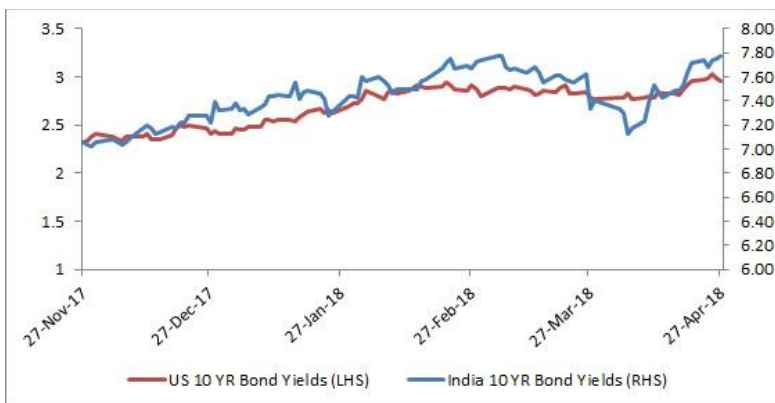
## Graph'o'nomics



### Indian Forex Reserves Trend



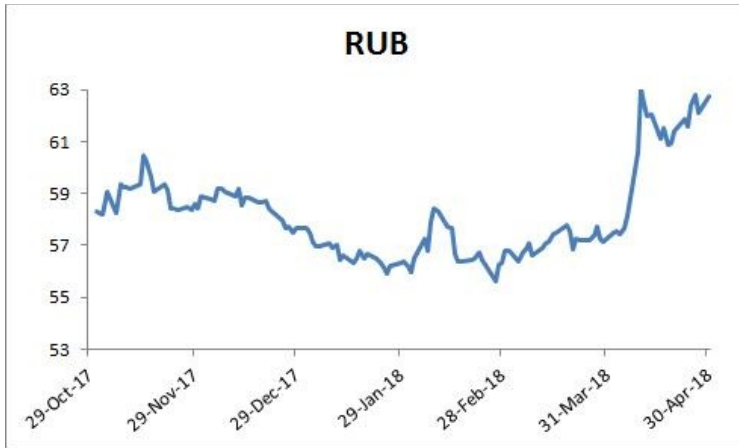
### FII Trend in Indian Markets



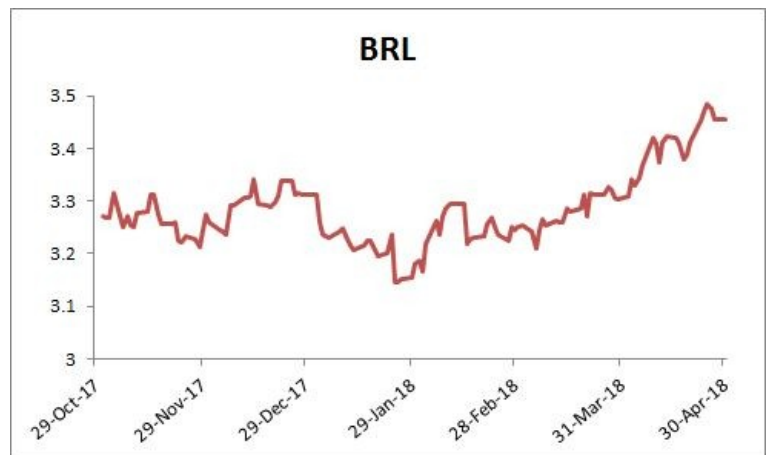
### US Bond Yields v/s Indian Bond Yields



## Emerging Market Currencies



**Russian Ruble**



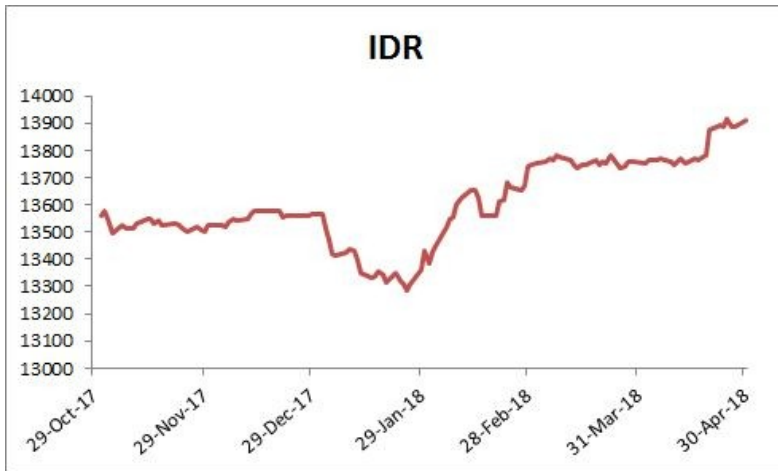
**Brazilian Real**



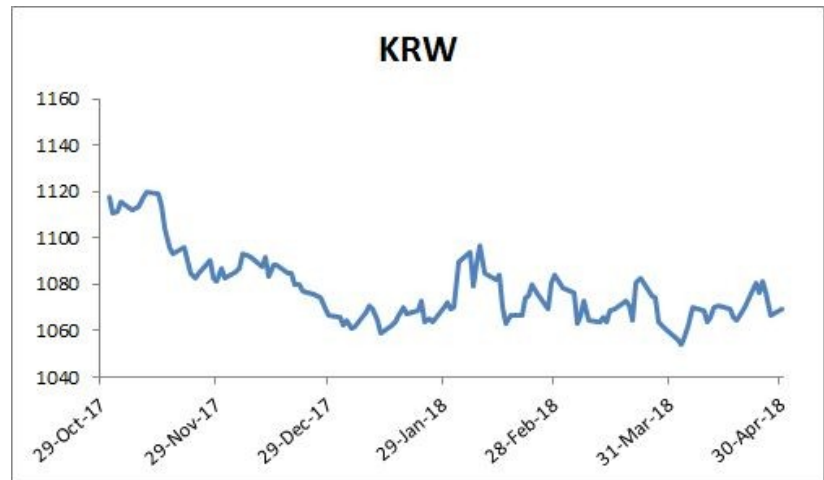
**South African Rand**



# MONTHLY REPORT



**Indonesian Rupiah**



**Korean Won**

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