



USDINR Gone By

31st October 2017

Rupee opened the month at 65.65 levels and initially appreciated towards 64.9450 levels after the Reserve Bank of India kept its key rates unchanged as expected, while reducing the SLR to improve liquidity in the system. RBI's six-member monetary policy committee kept the repurchase or repo rate unchanged at 6% citing reversal inflation. Rupee was also supported as investors considered the implications of a change in leadership at the Federal Reserve. However, the Indian currency unit soon reversed gains and declined towards 65.1900 levels as a string of upbeat US data added to optimism over the strength of the economy and amid fresh hopes for a December rate hike. Rupee continued to weaken towards 65.3900 levels after speculations over announcement of some fiscal package by the Indian government and negative sentiments in domestic equities. The Indian unit continued to weaken towards 65.4125 levels on risk aversion following reports North Korea is preparing to test a long-range missile that it is believed could reach the west coast of the U.S.

The local currency unit, however, soon reversed losses and gained towards 65.12 levels ahead of the minutes of the US Federal Reserve's latest policy meeting. Investors parse the minutes for fresh insight into the Fed's thinking on near-term headwinds in the economy and outlook concerning the pace of rate hikes amid growing expectations that the central bank will hike rates in December. Rupee further strengthened towards 65.0400 levels. Going ahead, the Rupee continued to strengthen towards 65.04 levels on broad Dollar weakness amid fresh uncertainty over a potential US rate hike before the end of the year. The minutes of the Fed policy showed that several policy makers believed additional tightening will depend on upcoming inflation data. However, most Fed members said they still feel another rate increase this year was "likely to be warranted." Rupee continued to strengthen towards 64.8675 levels on the back of steady inflation and better than expected factory output data in India. The Consumer Price index based inflation for September reduced to 3.28 % while IIP ticked up to 4.30% against previous numbers of 3.36% and 1.20% respectively. The Indian currency unit was further helped to surge towards 64.6850 levels by a broad weakness in the Dollar following the release of dismal US CPI and retail sales data. The local currency unit was also helped by gains in domestic equities. The upbeat release on India's WPI data also supported the currency unit.



However, the Indian currency unit reversed gains to decline towards 65.0350 levels as the Dollar rebounded on speculation that the US President Donald Trump could pick a more hawkish candidate as a replacement to the current Federal Reserve Chairperson Janet Yellen, when her term expires in February 2018. Appointment of a hawkish chair could increase hopes of rate hikes and thus strengthen the Dollar. Rupee again surged towards 64.7200 levels ahead of the European Central Bank's monetary policy meet, as markets had widely expected the ECB to announce a roll-back of quantitative easing program. However, the currency reversed gains towards 65.1050 levels post the central bank's decision to extend their quantitative easing program, although at a reduce pace, thereby hurting the chances of a rate hike next year. The currency unit, towards the closing quickly reversed losses towards 64.80 levels as the Dollar remained under pressure against all major currencies ahead of the US Federal Reserve's monetary policy meet decision. Rupee closed the month at 64.7450 levels.



USDINR Outlook

Rupee is likely to open the month flat around 64.80 levels as investors remain cautious ahead of the US Federal Reserve's monetary policy meet outcome. The central bank is widely expected to not increase interest rates at this policy meet, investors although will look for details of the balance sheet trimming plans by the Fed which could help the Dollar strengthen. The Dollar could also be helped as the Fed Chair Janet Yellen is expected to indicate towards another rate hike at the central bank's next policy meet in December.

One of the key drivers of the US Dollar could also be the question as to who will be the next chair of the US Federal Reserve with the next boss likely to adopt an interest rate policy agenda that would impact movements in the currency. President Trump departs for a trip of Asia on November 3 and he has indicated this to be his deadline for the announcement on who will take over the reins. Incumbent Fed chair Janet Yellen's four year term expires in February and it falls to President Donald Trump to nominate a candidate to lead the central bank for the next four years. The rest of the FOMC will change as well, currently three Board seats are vacant and if Yellen resigns from the Board after her term as Chair expires in February, there would be four. So the story is one that has further to run beyond the appointment of the Chair.

Further, the currency's focus could shift temporarily to the Bank of England's interest rate decision, monetary policy summary and inflation report, all of which are highly likely to make a significant impact on the Sterling, and thus the Dollar, which in turn could impact the Rupee. Expectations are currently leaning towards the Bank of England potentially raising interest rates by 25 basis points, in which case the pound may receive another boost and the impact of which could also help the Rupee strengthen marginally.

The beginning of the month will also see the release of the most crucial set of data from the US, the non-farm payrolls and unemployment rate, along with wage growth numbers. Current expectations are exceptionally high for a very sizeable bounce-back in October US employment after September's weather-driven job losses. If the data actually does live up to its expectations, the Rupee could be under immense pressure. Fed Chair Janet Yellen is also due to deliver a speech in the first week of the month,



which could also give certain indications on the Fed's plans for the future and the central bank's concerns over inflation.

Further, the release of the US inflation data, could also have an impact on the Dollar, in the sense that if inflation shows any signs of rising, it could further cement the case of an interest rate hike in December by the US Federal Reserve, while a drop in inflation could increase the central bank's worries. Going ahead, the release of the minutes of the US Federal Reserve's latest monetary policy could also see the Dollar strengthening. Towards the end of the month, the release of the US GDP data could weigh on the Indian currency unit.

Overall the currency could trade in the range between 64.50 and 65.50 levels, with a broader range of 64.50 and 66.00 over the month, with major volatility being bunched around the Fed's policy decision and the announcement of the new Fed Governor.



Key Economic Events in August

- India's September Exports came in at USD 28.61 bln vs USD 23.82 bln prior
- India's September Imports came in at USD 37.60 bln vs USD 35.46 bln prior
- India's September Trade Deficit Data came in at USD 8.98 bln vs USD 11.64 bln
- India's August Industrial Output stood at 4.30% against the previous of 1.20%
- India's September WPI Inflation came in at 2.60% against the previous of 3.24%
- India's September Fuel Inflation stood at 9.01% vs 9.99% prior
- India's September Food Inflation printed a reading of 2.04% vs 5.75% prior.
- India's September Manufacturing Inflation printed a reading of 2.72% vs 2.45% prior
- India's September CPI Inflation came in at 3.28% against the prior of 3.36%



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USDINR- Technical

Chart 1: USDINR - Weekly Chart



The pair has given mixed signals on the weekly charts but is well supported at 64.70 levels while has given bearish close on the monthly charts. A convincing break and close below the same shall push it to 64.30 levels. Taking support at these levels, the pair could resume its upmove targeting 65.00-65.20 levels. A convincing break and close above the same shall open up the gateway for a swift upmove towards 65.50 and 66.10 levels. On the flipside, any break and close below 64.30 levels shall negate the above view and open up the target towards 63.80 levels. Interim support lies at 64.00 levels. Technical indicators are signalling a bearish momentum.

	S 1	S 2	S 3	S 4	S5
Key Supports	64.70	64.50	64.30	64.00	63.80
	R 1	R 2	R 3	R 4	R5
Key Resistances	65.00	65.20	65.50	65.90	66.10



Strategy

Exporters are advised to cover their near to mid term receivables on spikes towards 65.50 and higher levels in staggered manner. Importers are advised to keep covering their one month payable on rolling basis on dips towards 64.70 and lower levels.

**Markets Round up**

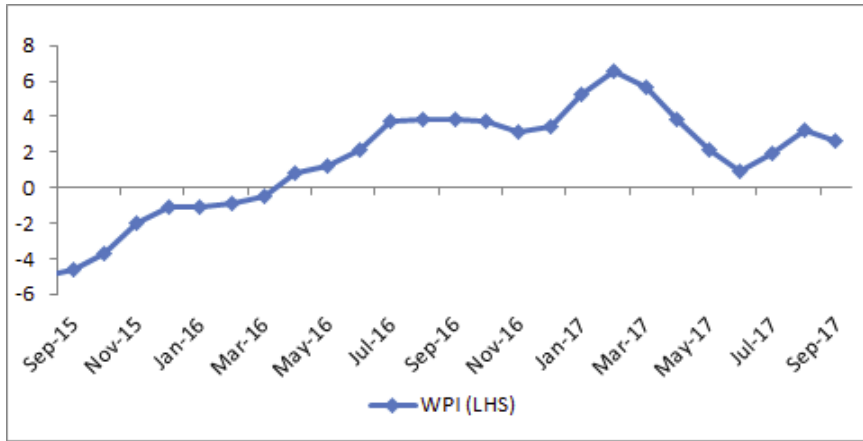
Performance of Major Asian Currencies			
Currency	29-Sep-17	31-Oct-17	% Change
KRW	1144.29	1117.68	2.33%
INR	65.28	64.7475	0.82%
CNY	6.6533	6.63	0.35%
THB	33.32	33.21	0.33%
MYR	4.219	4.2315	-0.30%
SGD	1.3572	1.3621	-0.36%
PHP	50.885	51.627	-1.46%

Performance of Major Equity Indices			
Indices	29-Sep-17	31-Oct-17	% Change
Nikkei	20356.28	22011.61	8.13%
Sensex	31283.72	33213.13	6.17%
CAC	5329.81	5499.93	3.19%
DAX	12828.86	13229.57	3.12%
Hang seng	27554.3	28245.54	2.51%
Shanghai	3348.9431	3393.3417	1.33%
Dowjones	22340.71	22381.2	0.18%

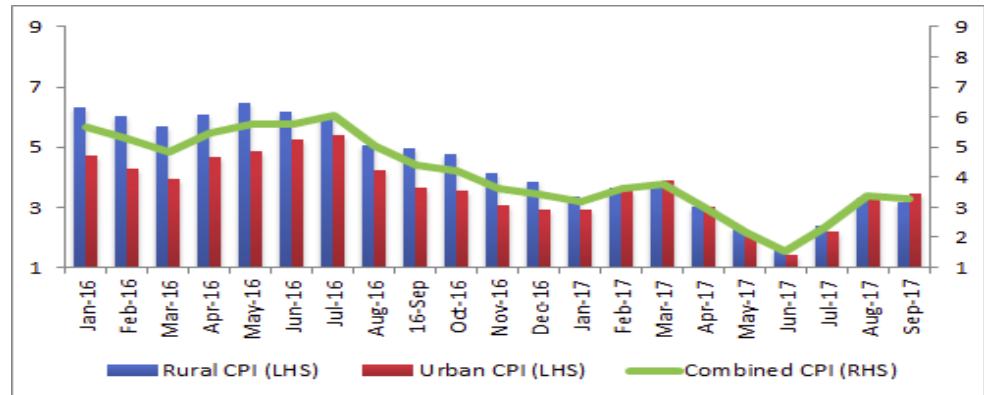


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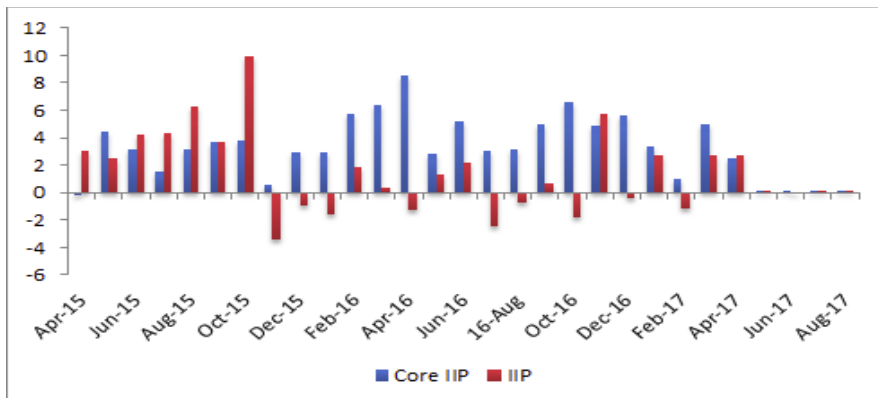
Graph'o'nomics



Indian WPI Trend



Indian CPI Trend

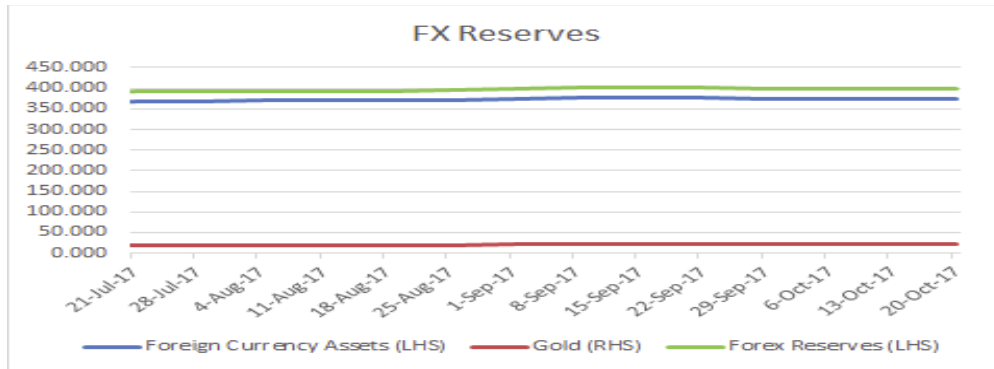


Indian IIP Trend

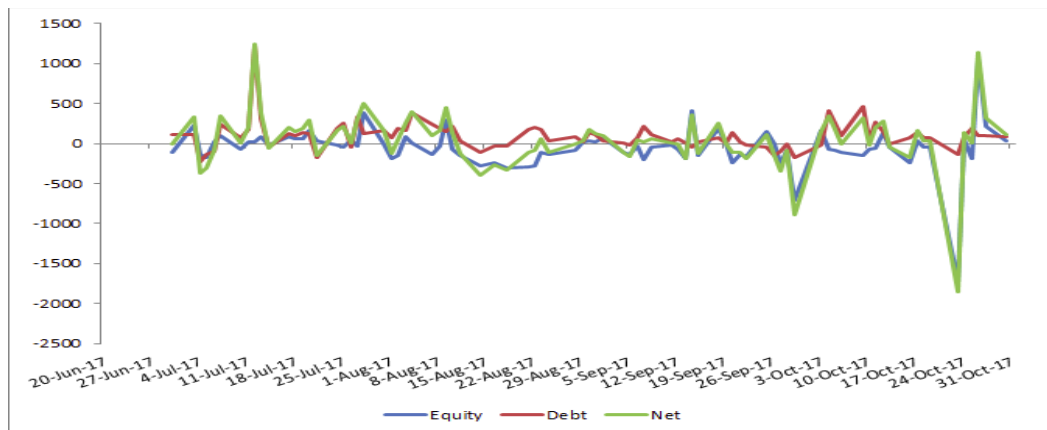


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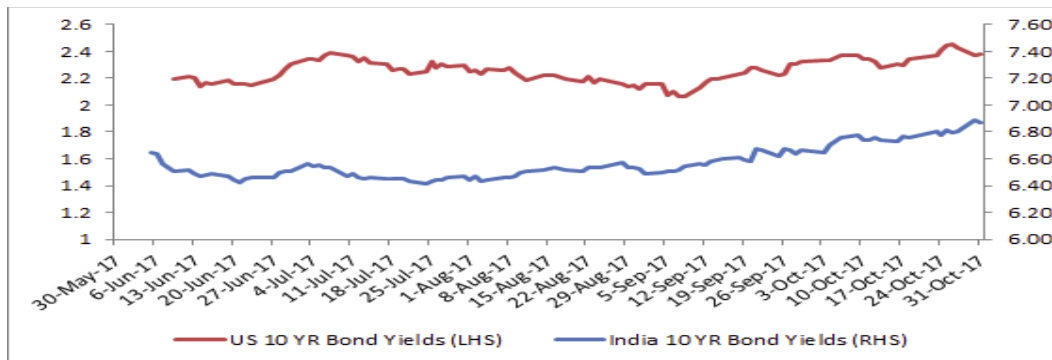
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Indian Forex Reserves Trend



FII Trend in Indian Markets

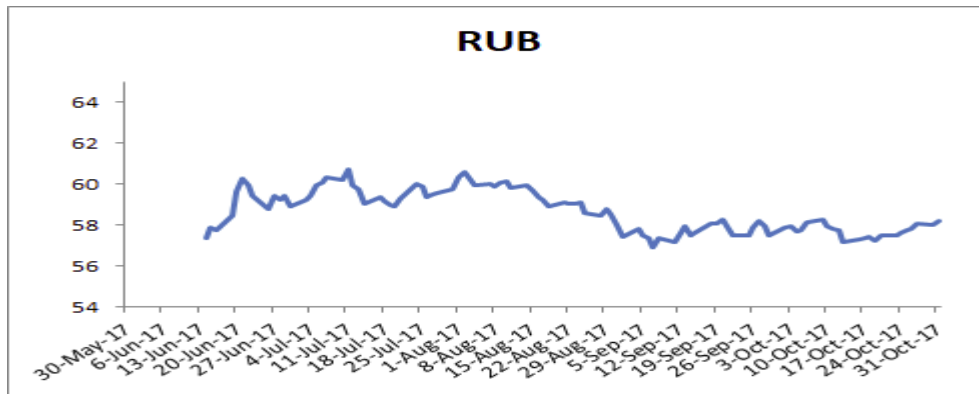


US Bond Yields v/s Indian Bond Yields

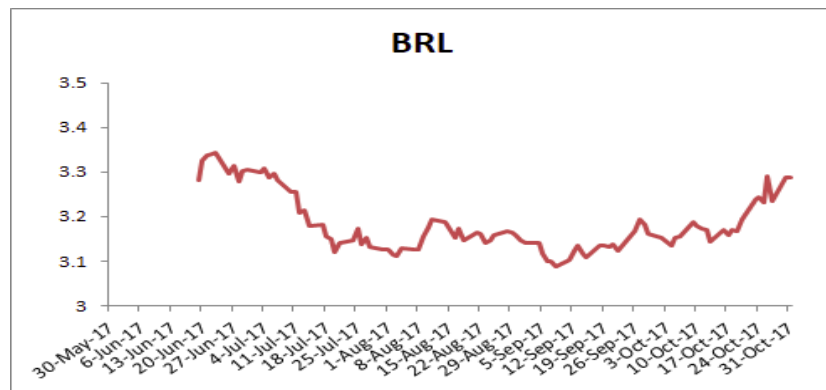


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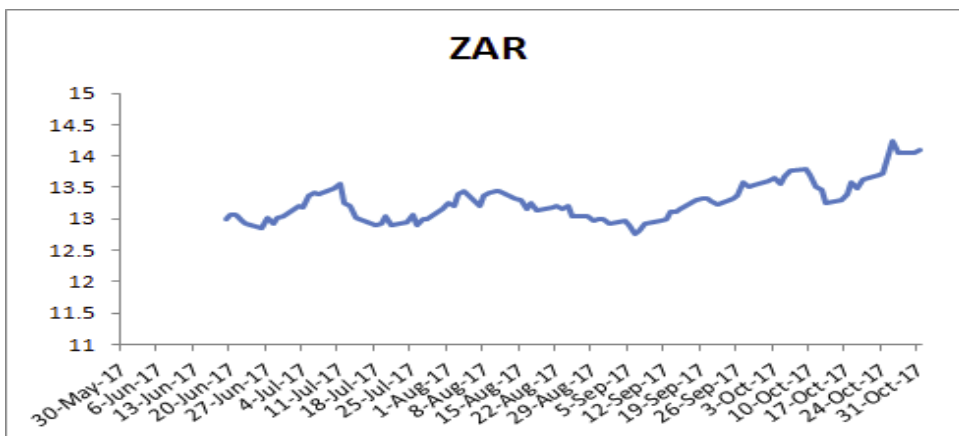
Emerging Market Currencies



Russian Ruble



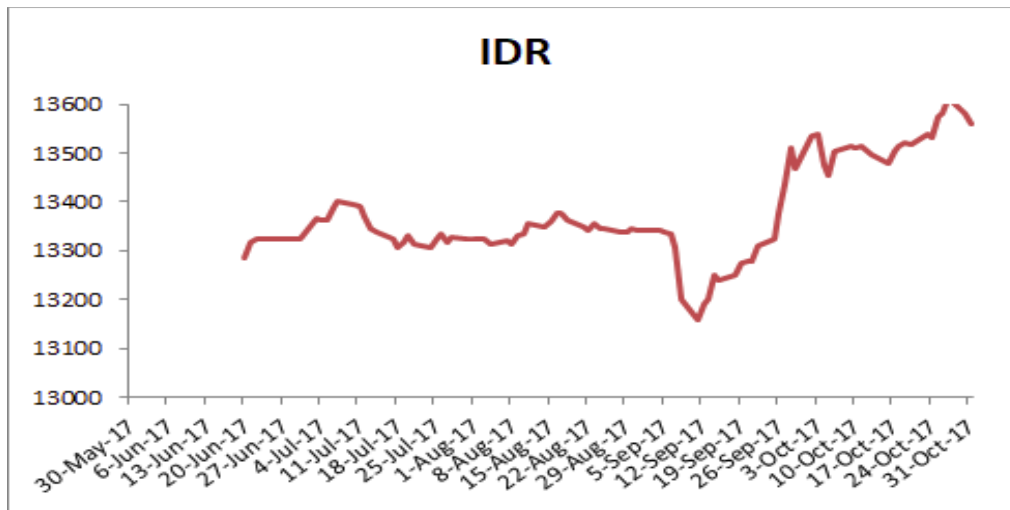
Brazilian Real



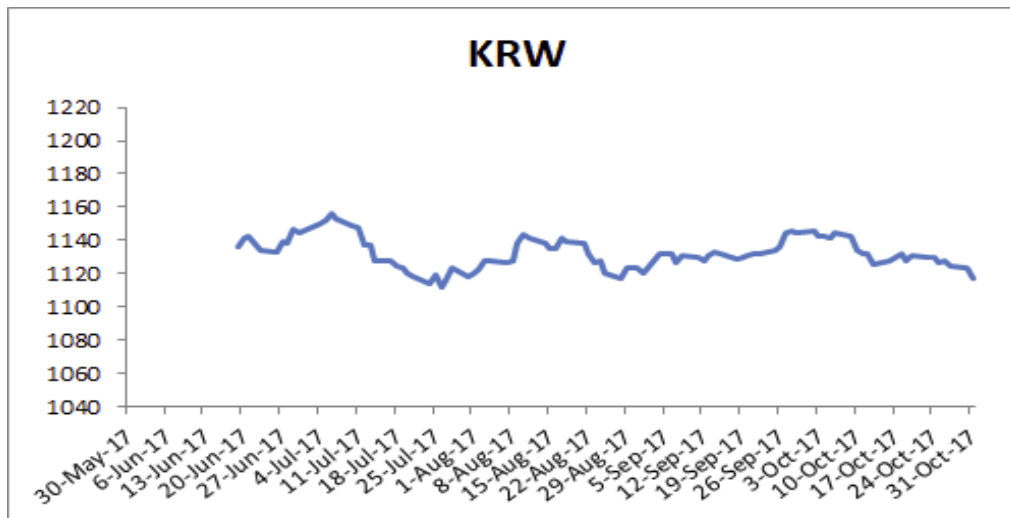
South African Rand



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Indonesian Rupiah



Korean Won

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