

Market Highlights

For the week 8th Oct to 12th Oct 2018

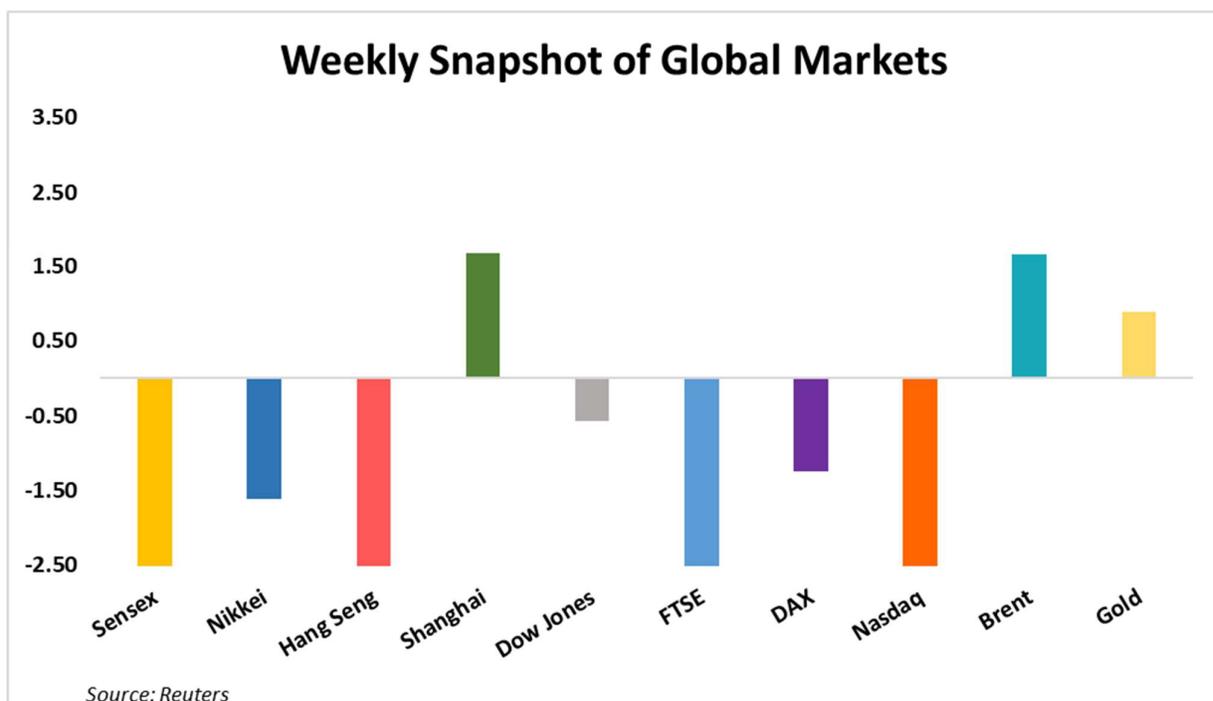
- Rupee hits new lows of 74.23 levels against dollar.
- RBI keeps interest rates unchanged and changes the stance to calibrated tightening from neutral
- India signed a \$5 billion deal to buy five Russian S-400 air defence systems despite looming threat of US sanctions.

Currency Snapshot

Emerging Markets						
Country	Currency	Open	High	Low	Close	% Change
India	INR	72.6000	74.2300	72.6000	73.7650	1.58
Argentina	ARS	41.22	41.25	36.85	37.807	-9.03
Russia	RUB	65.6054	67.0468	64.8266	66.62	1.52
Turkey	TRY	6.057	6.2273	5.877	6.1323	1.23
Brazil	BRL	4.0495	4.0628	3.8213	3.8406	-5.44
China	CNY	6.868	6.868	6.868	6.868	0.00
South Africa	ZAR	14.1398	14.9308	14.0498	14.7633	4.22
Mexico	MXN	18.708	19.2	18.494	18.818	0.58
Indonesia	IDR	14880	15190	14880	15175	1.94
Korea	KRW	1109	1133.57	1108.1	1131.13	1.96
Phillipine	PHP	54.01	54.415	53.95	54.2	0.35

Currency	10 yr yield	6m Premia	Libor
INR	4.36%	156.2500	2.6070
GBP	6.19%	116.91	0.90419
EUR	4.85%	183.83	-0.30971
JPY	7.45%	-168.98	0.01867
CHF	8.05%	-175.18	-0.6546
AUD	7.59%	15.8	
CAD	5.03%	-44.95	

Developed Markets						
Country	Currency	Open	High	Low	Close	% Change
United States	DXY	95.13	96.124	94.996	95.618	0.14
Eurozone	EUR	1.1607	1.1628	1.1462	1.1523	1.26
United Kingdom	GBP	1.3029	1.3124	1.2919	1.3122	0.84
Japan	JPY	113.68	114.54	113.5	113.7	0.16
Australia	AUD	0.7229	0.7237	0.7039	0.7051	2.69
Canada	CAD	1.29	1.2954	1.2778	1.2935	0.94



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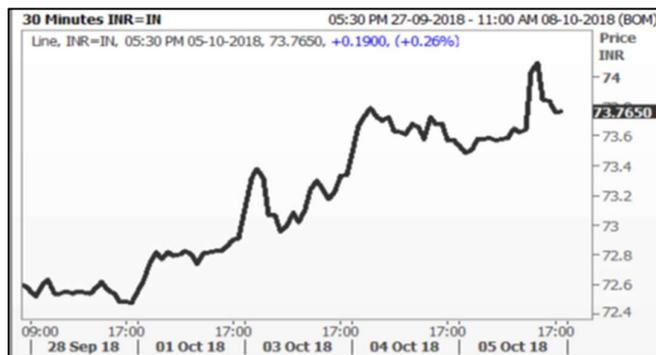
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Indian Rupee



Performance

This week, the Indian currency touched an all-time low level of 74.2300 owing to the following reasons:

- **Higher crude prices** – Crude prices is on the rise as Iran sanctions looms closer. Also, war of words between the US and Russia/Saudi Arabia on crude production has added to the woes.
- **RBI Policy Statement** – The committee kept the interest rates at the same rates and changed the stance from 'Neutral' to 'Calibrated Accommodation'. The governor said that there is an upside risks to inflation however kept the GDP rate forecast unchanged.
- **Foreign Outflows** – Due to crisis in Emerging Markets and the recent US Fed rate hike, the global investors are gradually leaving the EME's and moving towards dollar denominated assets.
- **Oil window** – RBI official made a comment saying that the bank shall not open an oil window for now at least which dented the market sentiments.
- **Italy Budget Crisis** – In the recent budget session, Italy kept its deficit target to 2.4 percent. On insistence by EU they once again decreased the target levels to 2 percent. Markets still consider this level very high which pushed the EURO currency lower helping the American currency to stay strong.
- **Russia-India Deal** – India and Russia signed a \$5.43 billion deal for five S-400 missile systems and eight other agreements. This deal despite US warning has kept the market on tenterhooks.

Data	Period	Current	Previous
FX Reserves	As on 28 th Sep'18	\$400.53 B	\$401.79 B
RBI Repo Rate	Oct	6.5%	6.5%
CRR	Oct	4%	4%

Outlook

This week, the Indian Rupee depreciated to 74.2300 levels and is expected to continue its weak trend for some more time. There is a possibility that it shall move again towards 74.50 on break of 74.00 levels on upside as well owing to the following factors:

- The recent US-Russia trade deal is good for Indian security but is opposed by US. Any comment from Trump about sanctions on India could create jitters in the markets.
- The recent fall in the equities on fears of higher Current account deficit due to rising crude oil prices along with fall in international markets due to tariff war has led to huge outflows. Since the issue remains unresolved there could be more outflows seen from the markets.
- The recent move by the RBI and change in stance could correct the markets as they expected a rate hike which was not done. There could be some outflows from the debt market which could worsen the case for Rupee.
- The cut in excise duty of petrol and diesel prices is a positive thing for the consumers but not for the fiscal situation of Centre and State governments.
- There are two important datasets from the US (CPI and PPI) which shall keep the dollar index volatile.

RBI will be sole supplier of Dollar as demand for dollar keeps increasing with every uptick in rupee. Sharp RBI intervention and positive statements from Government officials could help rupee to regain some ground. On the downside, 73.20-73.50 levels may be limited due to opportunistic buying by importers.

Strategy

Exporters are advised to cover only near-term receivables on spikes towards 74.20-74.50 levels. Importers are advised to cover their near-term payable (One month) on dips towards 73.20-73.50 levels.

Support	S1	S2	S3
	73.40	72.60	71.50
Resistance	R1	R2	R3
	74.30	75.00	75.80

Trend: The pair has given bullish close on weekly charts indicating further upmove towards 75.00 levels. But technical indicators are signalling caution on the upmove.

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Euro

- The shared currency bore steady losses this week.
- Broad dollar strength globally coupled with the state of Italy's finances kept euro weak.
- Italy has breached the fiscal rules of Maastricht Treaty that forbids budget deficits in excess of 3% of GDP and national debt of more than 60% of GDP. Italy had a budget deficit equal to 2.3% of GDP in 2017 and national debt in excess of 130% of GDP. Further, it is planning to keep budget deficit to 2.4% of GDP in 2019.
- The robust US-Data couple with Hawkish tone of Fed Chair boosted Dollar adding to the Euro woes pushing it to the weekly lows.
- However, sharp dip in US Nonfarm payrolls data led to recovery in Euro and close above 1.1500 levels

Open	High	Low	Close
1.1607	1.1628	1.1462	1.1523
Data	Period	Current	Previous
Manufacturing PMI	Sep	53.2	53.3
Unemployment rate	Aug	8.1%	8.2%
Markit Composite PMI	Sep	54.1	54.2
Services PMI	Sep	54.7	54.7

Pound

Open	High	Low	Close
1.3029	1.3124	1.2919	1.3122
Data	Period	Current	Previous
Manufacturing PMI	Sep	53.8	53
Nationwide HPI	YoY	2.0%	2.0%
Services PMI	Sep	53.9	54.3
Constructions PMI	Sep	52.1	52.9

- Pound traded in a very volatile manner in this week.
- It made gains initially after U.K. Prime Minister Theresa May was reported to be preparing a significant new Brexit offer to the European Union in an attempt to open the door to a deal and British side sees a path "backstop" to reaching an agreement over Irish border impasse, avoiding the need for police and customs checks on the border between the U.K. and Ireland.
- But, Sterling suffered heavily at two party conferences, with Raab rejecting EU's proposal for "backstop" plan for Irish border.
- On the last day of the conference, pound steadied after May's speech, where it laid emphasis on having a "fair deal" rather than controversial "Chequers deal"
- Hawkish tone of Powell kept the sharp gains under check
- However, sharp dip in US Nonfarm payrolls data led to gains in Pound and close at 1.3122 levels

Yen

- Yen traded weak with sharp losses in the mid week owing to global dollar strength.
- Fed chair, Powell hailed a "remarkably positive outlook" for the U.S. economy that he feels is on the verge of a "historically rare" era of ultra-low unemployment and tame prices. This boosted the dollar and weighed on Yen.
- Robust US- data such as ADP jobs data for September highest since February indicating a Strong U.S. economy continues to support greenback adding to the yen woes.
- The Nikkei eased 0.2 percent, as weaker yen gave boost to the exporters.
- Towards, the closing JPY strengthened on back of sharp fall in US Nonfarm Payrolls data

Open	High	Low	Close
113.68	114.54	113.50	113.70
Data	Period	Current	Previous
Household spending	MoM (Aug)	3.5%	-1.1%
Household spending	YoY	2.8%	0.1%
Tankan all big industry CAPEX	Q3	13.4	13.6
Tankan Big Manufacturing Outlook index	Q3	19	21

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Euro

Support	S1	S2	S3
	1.1460	1.1350	1.1300
Resistance	R1	R2	R3
	1.1620	1.1730	1.1815

Trend: Overall bearish trend but could see an uptick initially towards 1.1620 levels. Break of 1.1460, key for sharp downmove towards 1.1300 levels.



Pound

Support	S1	S2	S3
	1.3050	1.2960	1.2850
Resistance	R1	R2	R3
	1.3215	1.3300	1.3480

Trend: Cross has formed a bullish pattern (hammer) on weekly chart & given bullish close signalling an upmove towards 1.3300 levels. Next resistance lies at 1.3480 levels.



Yen

Support	S1	S2	S3
	113.15	112.15	111.45
Resistance	R1	R2	R3
	114.60	115.30	116.40

Trend: The pair has formed bearish pattern (shooting star) on the weekly chart & given bearish close on daily chart signalling short term top is in place. Likely target is 112.15 levels.



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Economic Indicators

Date	Time	Currency	Data	Forecast	Previous
08/10/2018	11:30	DE	Industrial Production m/m	0.40%	-1.10%
08/10/2018	14:00	EU	Sentix Investor Confidence	11.40	12.00
09/10/2018	04:31	UK	BRC Retail Sales Monitor y/y	-	0.20%
09/10/2018	05:20	JP	Current Account	1.52T	1.48T
09/10/2018	11:30	DE	Trade Balance	15.9B	15.8B
10/10/2018	5:20	JP	Core Machinery Orders m/m	-3.60%	11.00%
10/10/2018	11:30	JP	Prelim Machine Tool Orders y/y	-	5.10%
10/10/2018	14:00	UK	GDP m/m	0.10%	0.30%
10/10/2018	14:00	UK	Manufacturing Production m/m	0.10%	-0.20%
10/10/2018	14:00	UK	Goods Trade Balance	-10.9B	-10.0B
10/10/2018	14:00	UK	Industrial Production m/m	0.10%	0.10%
10/10/2018	18:00	US	PPI m/m	0.20%	-0.10%
10/10/2018	18:00	US	Core PPI m/m	0.20%	-0.10%
11/10/2018	4:31	UK	RICS House Price Balance	2%	2%
11/10/2018	5:20	JP	Bank Lending y/y	2.10%	2.20%
11/10/2018	5:20	JP	PPI y/y	2.90%	3.00%
11/10/2018	18:00	US	CPI m/m	0.20%	0.20%
11/10/2018	18:00	US	Core CPI m/m	0.20%	0.10%
11/10/2018	18:00	US	Initial Jobless Claims	-	207K
12/10/2018	5:20	JP	M2 Money Stock y/y	2.90%	2.90%
12/10/2018	10:00	JP	Tertiary Industry Activity m/m	0.30%	0.10%
12/10/2018	11:30	DE	Final CPI m/m	0.40%	0.40%
12/10/2018	14:30	EU	Industrial Production m/m	0.40%	-0.80%
12/10/2018	19:30	US	Prelim UoM Inflation Expectations	-	2.70%

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RBI undertook the following policy measures:

- Kept the policy repo rate unchanged to 6.50 percent.
- Kept the reverse repo rate to 6.25 percent, marginal standing facility and Bank Rate to 6.75 percent.
- GDP growth projection for 2018-19 is retained at 7.4 per cent with risks broadly balanced.
- MPC notes that there are global uncertainties in the form of escalating trade tensions, volatile and rising oil prices, tightening of global financial conditions that pose substantial risks to the growth and inflation outlook.

Observations on Global Economy:

- US economy appears to have sustained pace in Q3:2018 as reflected in strong retail sales and robust industrial activity.
- In the Euro Area, economic activity remained subdued due to overall weak economic sentiment which was caused mainly due to the political uncertainty.
- Japan has so far maintained the momentum of the previous quarter buoyed by recovering industrial production and strong business optimism.
- The industrial production growth in China has moderated with slowing exports and the ongoing deleveraging of the financial system that has weighed on growth prospects.

Observations on Global Markets:

- Crude oil prices eased during the first half of August on concerns of reduced demand from EMEs however soon rebounded on expectation of reduced supplies due to sanctions on Iran and falling US stockpiles.
- Among advanced economies, equity markets in the US touched a new high, driven by technology stocks while in Japan they were boosted by the weak yen.
- In contrast, stock markets in the Euro area suffered losses on signs of a slowdown and budget concerns in some member states while sharp sell-offs occurred in EME equities on waning appetite of foreign portfolio investors.

Observations on Indian Economy:

- Real gross domestic product (GDP) growth surged to a nine quarter high of 8.2 per cent in Q1:2018-19, extending the sequential acceleration to four successive quarters.
- Agricultural growth also picked up owing to robust growth in production of rice, pulses and coarse cereals alongside a sustained expansion in livestock products, forestry and fisheries.
- Services sector growth moderated somewhat, largely on account of a high base whereas Industrial growth underpinned mainly by high growth in consumer durables.
- Exports maintained double digit growth in July and August 2018. However, imports grew much faster due to higher imports of crude and gold. This led to a widening of the trade deficit to US\$ 35.3 billion in July-August 2018.
- FPI have been net sellers in both the equity and debt segments so far on a cumulative basis in

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2018-19 due to higher US interest rates, risk-off sentiment in EMEs and escalation of trade wars.

- India's foreign exchange reserves were at US\$ 400.5 billion on September 28, 2018.
- Outlook on India's CPI
- Inflation is projected at 4.0 per cent in Q2 of 2018-19, 3.9 to 4.5 percent in H2 and 4.8 per cent in Q1 of 2019-20 with risks somewhat to the upside.

Reasons for the uptick in inflation:

- Uncertainty in global financial market developments
- Possible surge in crude oil prices
- Staggered impact of HRA revisions by various state governments
- Impact of the revision in the MSP formula for kharif

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