



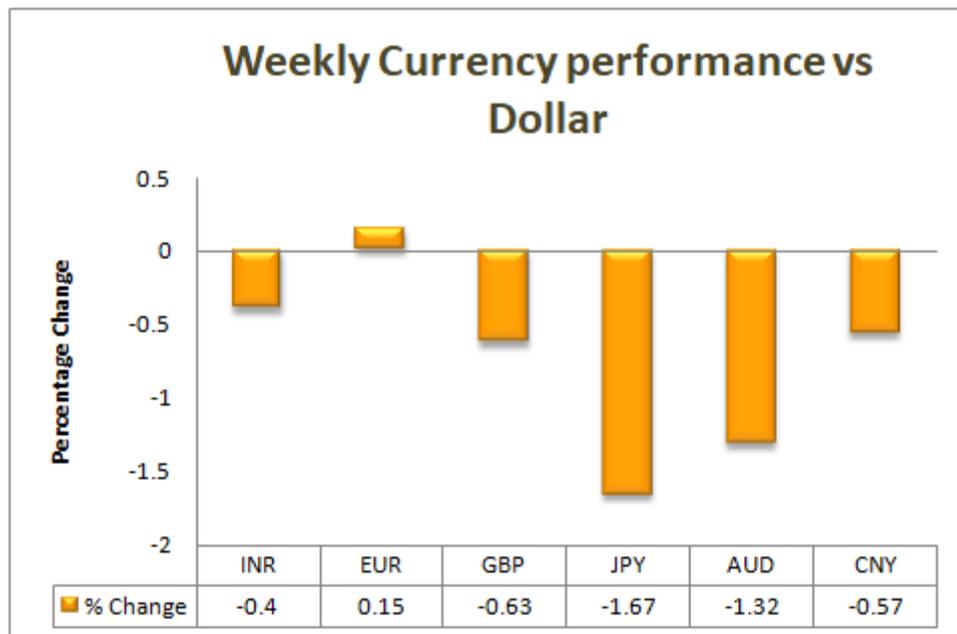
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FOREIGN EXCHANGE OUTLOOK

WEEKLY RESEARCH REPORT

22 February 2020

Key Highlights:



RBI's long-term repo operation receives Rs 1.94-trillion bids

PBoC cuts loan prime rate; stimulus by central banks supporting risk

Gold jumps to 7-year high on fears virus will hit global growth

India's forex reserves rise to record \$476 billion in the week to Feb.14

FX Market Update:

USDINR Weekly performance & Outlook



The USDINR pair was quite volatile although it was a short-week; it traded in a broader range of 56 paise (71.24-71.80) for the week. On Thursday, Indian rupee started with loss of 23 paise to 71.80 levels (six-week low) amid strength in dollar index and higher crude oil prices which have weighed

on the rupee weaker sentiment. Adding fuel to the pair was weakening Chinese yuan crossing the psychologically crucial 7.00 yuan mark. The fall in domestic equity and weak economic data continued to haunt the same. Oil prices took cues from a recent death toll from the coronavirus while some sort of optimism returned after WHO said that the outbreak could subside. Reserve Bank of India on Monday successfully kicked off the maiden long-term reverse repo operation (LTROs) by conducting a three-year issue worth Rs.25,000 crore for which it received bids of more than Rs.1.944 lakh crore. The short-end of the curve is expected to fall further as the central bank focuses on pushing borrowing costs down.

The RBI will conduct the second issue for Rs.25,000 crore on February 24 which will have one-year tenor. Equity benchmarks eked out marginal gains and ended the week at 12081. Foreign institutional investors (FII) were net buyer to the tune of 10750 crore in equities as of February 22, 2020. For the month, they remained net buyers of Rs.24077 crore. The benchmark India 10-year bond yield rose by 5bps at 6.42% compare to previous week closing of 6.37%. India's foreign exchange reserves rose USD 3.09 billion to touch a life-time high of USD 476.092 billion in the week ended February 14, the rise in reserves was mainly on account of an increase in foreign currency assets, a major component of the overall reserves, which rose by USD 2.763 billion to USD 441.949 billion, according to the latest data from the RBI. This is a clear indication RBI is not comfortable with Rupee appreciation. However, there is also a likelihood that RBI might intervene at the time of sharp depreciation.

Outlook

The Reserve Bank of India is "on board" the government's proposal to list select Indian government bonds on global indices and an announcement on the plan is likely soon. The incremental addition of new Coronavirus cases is lower, and that too is supporting risk sentiment. The economic data from the US has been holding up and, therefore, while other central banks are in easing mode, the Fed could continue to keep rates on hold. The US Dollar has held on to its gains post the FOMC minutes, USDJPY has broken through the 110.50 mark and the Dollar index is within striking distance of the 100 mark. Market participants are cautious about the economic impact of the coronavirus outbreak spreading from China turned bearish. The inflows that are lined up over the coming days are pertaining to Brookfield's acquisition of Reliance's tower assets and SBI Cards IPO. All eyes will be on Trump- Modi meet next week, the United States has said it is unlikely that a trade deal would be inked with India during President Donald Trump's upcoming visit to the country, saying that concerns that led to India's removal from the Generalized System of Preferences persisted. There have been talks about India and the United States agreeing on a trade package as a precursor to a major trade deal. While the Rupee would not be immune to a contagion from a run in Asian currencies, the Rupee could outperform currencies of economies that have stronger trade linkages with China. Technically, the broader range 70.70-72.30 is still intact and would wait for a break and close above 72.50 to call for a move higher while support is seen near 71.60 and 71.20 levels. The breakout for the pair on upside looks more imminent rather downside.

EURUSD:



The EURUSD pair continued its bearish momentum, and has been in free-fall against the US Dollar since the start of the year with Euro plummeting nearly 4% since the start of the year. The downside momentum in the

pair subsided a bit and is recovering after purchasing manager survey data came in ahead of estimates. PMI data for the eurozone rose to a six month high with the services sector continuing to expand. Meanwhile, Germany GDP figures revealed that growth in the largest economy in Europe stagnated at the end of 2019. Data divergence between EU and US is one of the primary reasons behind the sell-off in the Euro. Eurozone finance ministers discussed ways to pursue a more growth friendly fiscal policy mix in a potential nudge to Germany and the Netherlands to spend more, as fears of a down turn grow in the wake of the coronavirus epidemic. Whilst manufacturer's optimism picked up slightly at the start of the year following the first phase US China trade deal, uncertainty looks to be set to make a comeback as the Chinese covid-19 outbreak could be as concerning as the trade war. USD-dynamics are expected to dictate the pair's price action for the time being along with the broad risk trends. Considering, the bearish momentum to continue in EURUSD, outlook for the EURINR remains bearish. Any uptick towards 78.50 is suggested for partial long term booking.

GBPUSD:



The GBPUSD pair has pulled back a bit during the week, reaching towards the 1.29 mark, where we have seen a little bit of buying pressure. Nevertheless, for the week, the pair is down nearly 1%. Gains in the pound were perhaps limited by uncertainty about what the new Chancellor will do in relation to government borrowing

figures before the 11th March, 2020 budget. The weakness in cable underpinned the dollar's advance, amid signs that the U.S. economy remains on solid footing and risk of uncertainty over UK's future trading relationship with the EU adds bearish pressure for the pair. The British government announced that it will start a new plan and system for immigration. Economic data from the United Kingdom have been positive this week although has failed to keep the exchange rate from declining. Earlier in the week, retail sales were reported to rise 0.9% in January after falling in the prior three months. The consumer price index rebounded sharply higher last month to levels not seen since the summer.

Dollar Index:



The greenback, in terms of the US Dollar Index (DXY), which tracks, the USD's value against a basket of six major currencies, maintained its bullish momentum as risk aversion

continues to dominate sentiments, but remains on the defensive at the end of the week around the 99.70/60 band amid weak US PMI Data which came at its lowest level since 2013. Improved economic data out of Germany and France has seen demand for dollar come off on Friday after a week that saw multi-year lows for the euro-dollar exchange rates. Part of the attraction of the dollar has been the dreary economic performance in the likes of Japan and Germany. Investors are expected to keep looking to the performance of US fundamentals and the broader risk appetite trends for direction as well as any fresh developments from the COVID-19. In the meantime, the outlook on the dollar remains constructive and bolstered by the current appropriate monetary stance from the Fed (once again confirmed in the FOMC minutes on Wednesday) vs. the broad-based dovish view from its G10 peers.

Indian market at glance		Weekly Range		Bias
USDINR	71.65	USDINR	71.40 - 72.50	Bullish
Sensex	41170(-153)	EURUSD	1.0750 - 1.0930	Bearish
Nifty	12081(-45)	GBPUSD	1.2840 - 1.3010	Bearish
India 10Y Bond	6.42%	USDJPY	110.50 – 113.20	Bullish
1Y MIFOR	5.75%	DXY	98.70 - 100.50	Bullish

Upcoming events next week:-

Day	Time	Cur.	Event	Forecast	Previous
Mon	14:30	EUR	German Ifo Business Climate Index (Feb)	97	95.9
Tue	12:30	EUR	German GDP (QoQ) (Q4)	0.10%	0.10%
Tue	20:30	USD	CB Consumer Confidence (Feb)	132.4	131.6
Wed	20:30	USD	New Home Sales (Jan)	708K	694K
Thu	19:00	USD	Core Durable Goods Orders (MoM) (Jan)	0.20%	-0.10%
Thu	19:00	USD	GDP (QoQ) (Q4)	2.10%	2.10%
Thu	20:30	USD	Pending Home Sales (MoM) (Jan)	2.00%	-4.90%
Fri	5:20	JPY	Industrial Production (MoM) (Jan)		1.20%
Fri	14:25	EUR	German Unemployment Change (Feb)		-2K
Fri	14:25	EUR	German Unemployment Rate (Feb)		5.00%
Fri	17:30	INR	GDP Quarterly (YoY) (Q3)		4.50%
Fri	18:30	EUR	German CPI (MoM) (Feb)	-0.60%	-0.60%
Fri	20:30	USD	Michigan Consumer Sentiment (Feb)	100.5	100.9

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