smc
Moneywise. Be wise.

FX DAILY DOSSIER **August 22, 2019**

Key Market Theme

- **Italy's coalition government collapsed after hard-right leader Matteo Salvini pulled-out from coalition to form his own government.**
- **Italian debt which currently stands at 130% of GDP is the major issue which is likely to falter the growth in next 10 years.**
- **The upshot remains in-tact for the downside risk in euro amid lower growth and political chaos. We maintained our view in euro/dollar to hit 1.05 by the end of this year.**

Macro Analysis

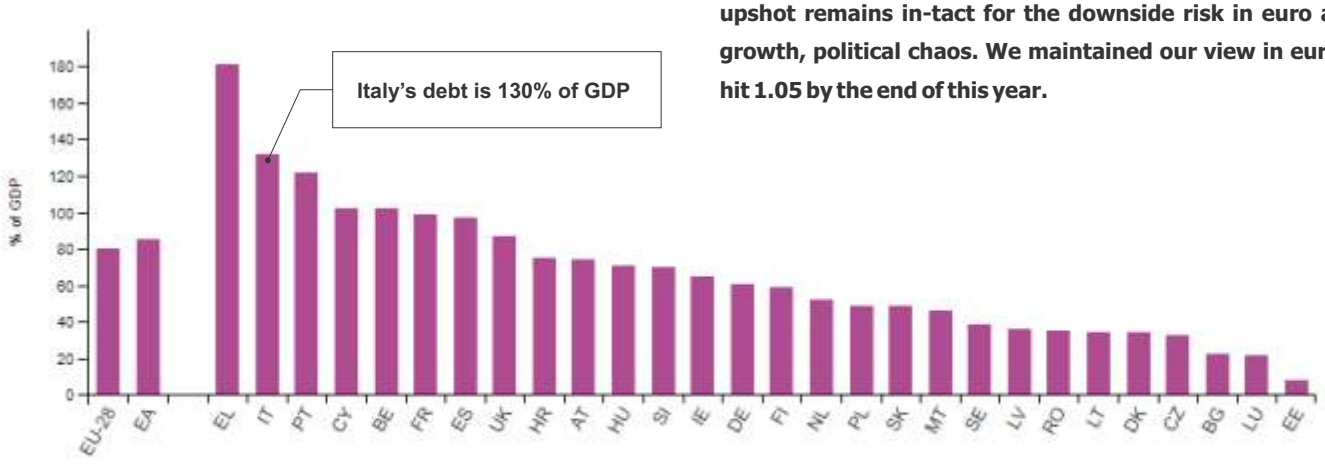
Germany being the largest economy in the euro-zone tipped to technical recession and at the same time the third largest economy in the bloc, Italy is facing political chaos. The grand coalition between The League and Five Star Movement which are considered to be hard-right, anti-migrant and anti-established was collapsed last Tuesday after Salvini - The leader of the League pulled-down his support and seek for no-confidence vote. In evidently Giuseppe Conte tendered his resignation stated the ugly face of Salvini's desire to form his own government.

Indeed over the last year, Salvini's popularity gained almost doubled as he consistently outflanked the inexperienced Five Star Movement. Although Italian bonds rallied on anticipation of favored coalition between The League and Centre-Left Democratic but we think irrespective of political establishment, Italian debt which currently 130% of GDP is the major issue which is likely to falter the growth in next 10 years.

Indeed, the significant increase in Italy's government debt is matter of concern when growth is 0%.This began around 1970, and over the next three decades Italy's budget deficit averaged 8.1% of GDP. While the debt ratio fell in the late 1990s and early 2000s, since the financial crisis it has increased to levels last seen during the Second World War when the government defaulted. It also defaulted in the 1920s when the debt ratio was about 150%.

Admittedly, interest rates are now much lower than they were prior to past defaults. But **Italy still spends a larger share of its GDP servicing debt than any other euro-zone country apart from Portugal.** Since 1995, debt interest costs have averaged 5.7% of GDP per year in Italy, compared to 3.3% for the euro-zone as a whole. While a lot of those interest payments will be made to domestic investors, and therefore might be reinvested in Italy, in order to service the debt the level of taxes has to be high, which could have adverse effects on the economy.

At a time when ECB is feeding stimulus to pump-up the growth and political crisis will certainly hit the fiscal projection over the next few years. **The upshot remains in-tact for the downside risk in euro amid lower growth, political chaos. We maintained our view in euro/dollar to hit 1.05 by the end of this year.**



Data extracted on 23.04.2019.
Source: Eurostat (online data code: tsdde410)

eurostat

smc
Moneywise. Be wise.

FX Majors	CMP	1W	1M
EURUSD	1.1090	-0.15%	-0.50%
GBPUSD	1.2130	0.38%	-2.61%
USDJPY	106.42	0.29%	-2.04%

FX Cross INR	CMP	1W	1M
USDINR	71.44	0.17%	3.30%
EURINR	79.22	-0.37%	2.77%
GBPINR	86.65	0.61%	0.59%
JPYINR	67.12	-0.13%	5.43%

Global Yields	10Y-Yield	1W(bps)	1M (bps)
India	6.57	8.30	18.90
US	1.58	-17.06	-47.98
Germany	-0.67	-9.80	-34.95
UK	0.48	-1.16	-26.12

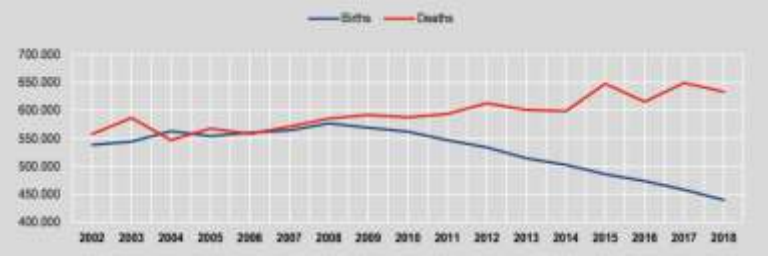
Flows	DTD	WTD	MTD
FIIs (INR Crs)	-770.81	-427.96	-9752.83

***Note:** 1W refers to 1 week change from CMP | 1M refers to 1 month change from CMP*

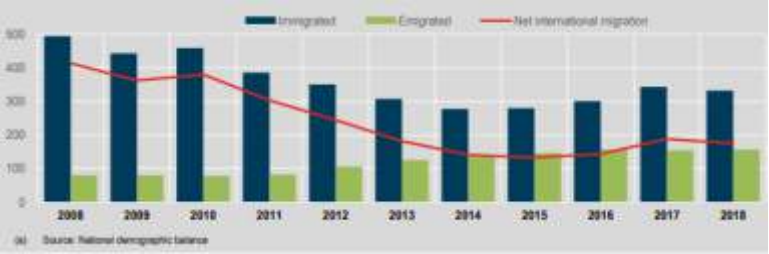
National Demographics of Italy

The outlook for the working age population is even more concerning. Eurostat's projections suggest that over the next five years, it will shrink by up to 0.5% per year. And by 2030, it could be declining by almost 1% per year. That is similar to Germany and Japan, but much worse than other large advanced economies. **We think that Italy's GDP will be more or less stagnant over the next ten years.** This is because modest improvements in productivity will be offset by declines in employment as the labor force contracts. While there will undoubtedly be some periods of growth, these will be no more common than periods of contraction. **On top of all that, with GDP stagnant, there would be a major risk of Italy's public debt ratio rising unsustainably. This could mean endless austerity, or it could eventually mean default.**

Natural movement of the Population



Natural movement of the Population



Economic Data

	IST	Previous	Median	SMC's Forecast
EUR German Flash Manufacturing PMI	13:00	43.20	43.10	42.90
EUR German Flash Services PMI	13:00	54.50	54.10	53.90
EUR Flash Manufacturing PMI	13:30	46.50	46.30	46.20
EUR Flash Services PMI	13:30	53.20	53.00	52.80

Pivot Levels

Currency	Pivot	S1	S2	S3	R1	R2	R3
USD/INR (AUG)	71.55	71.44	71.29	71.18	71.70	71.81	71.95
EUR/INR (AUG)	79.45	79.35	79.19	79.09	79.61	79.71	79.87
JPY/INR (AUG)	67.21	67.09	66.92	66.80	67.38	67.50	67.67
GBP/INR (AUG)	86.85	86.64	86.47	86.26	87.01	87.23	87.39

Moneywise. Be wise.

Currency Research Team

Aditya Thukral - *Technical Analyst*
adityathukral@smcindiaonline.com

Arnob Biswas - *Fundamental Analyst*
arnobbiswas@smcindiaonline.com

E-mail: smc.care@smcindiaonline.com

Moneywise. Be wise.

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401 / 402 , 4th Floor , Graham Firth Steel Compound, Off Western Express Highway, Jay Coach Signal, Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-67341697

Kolkata Office:
18, Rabindra Sarani, Poddar Court, Gate No-4,
5th Floor, Kolkata - 700001
Tel.: 033 6612 7000/033 4058 7000
Fax: 033 6612 7004/033 4058 7004

SMC Global Securities Ltd. (hereinafter referred to as "SMC") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. SMC is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, MSEI (Metropolitan Stock Exchange of India Ltd) and M/s SMC Comtrade Ltd is a registered member of National Commodity and Derivative Exchange Limited and Multi Commodity Exchanges of India and other commodity exchanges in India. SMC is also registered as a Depository Participant with CDSL and NSDL. SMC's other associates are registered as Merchant Bankers, Portfolio Managers, NBFC with SEBI and Reserve Bank of India. It also has registration with AMFI as a Mutual Fund Distributor.

SMC is a SEBI registered Research Analyst having registration number INH100001849. SMC or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities market. SMC or its associates or its Research Analyst or his relatives do not hold any financial interest in the subject company interest at the time of publication of this Report. SMC or its associates or its Research Analyst or his relatives do not hold any actual/beneficial ownership of more than 1% (one percent) in the subject company, at the end of the month immediately preceding the date of publication of this Report. SMC or its associates its Research Analyst or his relatives does not have any material conflict of interest at the time of publication of this Report.

SMC or its associates/analyst has not received any compensation from the subject company covered by the Research Analyst during the past twelve months. The subject company has not been a client of SMC during the past twelve months. SMC or its associates has not received any compensation or other benefits from the subject company covered by analyst or third party in connection with the present Research Report. The Research Analyst has not served as an officer, director or employee of the subject company covered by him/her and SMC has not been engaged in the market making activity for the subject company covered by the Research Analyst in this report.

The views expressed by the Research Analyst in this Report are based solely on information available publicly available/internal data/ other reliable sources believed to be true. SMC does not represent/ provide any warranty expressly or impliedly to the accuracy, contents or views expressed herein and investors are advised to independently evaluate the market conditions/risks involved before making any investment decision. The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the subject company.

Disclaimer: This Research Report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to the investor. It is only for private circulation and use. The Research Report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of this Research Report. The Research Report should not be reproduced or redistributed to any other person(s)in any form without prior written permission of the SMC. The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this Research Report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions. Please note that SMC its affiliates, Research Analyst, officers, directors, and employees, including persons involved in the preparation or issuance if this Research Report: (a) from time to time, may have long or short positions in, and buy or sell the securities thereof, of the subject company(ies) mentioned here in; or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company(ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender/borrower to such subject company(ies); or (c) may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.