

Key Market Theme

- 25 bps rate cut by RBI is justified
- Improvement in the US-ISM Index unlikely to last
- UK PM will be installed by 22nd July

Macro Analysis

| FX Majors | CMP | 1W | 1M |
|-----------|--------|--------|--------|
| EURUSD | 1.1230 | 0.87% | 0.11% |
| GBPUSD | 1.2689 | 0.64% | -2.44% |
| USDJPY | 108.25 | -1.25% | -1.39% |

| FX Cross INR | CMP | 1W | 1M |
|--------------|-------|--------|--------|
| USDINR | 69.35 | -0.56% | -1.02% |
| EURINR | 77.88 | 0.32% | -0.90% |
| GBPINR | 88.01 | 0.08% | -3.43% |
| JPYINR | 64.07 | 0.71% | 0.39% |

| Global Yields | 10Y-Yield | 1W(bps) | 1M (bps) |
|---------------|-----------|---------|----------|
| India | 7.01 | -21.90 | -36.20 |
| US | 2.12 | -20.45 | -40.08 |
| Germany | -0.22 | -11.05 | -25.26 |
| UK | 0.87 | -9.23 | -35.54 |

| Flows | DTD | WTD | MTD |
|-----------------|---------|---------|---------|
| FII's (INR Crs) | -416.08 | 4689.24 | 2652.80 |

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

INDIA

All eyes will be on today's Reserve Bank of India's policy meeting. We think the MPC will use the weaker GDP growth in Q1 and the current low rate of headline inflation as justification for another 25bp interest rate cut. Indian Rupee pared some gains as traders and hedgers preferred to stay aside. Admittedly market participants will watch about the material impact of changing stance. We expect RBI will ease policy guidance.

US

The muted 27,000 increase in the ADP measure of private payroll employment in May is a concern as it mirrors the recent deterioration in some of the survey-based employment indices. The unexpected improvement in the ISM non-manufacturing index was more reassuring as it left the index at a level usually consistent with GDP growth of slightly more than 2% annualized. But given the collapse in the regional Fed services surveys, which tend to lead the ISM index, we are not convinced that this improvement will last.

The main release on Thursday will be the international trade data for April. The deficit was unchanged at \$50.0bn, although that would still leave net trade on course to subtract from GDP growth in Q2.

EUROPE & UK

On Wednesday, the European Commission (EC) announced that an Excessive Deficit Procedure is warranted in Italy. The Italian 10-year government bond yield jumped by around 10bps directly after the report was published, but subsequently reversed most of that increase. Separately, the EC published a review of Greece's reform progress, in which it argued that last month's fiscal giveaways are not consistent with the fiscal target set for Greece by its creditors. While the country exceeded its GDP primary budget surplus target last year, we think that it will miss it this year. On the data front, the euro-zone PMI for May was revised upwards, but still points to GDP growth slowing in Q2. The fall in retail sales in April suggests that the slowdown is partly due to subdued consumption growth. In the UK, the announced timetable to decide the next Conservative leader should mean that a new PM will be installed by 22nd July.

Economic Data

| | IST | Previous | Median | SMC's Forecast |
|--------------------------------|-------|----------|--------|----------------|
| INR RBI Interest Rate Decision | 11:45 | 6.00% | 5.75% | 5.75% |
| EUR ECB Press Conference | 18:00 | - | - | - |

Price Analysis

DAILY OUTLOOK FOR USDINR

USDINR (June) Futures are expected to stay within 69.15 and 69.60

OPTIONS STRATEGY:

No Recommendation

Yesterday's Performance: The previous suggested Short Call (69.25 CE) sold at 0.14 was stopped out at 0.19

FUTURES RECOMMENDATION:

Sell USDINR (June) Futures below 69.44 with SL 69.57 and TGT 69.24

Yesterday's Performance: The previous suggested short in USDINR (June) Futures at 69.41 were closed at cost

Pivots

| Currency | Previous Close | S1 | S2 | R1 | R2 |
|----------------|----------------|-------|-------|-------|-------|
| USD/INR (JUNE) | 69.42 | 69.31 | 69.13 | 69.51 | 69.69 |
| EUR/INR (JUNE) | 78.32 | 78.10 | 77.92 | 78.32 | 78.50 |
| JPY/INR (JUNE) | 64.38 | 64.20 | 64.03 | 64.40 | 64.57 |
| GBP/INR (JUNE) | 88.21 | 88.13 | 87.93 | 88.36 | 88.55 |

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

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