

## Key Market Theme

- Dollar gyrations under FOMC meet

### Macro Analysis

The day has come when Federal Reserve will cut interest rate for the first time since global financial crisis. Broadly we laid out the post reaction of dollar in today's coverage.

Based on June core PCE which stands at 1.6 percent on an annualized basis (Fed's preferred inflation barometer) is still below inflation target of 2 percent which we think that inflation will not rebound anytime soon. While we doubt the Fed would cut rates solely as a result of this, we think that it will make the central bank even more likely to cut rates if the US economy slows as we expect later this year. Against this backdrop, we already forecasted that the 10-year Treasury yield will end this year lower than it is now.

To recap, the Fed left its target for the fed funds rate unchanged at between 2.25% and 2.50% in last policy meet as was largely expected. More surprisingly, the Fed cut the IOER by 5bp. This was initially interpreted by the markets as a sign of loosening, prompting the US 10-year Treasury yield to fall immediately after the announcement.

However, Treasuries gave back all of their gains within minutes of the start of the press conference, as Powell stressed that the cut in the IOER rate was a technical adjustment and downplayed the recent slide in core inflation, paring back investor expectations of looser Fed policy.

While we do agree with the Fed that some factors that have been weighing on inflation are likely to be "transient", like methodological changes to collecting clothing prices, others are likely to persist for some time. In particular, services prices have declined sharply. We think that this reflects a moderation in unit labor cost growth brought about by a rebound in productivity growth from near-zero to more than 2% in the past year.

Nonetheless, we think that economic growth in the US will slow below potential later in the year. In response, we think that the Fed will cut rates by 25bp three times by mid-2020. While investors have revised down their expectations for US interest rates earlier but they have lined-up for 75 bps cut by mid-2020.

#### Heat Map

Categories	Outlook	Dollar Impact
Rate Cut	25 bps cut	Neutral
Guidance	Data-Dependency	Positive
Dissent	Boston Fed or Kansas City Fed	Negative
Rationale	Inflation below 2% target	Neutral
Reaction	Less clarity in rate path	Negative

### Economic Data

	IST	Previous	Median	SMC's Forecast
EUR CPI Flash Estimate y/y	14:30	1.20%	1.00%	1.00%
USD ADP Non-Farm Employment Change	17:45	102K	150K	150K
USD FOMC Statement	23:30	-	-	-
USD Federal Funds Rate	23:30	2.25%-2.50%	2.00%-2.25%	2.00%-2.25%

## Pivots

Currency	Previous Close	S1	S2	S3	R1	R2	R3
<b>USD/INR (AUG)</b>	69.00	68.91	68.77	68.68	69.14	69.22	69.37
<b>EUR/INR (AUG)</b>	77.08	76.96	76.76	76.64	77.28	77.40	77.59
<b>JPY/INR (AUG)</b>	63.65	63.52	63.29	63.16	63.87	64.01	64.23
<b>GBP/INR (AUG)</b>	84.07	83.78	83.43	83.15	84.42	84.71	85.06

FX Cross INR	CMP	1W	1M
USDINR	68.86	-0.16%	0.09%
EURINR	76.82	-0.02%	-1.01%
GBPINR	83.68	-2.81%	-3.27%
JPYINR	63.43	-0.52%	-0.60%

Global Yields	10Y-Yield	1W(bps)	1M (bps)
India	6.40	2.20	-47.80
US	2.05	-0.60	4.51
Germany	-0.40	-7.54	7.22
UK	0.64	-9.95	-19.66

FX Majors	CMP	1W	1M
EURUSD	1.1156	0.15%	-1.09%
GBPUSD	1.2154	-2.64%	-3.31%
USDJPY	108.56	0.35%	0.69%

Flows	DTD	WTD	MTD
FII's (INR Crs)	-644.59	-4372.63	-15373.06

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



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](mailto: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](http://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 of 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.