

Key Market Theme

- Aggressive loosening policy from RBI may stoke inflation soon.
- US Treasury Secretary re-affirmed that there was “no change” to Washington’s stance on the dollar.
- Sterling gained biggest intraday rise since early May after positive steps to avoid hard-deal brexit.

Macro Analysis

INDIA

Indian Rupee gave-up all the recent gains it made amid rate cut hopes. We do not suspect that RBI will keep repo rate unchanged at 5.75 percent as 25 bps cut is likely on the table in August meet. Meanwhile overnight US navy shot down Iranian drone in the Strait of Hormuz - accounts for 40 percent oil supply globally creates further risk aversion sentiment in Rupee. We still think aggressive loosening policy from RBI may stoke inflation soon which can be the biggest trigger for domestic currency to fall sharply against US dollar.

US

To recap FX intervention by Trump and his Treasury secretary Steven Mnuchin a year ago in an attempt for a weaker dollar was one of the flagship agenda on President table but yesterday Treasury Secretary re-affirmed that there was “no change” to Washington’s stance on the dollar “as of now”, amid mounting speculation over whether the Trump administration will act to weaken the dollar. Mr. Mnuchin said the US “could consider” a change to its dollar policy “in the future” but there was no change at present. Markets odds remains sidelined after such currency valuation comments. However we still suspect any substantial downside risk persists in US dollar.

EUROPE & UK

Forward guidance rate path of ECB policy curve is now heading for a rate-cut in September which fitted with outgoing President Draghi granular approach policy tools which he mentioned to use if adverse contingencies materialized. With economic growth and inflation likely to be lower as we are constantly projecting, re-launch QE this year will euro to much deeper slide than markets are expecting.

Brexit complex rhetoric pushed Pound to 25 months low and further volatility picked-up after deadlock comment by Boris Johnson over Irish backstop. Although Pound retreats from recent lows and jumped to biggest intraday gains since early May as House of Commons accepted to stop Boris Johnson suspending parliament in case of no-deal subject to his official confirmation of PMship. Additionally EU brexit chief negotiators urged for a possible alternative Irish back-stop solutions.

FX Majors	CMP	1W	1M
EURUSD	1.1268	0.00%	-0.88%
GBPUSD	1.2553	-0.18%	-1.49%
USDJPY	107.50	-0.38%	0.16%

FX Cross INR	CMP	1W	1M
USDINR	68.85	0.42%	-1.04%
EURINR	77.58	0.40%	-1.92%
GBPINR	86.43	0.24%	-2.52%
JPYINR	64.03	0.77%	-1.24%

Global Yields	10Y-Yield	1W(bps)	1M (bps)
India	6.38	-23.90	-57.90
US	2.04	0.31	-3.99
Germany	-0.30	5.57	-5.53
UK	0.76	2.50	-8.56

Flows	DTD	WTD	MTD
FIIIs (INR Crs)	-1404.86	-2933.37	-5525.40

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

Economic Data

	IST	Previous	Median	SMC's Forecast
		-	-	-
USD Prelim UoM Consumer Sentiment	19:30	98.20	98.60	98.80

Pivot Levels

Currency	Pivot	S1	S2	S3	R1	R2	R3
USD/INR (JULY)	68.90	68.82	68.64	68.57	69.08	69.15	69.33
EUR/INR (JULY)	77.40	77.30	77.11	77.01	77.59	77.69	77.88
JPY/INR (JULY)	63.81	63.82	63.64	63.65	64.00	63.98	64.17
GBP/INR (JULY)	85.73	85.79	85.37	85.43	86.14	86.09	86.50

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