

Key Market Theme

- Rupee weakened after dollar borrowing plans faded.
- Advanced estimates of second quarter growth in US likely to print 1.8 percent amid lower imports.
- Draghi's dovish move remains muted in euro/dollar exchange rate.

Macro Analysis

INDIA

Indian FM Nirmala Sitharaman's dream to hit the offshore bond markets to borrow dollars is gradually fading after sudden reshuffling in Modi's bureaucratic team.

Mr Subhash Chandra Garg, former finance and economic Secretary and the architecture of offshore borrowings proposal is now moved to Power Ministry. However Mr Garg submitted his voluntary retirement application. Earlier govt has planned to borrow 10bn USD in one go - which is less than 2 percent of GDP via bonds denominated by foreign currencies. However we cannot completely rule-out for absolute elimination of such proposals, although news came out that PMO are not in favor of bonds issuance in foreign currencies but they are supporting for Rupee-denominated overseas sovereign bond issuance.

US

The trade deficit narrowed in June, but only because imports fell by more than exports. We expect net external trade to have a neutral impact on second-quarter GDP growth, which is likely to come in at only around 1.8% annualized. Otherwise, the focus will remain on trade war. The White House said on Wednesday that Robert Lighthizer, the US trade representative, and Steven Mnuchin, the US Treasury secretary, would travel to Shanghai to continue the negotiations starting July 30.

EUROPE & UK

Mario Draghi in his latest monetary policy kept re-financing rate unchanged and further talked about stimulus addition to the economy which is presently worsening abruptly. The euphoria remains muted both in exchange rate and in European equities as well. Since the launch of QE1 in 2015, European stocks hardly performed which can be translated as debt created cannot be proportional to growth. Admittedly euro/dollar exchange rate remains lifted despite Draghi's dovish move as markets were aware of the thin consensus amongst voting members for aggressive holding loosening policy. We suspect euro will find any support of such consensus.

FX Majors	CMP	1W	1M
EURUSD	1.1147	-0.66%	-1.97%
GBPUSD	1.2447	-0.44%	-1.95%
USDJPY	108.62	0.83%	0.67%

FX Cross INR	CMP	1W	1M
USDINR	69.12	0.40%	0.23%
EURINR	77.06	-0.24%	-1.73%
GBPINR	86.03	-0.04%	-1.74%
JPYINR	63.64	-0.41%	-0.42%

Global Yields	10Y-Yield	1W(bps)	1M (bps)
India	6.51	4.50	-36.80
US	2.07	-5.60	0.95
Germany	-0.36	-15.08	-7.89
UK	0.71	-12.66	-13.50

Flows	DTD	WTD	MTD
FII's (INR Crs)	-126.65	-6995.39	-12520.79

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 US Advance GDP q/q	18:00	3.10%	1.80%	1.90%
-	-	-	-	-

Pivot Levels

Currency	Pivot	S1	S2	S3	R1	R2	R3
USD/INR (JULY)	69.02	68.95	68.86	68.79	69.11	69.18	69.27
EUR/INR (JULY)	76.90	76.80	76.64	76.54	77.06	77.16	77.32
JPY/INR (JULY)	63.86	63.80	63.68	63.62	63.98	64.04	64.16
GBP/INR (JULY)	86.20	86.08	85.87	85.76	86.41	86.52	86.73

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