

Key Market Theme

- We are envisaging three rate cuts in 2020 by FOMC against two-rate cuts forecasted in Fed's Dot Plot

Macro Analysis

FX Majors	CMP	1W	1M
EURUSD	1.1272	-0.04%	0.80%
GBPUSD	1.2686	0.10%	0.23%
USDJPY	107.60	-0.73%	-1.83%

FX Cross INR	CMP	1W	1M
USDINR	69.47	-0.08%	-0.26%
EURINR	78.30	-0.15%	0.52%
GBPINR	88.13	0.02%	-0.03%
JPYINR	64.57	0.65%	1.60%

Global Yields	10Y-Yield	1W(bps)	1M (bps)
India	6.85	-12.90	-51.60
US	1.98	-10.75	-41.56
Germany	-0.29	-3.16	-18.42
UK	0.87	5.02	-16.89

Flows	DTD	WTD	MTD
FII's (INR Crs)	-97.05	-462.88	-476.35

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

It is widely anticipated that FOMC participants will revise down their projections for the federal funds rate, after leaving it on hold in June. Nevertheless, we gauged earlier that their new projections will point to the monetary easing that we are envisaging in 2020. So we think that the 10-year Treasury yield has more to fall from the current level sub-2 percent level seen last in September 2017

The projections of FOMC participants were last published in December. At the time, the median projection for the federal funds rate implied the need for two 25bps hikes in 2019 and another one in 2020. Since early January, though, Fed officials have adopted a patient approach. Combined with the recent weakness of US economic data, yesterday FOMC participants signaled no interest rate cut this year but two cuts in 2020. The so-called dot-plot in which FOMC member's plot their forecasts for interest rates showed one official indicated one cut this year, while seven officials indicated two. The median remained at 2.4 percent. Additionally rate-setters mentioned that it would "act as appropriate to sustain the expansion" and would "closely monitor the implications of incoming information for the economic outlook".

Since the previous meeting in May in which Fed left rates unchanged, Trump has triggered his trade conflicts with China, given Japan and Europe six months to reach a trade agreement with the United States or face auto tariffs. Trade tensions have escalated uncertainty among companies, investors and business investment. While consumer spending remains upbeat, factory activities is slowing and job growth has shown early signs of moderating.

That's feed our forecast that Emerging currencies will not get the material benefit via capital flows amid trade tensions which turns Rupee to remains subdued against US Dollar. We project our view that Rupee will fall sharply towards 72.00 by year end. Although we agree with investors that the FOMC will leave the federal funds rate unchanged in 2019; we think that they are underestimating the amount by which it will be cut in 2020. In our view, the lagged effect of previous monetary tightening and fading fiscal stimulus will take a toll on the economy, prompting the FOMC to reduce the rate by 25bps on three occasions in the first half of next year.

Economic Data

	IST	Previous	Median	SMC's Forecast
GBP BOE Interest Rate Decision	16:30	0.75%	0.75%	0.75%
-	-	-	-	-

Pivots

Currency	Previous Close	S1	S2	R1	R2
USD/INR (JUNE)	69.78	69.72	69.55	69.93	70.11
EUR/INR (JUNE)	78.29	78.10	77.92	78.32	78.50
JPY/INR (JUNE)	64.44	64.40	64.23	64.60	64.77
GBP/INR (JUNE)	87.88	87.66	87.47	87.89	88.08

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