FX Weekly Monitor

A Comprehensive analysis of Macro-economic events and FX Rates moves

For the week ending 5th Feb, 2010

INDIA: RBI kept policy rates unchanged, raised CRR by 75 bp

The RBI raised the Cash Reserve Requirement from 5 % to 5.75% last week beating the market forecasts of a 50 bp rise. The central bank however kept policy rates (Repo and Reverse Repo) steady as expected by the market participants. The three quarters of a percentage point rise is expected to absorb Rs 36,000 crore out of the system

Macroeconomic and Monetary Developments: Third Quarter Review 2009-10 by RBI

- Sharp deceleration in the growth of **private consumption demand to 1.6 per cent** in the first quarter of 2009-10 - in addition to subdued growth in investment demand - had emerged as the key constraint to a faster recovery in GDP growth
- **Investment demand**, in terms of growth in gross fixed capital formation, also exhibited a growth of 7.3 per cent, which is the highest in the last four quarters. Adjusted for the decline in inventories in the second quarter, however, the growth was moderate.
- In the second quarter of 2009-10, **government consumption expenditure increased by 27 per cent**, which is partly on account of the payment of arrears relating to the Sixth Pay Commission Award.
- Merchandise **exports registered a positive growth of 18.2 per cent** in November 2009 after a phase of decline over thirteen consecutive months and the pace of decline in imports also moderated significantly to 2.6 per cent.
- Due to allocation of SDRs by the IMF and purchase of gold by the Reserve Bank from the IMF, the level and composition of the country's foreign exchange reserves have changed in the recent period. It increased from **US$ 252 billion at end-March 2009 to US$ 285.2 billion as on January 15, 2010**.
- Signs of resumption in capital inflows that were evident in the first quarter of 2009-10, improved significantly in the second quarter. Latest information on specific components of capital flows suggests that even in the third quarter of 2009-10, net inflows sustained the revival.
- On the component side of money growth, **deposit growth of scheduled commercial banks at 16.8 per cent was lower than the 18.0 per cent** indicative projection in the Second Quarter Review of Monetary Policy 2009-10. There was a noticeable shift in the composition of deposits - growth in time deposits decelerated, partly reflecting the decline in time deposit interest rates during the year.
- Inflation emerged as a major concern during the third quarter, dominated by significant supply factors. On year on year basis, **WPI headline inflation in December 2009 was at 7.3 per cent, whereas WPI inflation excluding food articles was 2.1 per cent,** which suggests the concentrated nature of the inflation so far. Food items (i.e. primary and manufactured) with a combined weight of 27 per cent in the WPI basket have exhibited 21.9 per cent increase in prices.

According to the Reserve Bank's Professional Forecasters Survey conducted in December 2009, the outlook for 2009-10 growth has been **revised upwards from 6.0 per cent to 6.9 per cent.**

The growth of private consumption expenditure is a concern for the economy. The market is discounting a double digit number and central banks inability to control food inflation will put pressure on the growth. The Indian economy is however better placed than advanced economies.

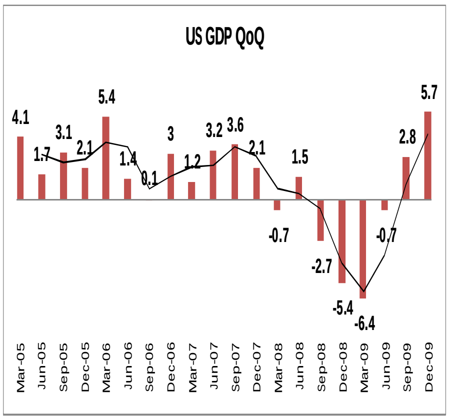
We expect inflation numbers to breach above 8.5% by March 2009. In the coming months, we may see some hawkish stand from the central bank.

UNITED STATES: FOMC a bit hawkish this time, GDP numbers show an unexpected jump.... OBAMA Budget on Monday this week

The Federal Open Market Committee voted 9-1 to keep the target federal-funds rate for interbank lending in the range of zero to 0.25%, repeating its statement that the rate would stay at a record low for an "extended period."

The FOMC removed a sentence from its statement that has been in place since April 2009. The statement that the economy is "likely to remain weak for a time," was changed to "the pace of economic recovery is likely to be moderate for some time." The statement noted the U.S. economy has continued to "strengthen," which is more upbeat than the December statement.

In a major event released on Friday last week, the commerce department showed US Real GDP grew at an annual rate of 5.7% in the fourth quarter of 2009, after a 2.2% increase in the prior quarter. Inventories made the largest contribution (+3.4%) to real GDP in the fourth quarter, followed by exports (+1.9%) and consumer spending (1.4%). The large contribution from inventories is a one-off event, with a repeat story is unlikely in 2010. In the fourth quarter, liquidation of inventories was significantly smaller than the prior quarter (-$33.5 billion vs. -$139.2 billion in Q3) as spending improved in the economy. Real final sales advanced at an annual rate of 2.2% in the fourth quarter vs. 1.5% in the third quarter. On a year-to-year basis, real final sales held nearly steady after four consecutive declines.



The existing homes sales data released for the month of December showed a reading of 5.45K compared to 6.54K last month. New Home Sales read at 342K from a revised 370K in November. The New Home sales were the lowest level since March 2009.

Obama's budget proposal for 2011, to be released on Monday, will predict a narrowing of the deficits to $700 billion by 2013 before they gradually rise back to $1 trillion by the end of the decade. He will submit his spending blueprint for the 2011 fiscal year that begins Oct 1 and runs through Sep 30 next year.

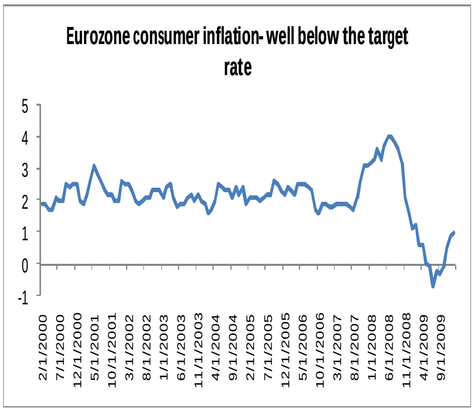
EUROZONE and UK

The German IFO business expectation index released last week was better than expected. The index for the month of Jan reads at 100.6, compare to a reading of 98.9 in December. The unemployment rate for the month of December reached 10% compared to a 9.9% in Nov 2009.

The euro zone's annual inflation rate rose to an 11-month high of 1.0% in January from 0.9% the previous month, but remains well below the European Central Bank's target.

The ECB, which aims to keep inflation just below 2% over the medium term, has forecast that inflation will remain below 2% throughout this year. The central bank has held its main interest rate steady at a record low of 1% since May last year and signaled that its planned withdrawal of stimulus measures would be gradual.

The Euro zone area is still under the issue of Greece pubic finance. Greece has been hit hard on international markets, with bond yields soaring and shares plummeting, after the country's new Socialist government revealed in October that its budget deficit was twice as big as previously announced and more than four times the euro zone ceiling of 3% of GDP. Concerns that Athens may not be able to service its debt have put pressure on the euro and raised questions over whether fellow euro zone member states would come to Greece's rescue.



Greece is seeking EU approval for an austerity plan it presented this month to reduce its budget deficit to below 3% of gross domestic product (GDP) by 2012 from 12.7% in 2009 and avoid a debt crisis seen as a threat to the euro zone.

In other developments, ECB data on Friday showed bank lending to euro zone business contracting at an ever faster pace, while banks continued to tighten credit standards. Lending to non-financial corporation's contracted at an annual rate of 2.3 per cent in December, against 1.9 per cent in November.

From the UK, the Office for National Statistics said U.K. GDP grew 0.1% in the fourth quarter compared with the third quarter of last year, although the year-on-year measure showed a fall of 3.2%.

Howver, leading credit ratings agency, Standard & Poor's (S&P), has downgraded Britain's banks saying that the weak UK economy will continue to hinder the credit profile of the UK banking sector. The credit-rating determines the cost of borrowing on international financial markets.

Placing the UK's banking system in Group 3, the rating major said this action was driven by the country's weak economic environment, the reputational damage that has been experienced by the banking industry, and the high dependence on state-support programmes.

JAPAN- exports logged their first YoY increase, BOJ kept rates steady

Last week's December trade report showed that Japanese exports logged their first YoY increase since the events of September 2008. The data basically confirmed an ongoing trend – a ninth consecutive seasonally adjusted gain. Leading indicators in the US (ISM) and China (PMI) suggest the strong export trend will continue. Notably, figures for 2009 as a whole show that China surpassed the US for the first time (on a calendar year basis) as Japan's largest export partner. However, Japan's economy is far from achieving selfsustained growth as the export-led recovery fails to spur spending at home, according to Kazuo Momma, the Bank of Japan's top economist.

The Bank of Japan projects the country will see at least three years of price declines and kept its key interest steady at 0.1 percent last week in an effort to combat deflation and help the nation's economy to recover. In an interim review of its semiannual report on economic and price conditions released in October, the BOJ, however, said it now predicts slightly milder deflation than it thought three months earlier due mainly to the impact of higher crude oil prices. **The BOJ revised upward its projection for the consumer price index excluding volatile perishable foods for fiscal 2010 from the previously projected year-on-year fall of 0.8 percent to a 0.5 percent decline.**

FX MOVES LAST WEEK

USDINR Feb MCXSX- Range bound between 46.20-46.54

Pair	Open	High	Low	Close	Net Change	% Change
USDINR	**46.15**	**46.53**	**45.84**	**46.17**	**-0.04**	**-0.0866**

The USD INR remained range bound last week. The market has been consolidating between 46.20 to 46.54 levels and a break of the same will confirm a clear cut direction. Short term trend remains weak for the pair as the term currency is likely to see some strong support from recovery of FII inflows and probability of a rate hike in coming months.

Spot EURINR- weak below 65.00

Pair	Open	High	Low	Close	Net Change	% Change
EURINR	**65.429**	**65.521**	**63.871**	**63.973**	**-1.456**	**-2.2253**

The EURINR pair dropped sharply last week to post a low of 63.87 from a high of 65.42. The con concern of Greece's public finance put pressure on the Euro. The pair closed the week at 63.97.

The bearish trend is expected to sustain as long as the market holds below the 65 level and a possible recovery can be expected on sustained trading above the level.

Spot GBPINR- break of 72.44 will confirm declines

Pair	Open	High	Low	Close	Net Change	% Change
GBPINR	74.444	75.407	73.59	73.65	-0.78	-1.048

The Cable reverses the earlier session gains against the Indian rupee proxing the Euro. The pair declined from a high of 75.4070 to 73.5900. The market settled the week at 73.6500, few pips above the week's low. The market is presently holding a crucial support of 72.44 and a break of the same should send rates lower in the short term. We see a range of 74.50 to 73 this week.

Spot JPYINR- sideways trade below 52.1500.

Pair	Open	High	Low	Close	Net Change	% Change
JPYINR	0.5115	0.5211	0.5072	0.5133	0.0017	0.3323

The pair remained range bound last week with moves in the range of 52.1500 to 50.7200. The market closed the week indecisive at 51.0500. The pair is expected to trade sideways below the resistance of 52.15 and a break above the same may see rates approaching 0.5250.

Recommendations for the week

Pair	Recommendation / View
USDINR Feb MCSX	Sell at 46.75-46.80 targeting 46.10 with stoploss at 47.05
EURINR Feb MCXSX	Sell at 64.90-65 targeting 64 with stoploss above 65.20 levels. A major decline is less likely from this level
GBPINR Feb MCXSX	Sell at 74.50-74.60 range targeting 73.50 with stoploss above 75. The market if breaks the support of 73.30 then rates may decline towards 72.40 levels.
JPY INR Feb MCXSX	The market is facing stiff resistance at 52.15 levels. Break of the same bring some bullish momentum in the market. Buying is recommended on break of the said resistance level

Economic data for the week

Date	Country	Event name	Consensus	Previous
09:00 GMT	EMU	Purchasing Manager Index Manufacturing	52	51.6
02-01-2010 09:30 GMT	UK	M4 Money Supply (MoM)	52	0.10%
02-01-2010 09:30 GMT	UK	M4 Money Supply (YoY)	52	9.20%
02-01-2010 09:30 GMT	UK	Mortgage Approvals	62.00K	60.52K
02-01-2010 09:30 GMT	UK	Purchasing Manager Index Manufacturing	54.1	54.6
02-01-2010 13:30 GMT	**US**	**Core Personal Consumption Expenditure – MOM**	**0.10%**	**0.00%**
02-01-2010 13:30 GMT	US	Core Personal Consumption Expenditure (YoY)	1.50%	1.40%
02-01-2010 13:30 GMT	US	Personal Consumption Expenditure Deflator	2.20%	1.50%
02-01-2010 13:30 GMT	US	Personal Consumption Expenditures (MoM)	0.20%	0.50%
02-01-2010 13:30 GMT	US	Personal Income (MoM)	0.30%	0.40%
02-01-2010 15:00 GMT	US	Construction Spending (MoM)	-0.40%	-0.60%
02-01-2010 15:00 GMT	US	ISM Manufacturing	55.5	55.9
02-02-2010 09:30 GMT	UK	PMI Construction	4.00%	47.1
02-02-2010 10:00 GMT	EMU	Producer Price Index (MoM)	4.00%	0.10%
02-02-2010 10:00 GMT	EMU	Producer Price Index (YoY)	4.00%	-4.40%
02-02-2010 15:00 GMT	US	Pending Home Sales (MoM)	4.00%	-16%
02-02-2010 21:30 GMT	US	API Crude Oil Inventories	4.00%	-2.2M
02-02-2010 22:00 GMT	US	ABC/Washington Post Consumer Confidence	4.00%	-48
02-03-2010 00:01 GMT	UK	Nationwide Consumer Confidence	4.00%	73
02-03-2010 08:55 GMT	Germany	Purchasing Manager Index Services	4.00%	52.7
02-03-2010 09:00 GMT	UK	Purchasing Manager Index Services	4.00%	56.8
02-03-2010 09:00 GMT	EMU	Purchasing Manager Index Services	4.00%	53.6
02-03-2010 10:00 GMT	EMU	Retail Sales (MoM)	4.00%	-1.20%
02-03-2010 10:00 GMT	EMU	Retail Sales (YoY)	4.00%	-4%
02-03-2010 12:00 GMT	US	MBA Mortgage Applications	4.00%	-10.90%
02-03-2010 13:15 GMT	US	ADP Employment Change	4.00%	-84K
02-03-2010 15:00 GMT	US	ISM Non-Manufacturing	4.00%	50.1
02-03-2010 15:30 GMT	US	EIA Crude Oil Stocks change	4.00%	-3.9M
02-04-2010 11:00 GMT	Germany	Factory Orders n.s.a. (YoY)	4.00%	1.80%
02-04-2010 11:00 GMT	Germany	Factory Orders s.a. (MoM)	4.00%	0.20%
02-04-2010 12:00 GMT	UK	BoE Interest Rate Decision	0.50%	0.50%
02-04-2010 12:45 GMT	EMU	ECB Interest Rate Decision	1%	1%
02-04-2010 13:30 GMT	US	Continuing Jobless Claims	1%	4602K
02-04-2010 13:30 GMT	US	Initial Jobless Claims	1%	470K
02-04-2010 13:30 GMT	US	Nonfarm Productivity	1%	8.10%
02-04-2010 13:30 GMT	US	Unit Labor Costs	1%	-2.50%
02-04-2010 15:00 GMT	US	Factory Orders	1%	1.10%

02-05-2010 00:00 GMT	UK	Halifax House Prices (MoM)	1%	1%
02-05-2010 00:00 GMT	UK	Halifax House Prices (YoY)	1%	1.10%
02-05-2010 05:00 GMT	Japan	Coincident Index	1%	96
02-05-2010 05:00 GMT	Japan	Leading Economic Index	1%	90.7
02-05-2010 11:00 GMT	Germany	Industrial Production s.a. (MoM)	1%	0.70%
02-05-2010 11:00 GMT	Germany	Industrial Production s.a. w.d.a. (YoY)	1%	-8%
02-05-2010 12:00 GMT	Canada	Net Change in Employment	1%	-2.6K
02-05-2010 12:00 GMT	Canada	Unemployment Rate	1%	8.50%
02-05-2010 13:30 GMT	US	Average Hourly Earnings (MoM)	1%	0.20%
02-05-2010 13:30 GMT	US	Average Hourly Earnings (YoY)	1%	2.20%
02-05-2010 13:30 GMT	US	Nonfarm Payrolls	15K	-85K
02-05-2010 13:30 GMT	US	Unemployment Rate	10%	10%
02-05-2010 20:00 GMT	US	Consumer Credit	10%	-$17.5B

DISCLAIMER