

Current Scenario

In the recent past, rupee has lost momentum and depreciated more than 1% i.e. from 66.30 to 67.00. On domestic front, industrial output fell 2.4% in July after a spurt in May and June, much due to a decline in manufacturing output. However, retail inflation slowed 5.05% in August led by easing food prices especially vegetables. Next week market participants will be keenly watching the Fed monetary policy; expectation is that the officials may refrain from raising rates at September meeting. Thus, rupee strengthen against the US dollar could be limited to 65.80-66 levels in the near future. Technically, the pair has breached the downward sloping trendline on upside. However, it could find resistance near 67.25 followed by 68.00 levels. This indicates that USDINR could move in the range of 66.50-68.00 levels in next 1.5 months.

Strategy

In the prevailing scenario, although the pair is expected to move in consolidation, it is imperative for importers to enter into options in order to protect themselves from sudden movements in case of any adverse global developments. Importers can sell a call option and put option with a same strike price of 67.50. There is a **net premium inflow of 92 paisa**. Below is the Payoff table.

Strategy suggested for expiry October 2016

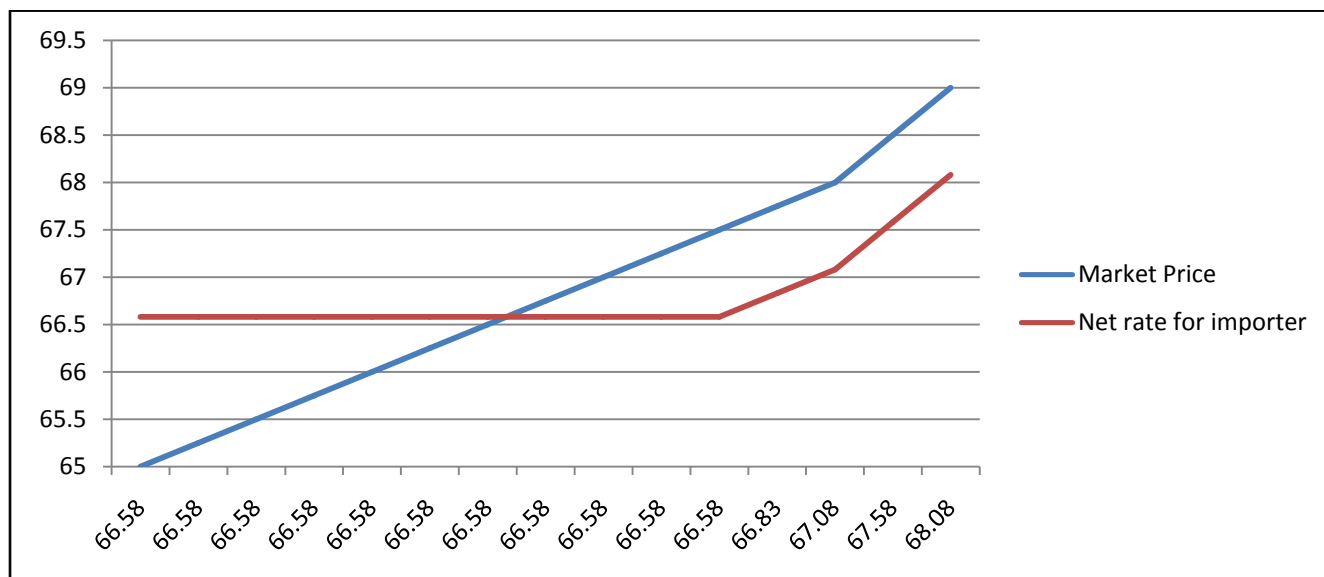
Spot rate on 15th September 2016: 66.88

<u>Short Straddle Strategy</u>			
		Strike Price	Premium (In Paisa)
Sell	Call	67.5	0.36
Sell	Put	67.5	0.56
		Premium Receivable	0.92

Pay-Off Table:

Market Price	Sold call @ 67.50	Sold put @ 67.50	Net payoff	Net rate for importer	Fwd rate
65	0.36	-1.94	-1.58	66.58	67.4
65.25	0.36	-1.69	-1.33	66.58	67.4
65.5	0.36	-1.44	-1.08	66.58	67.4
65.75	0.36	-1.19	-0.83	66.58	67.4
66	0.36	-0.94	-0.58	66.58	67.4
66.25	0.36	-0.69	-0.33	66.58	67.4
66.5	0.36	-0.44	-0.08	66.58	67.4
66.75	0.36	-0.19	0.17	66.58	67.4
67	0.36	0.06	0.42	66.58	67.4
67.25	0.36	0.31	0.67	66.58	67.4
67.5	0.36	0.56	0.92	66.58	67.4
67.75	0.11	0.81	0.92	66.83	67.4
68	-0.14	1.06	0.92	67.08	67.4
68.5	-0.64	1.56	0.92	67.58	67.4
69	-1.14	2.06	0.92	68.08	67.4

PAYOFF GRAPH:-



Since USDINR likely to consolidate between the range of 66.50-68.00 in near term, it is advisable for importer to enter in the option strategy. Through this strategy the importer will be able to protect the upside currency risk till 68.00. Importers are assured a rate of 66.58 till 67.50 levels. Even if it moves till 67.75 and 68.00 importers would get a rate of 66.83 and 67.08 which is better than forward rate of 67.40.

About us

IFA Global is one of India's leading global Forex and treasury consulting company. We help companies explore extra-ordinary opportunities, manage and sustain growth, and maximize their revenue by minimizing the risks. Since 2005, we have been a trusted partner in Forex Consulting, Treasury Management and Forex Operational Excellence. We have always believed that every client needs a customized offering and we have a long history of serving mandate clients and tailoring the offering to their needs. We provide the right people and the right skill sets to ensure that our clients' solutions are specifically tailored and done right the first time.

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