



FX Partner You Can Trust

FOREIGN EXCHANGE OUTLOOK

WEEKLY RESEARCH REPORT

07 March 2020

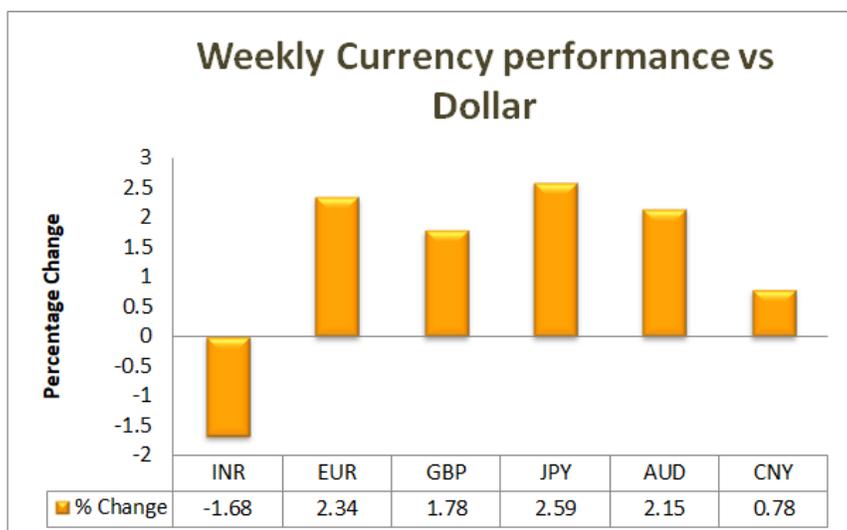
Key Highlights:

Trade impact of Coronavirus for India estimated at \$348 million

Fed makes emergency rate cut by 50bps, but markets extend slide

Oil plunges 10% after OPEC deal collapses

Gold climbs to 7-yr high as virus woes boost safety demand



FX Market Update:

USDINR Weekly performance & Outlook



Indian currency continued to see a carnage led by the announcement of news cases of coronavirus globally as well on the domestic front. FIIs turned net sellers and domestic equity markets extending their losing streak, weighed on the currency. In the past few sessions the move in Rupee has been largely offshore driven. The reason for USDINR being bid in offshore is that

a prolonged period of low volatility had caused investors with exposures to Indian assets to leave foreign currency risk unhedged. These investors on first signs of panic have scampered to put on hedges. The offshore bid has percolated to onshore. USDINR spot onshore has been constantly bid as arbitrageurs have been seizing the gap between offshore and onshore forward points which widened to 40paise yesterday. India's central bank said it was monitoring global & domestic developments closely and is ready to take appropriate actions. RBI's decision to place Yes Bank under a moratorium and take over its board also weighed on market sentiment. Oil extended its slide from the lowest close in more than two years as Russia is not on board with the OPEC plan for production cuts to offset demand destruction caused by the Coronavirus. The country's foreign exchange reserves reached a new record level of \$ 481.54 billion with a huge increase of \$ 5.42 billion in the week ended 28 February. This is the 23rd consecutive week when foreign exchange reserves have increased. A part of it is also because of revaluation gains as other currencies have strengthened against USD.

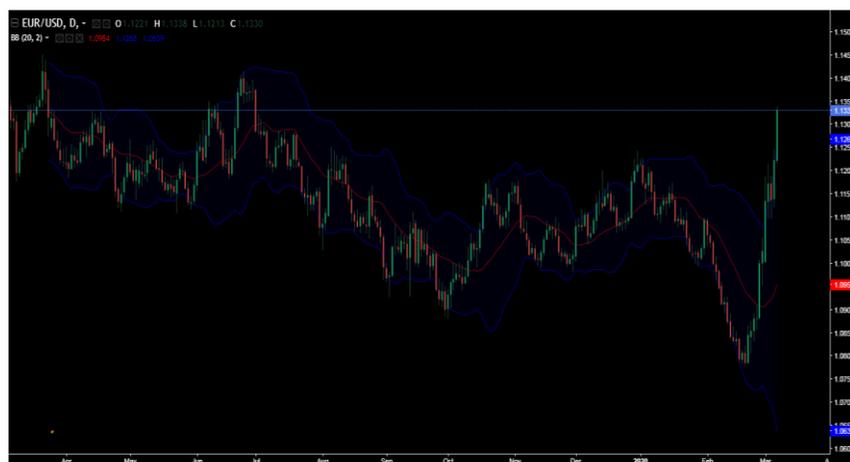
Outlook

We believe if the global risk sentiment holds up, the RBI has sufficient arsenal to manage the volatility in Rupee. However, if Coronavirus induced disruptions exacerbate, we may see a follow up move in USDINR to new all time highs. The entire hypothesis that India is relatively immune to Coronavirus will go for a toss if more cases come out. If the disease spreads, it would compound the challenges for the government and the central bank who are already grappling with the weakest economic growth in 7 years. In the current scenario, with considerable uncertainty around, we would advise our exporter clients as follows:

- 1) Clients who are below their hedge ratio as per policy can add hedges by booking forwards at key strategic technical levels i.e. 73.60 and 74.10 and take the ratio up slightly at 50 paise gaps.
- 2) Clients who can hedge through options should add Risk Reversals around 73.60, 74.10, 74.50 and book through put options plain vanilla say 74 to protect cost if Rupee depreciates till there.
- 3) Clients who are concerned about their underlying exposures being cancelled or postponed due to Coronavirus induced disruptions are advised to buy out of the money puts as an insurance say at 75 they should buy 74 puts or take long term premium paying options where risk reward is 1:3 plus.
- 4) Clients who are hedged completely are advised to keep utilizing the contracts and not over hedge.

Importers are advised to hedge their exposures through Buy side Risk Reversals (buy calls sell puts). Those who do not have the option of hedging through RRs can add hedges on dips to 72.90 and 72.60. On break and close below 72.40 importers are advised to go slow on their hedges and hedge only through RRs

EURUSD:



The Euro was among the top performers this week; hitting fresh yearly highs. The dollar is feeling the brunt of the selling pressure as coronavirus cases in the US rose with California declaring state of emergency. Markets are pricing in a 10bp rate cut from the EU end from the upcoming policy meeting. The ECB in it's policy on 12th March is likely to take measures to talk down the Euro. A strong Euro would further weigh on the

already weak Eurozone economy. With ongoing concerns amid the lockdown in China, the possible impact on the European economy is significant as the European Union has significant exposure to China. German retail sales bounced back in January after plunging in the previous month, data showed, suggesting that private consumption helped prop up growth. Considering, the bullish momentum to continue in EURUSD, outlook for the EURINR remains bullish. Any uptick towards 84.00 is suggested for partial long term export booking.

GBPUSD:



The Pound has strengthened on broad USD weakness. However, it was unable to take full advantage of this downfall as post-Brexit talks reached roadblocks after a more promising start. UK budget is due next week. A raft of fiscal stimulus measures in the form of tax cuts and additional government spending to boost the economy are anticipated.

This is likely to outweigh a 25bps cut which is already factored in. Brexit negotiations got back underway this week and things were no better as both sides failed to find common ground once more. Negotiators are targeting to have a framework in place by June. The reason for this is that June is also the final month when Britain can request an extension to the transition period. Any uptick towards 97.00 is suggested for partial long term export booking. On the data front, UK manufacturing sector expanded at the fastest pace in ten months in February as domestic demand made a comeback.

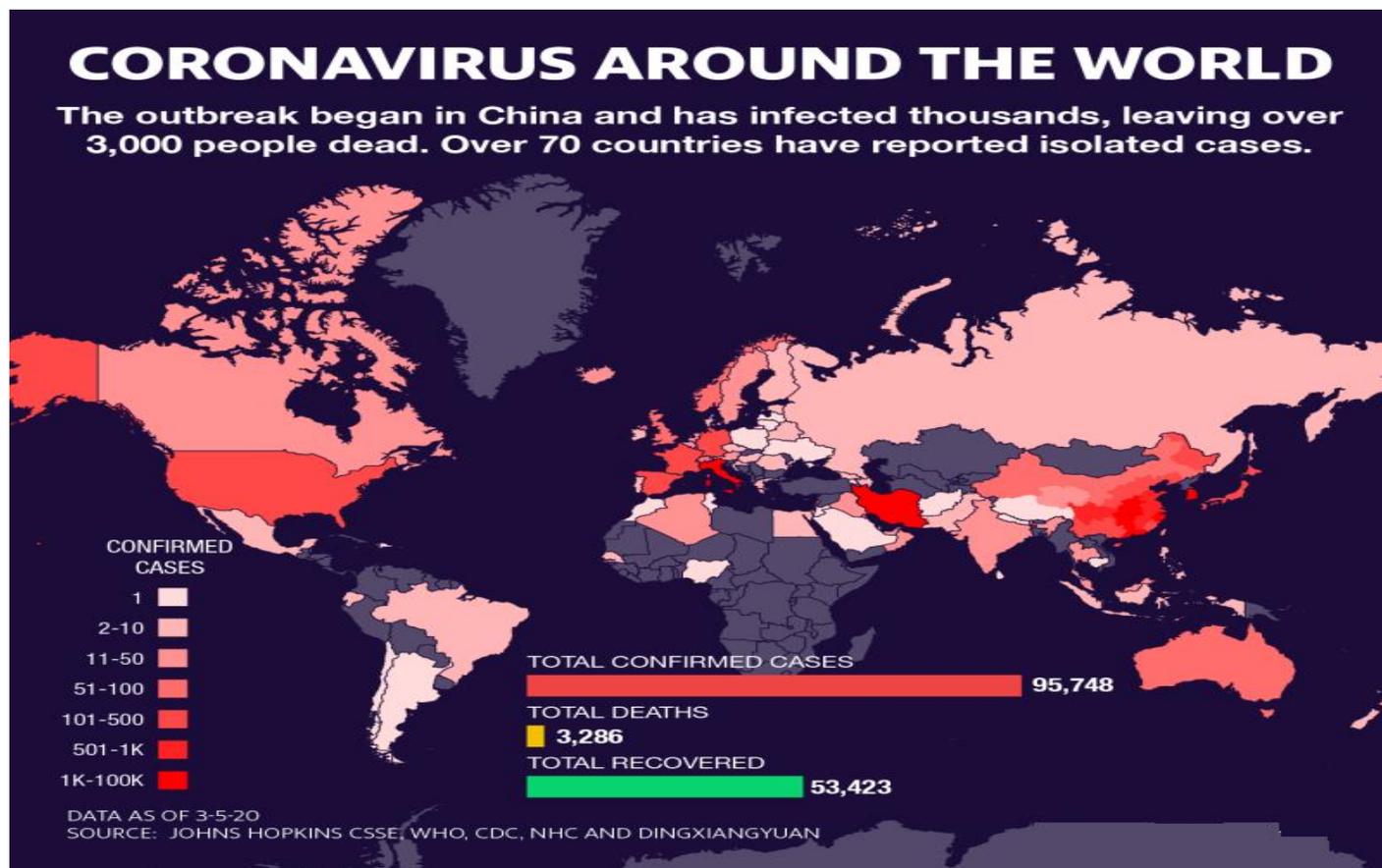
Dollar Index:



In a surprise out of policy move, the US Federal Reserve cut the overnight federal funds rate by 50bps. The next FOMC rate decision is due on 18th March. The coordinated action of global central bankers brings back memories of the historic plaza accord of 1985 when major central banks agreed to let the USD weaken to spur one

of the biggest engines of global growth. However, how effective a monetary policy action could be in times like these is debatable. It may do little to stabilize the real economy if Coronavirus induced disruptions exacerbate. It may ensure a speedy recovery to normalcy if the virus relents. US Treasury yields dropped to a new record low (0.76%), spurring yet another global

rally in bonds in a tumultuous week as worries mount over the spread of the COVID-19 in the US. On the data front, the Non-Farm Payroll (NFP) data for February was much better than expected while the unemployment rate declined to 3.5% in February from 3.6% in January. Average hourly earnings came in line with expectations at 0.3%.



Indian market at glance		Weekly Range		Bias
USDINR	73.79	USDINR	73.00 – 75.00	Bullish
Sensex	37576(-894)	EURUSD	1.1200 - 1.1450	Bullish
Nifty	10989(-280)	GBPUSD	1.2900 - 1.3200	Bearish
India 10Y Bond	6.18%	USDJPY	104.00 – 106.00	Bearish
1Y MIFOR	5.09%	DXY	95.00 - 96.80	Bearish

Upcoming events next week:-

Day	Time	Cur.	Event	Forecast	Previous
Mon	5:20	JPY	GDP (QoQ) (Q4)		-1.60%
Mon	12:30	EUR	German Industrial Production (MoM) (Jan)	1.60%	-3.50%
Mon	12:30	EUR	German Trade Balance (Jan)		19.2B
Tue	All Day	INR	Holiday on account of HOLI		
Tue	7:00	CNY	CPI (YoY) (Feb)	4.90%	5.40%
Tue	15:30	EUR	GDP (YoY) (Q4)	0.90%	0.90%
Wed	15:00	GBP	GDP (MoM)		0.30%
Wed	15:00	GBP	Manufacturing Production (MoM) (Jan)	0.50%	0.30%
Wed	18:00	USD	Core CPI (MoM) (Feb)	0.20%	0.20%
Thu	15:30	EUR	Industrial Production (MoM) (Jan)	1.10%	-2.10%
Thu	17:30	INR	CPI (YoY) (Feb)	7.40%	7.59%
Thu	17:30	INR	Industrial Production (YoY) (Jan)	1.80%	-0.30%
Thu	18:00	USD	PPI (MoM) (Feb)		0.50%
Thu	18:15	EUR	Deposit Facility Rate (Mar)	-0.50%	-0.50%
Thu	18:15	EUR	ECB Interest Rate Decision (Mar)		0.00%
Fri	12:30	EUR	German CPI (MoM) (Feb)	-0.60%	0.40%
Fri	13:15	EUR	French CPI (MoM) (Feb)	0.00%	-0.40%
Fri	19:30	USD	Michigan Consumer Sentiment (Mar)	97	101

Headquarters:-

India Forex Advisors Pvt. Ltd.
H-125, 1st Floor, Kanakia Zillion,
LBS Marg, CST Road Junction,
Bandra Kurla Complex Annexe, Mumbai-400070
Research team contact no: +91 8879390076
Website: www.ifaglobal.net

For further Information on FX Treasury advisory and outsourcing,

Contact: Mr. Anurag Murarka at +918879008151 or you can mail us on: info@ifaglobal.net

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