IIFL SECURITIES

Daily Currency Report

22 Dec 2023

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Currency Update

Currency	Expiry	Open	High	Low	Close	% Change	Volume	Open Int.	Trend
USD-INR	27 Dec 2023	83.2025	83.2975	83.1925	83.2675	0.07	1370623	3584797	Positive
	29 Jan 2024	83.2700	83.3750	83.2700	83.3475	0.08	880570	1587163	Positive
	27 Feb 2024	83.3400	83.4550	83.3375	83.4275	0.09	133751	201741	Positive
EUR-INR	27 Dec 2023	91.0700	91.3525	91.0600	91.2400	0.19	98142	159636	Positive
	29 Jan 2024	91.2425	91.4500	91.2425	91.4050	0.18	57453	137471	Positive
	27 Feb 2024	91.3800	91.5900	91.3800	91.5625	0.18	13904	33066	Positive
GBP-INR	27 Dec 2023	105.1100	105.3775	105.0375	105.3150	0.03	154960	181471	Positive
	29 Jan 2024	105.1600	105.4775	105.1575	105.4100	0.01	87530	106561	Positive
	27 Feb 2024	105.4550	105.5425	105.2400	105.4975	0.03	11820	17200	Positive
JPY-INR	27 Dec 2023	58.2250	58.3475	58.1375	58.2875	0.29	84685	51551	Positive
	29 Jan 2024	58.5850	58.7050	58.5125	58.6500	0.28	28187	33893	Positive
	27 Feb 2024	58.9450	59.0575	58.8650	59.0000	0.27	6659	6722	Positive

International Currencies

Currency	Last	% Change	Currency	Last	% Change
EURUSD	1.0999	-0.06	USDCNY	7.1483	0.12
GBPUSD	1.2684	0.01	USDMXN	17.0419	0.04
USDJPY	142.4400	0.26	USDRUB	92.9000	0.00
USDCAD	1.3283	-0.01	EURGBP	86.7031	-0.08
USDAUD	1.4731	0.10	EURJPY	156.6600	0.20
USDCHF	85.6400	0.01	GBPJPY	180.6700	0.28

Commodity Market Update

Commodity	Close	% Change
Gold	62503.00	0.14
Silver	75426.00	-0.08
Crudeoil	6134.00	-0.65
Nat. Gas	215.30	4.41
Copper	726.00	0.05
Zinc	223.50	-55.79

Global Indices

Indices	Close	% Change
SENSEX	70865.1	0.51
NIFTY 50	21255.05	0.50
DOWJONES	37404.35	0.87
NASDAQ	14963.87	1.26
S&P 500	4746.75	1.03
FTSE	7694.73	-0.27
NIKKEI	33211.6	0.21
CAC 40	7571.4	-0.16

Economical Data

Time	Zone	Data
12:30	EUR	German Import Prices m/m
12:30	GBP	Retail Sales m/m
12:30	GBP	Current Account
12:30	GBP	Final GDP q/q
12:30	GBP	Revised Business Investment q/q
19:00	USD	Core PCE Price Index m/m
19:00	USD	Core Durable Goods Orders m/m
19:00	USD	Durable Goods Orders m/m

Generic Bond Yields

India G-Sec 10Y		US 10Y		Germany 10Y		UK 10Y	
7.184	+0.00%	3.898	+0.05%	1.974	-0.20%	3.558	+0.82%

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USDINR

Expiry	Close	Resist 2	Resist 1	Pivot	Support 1	Support 2
27-Dec-23	83.2675	83.36	83.31	83.25	83.20	83.14

Commentary

Yesterday, USDINR experienced a marginal uptick of 0.07%, closing at 83.2675. The rise was attributed to increased demand for the dollar from local oil companies, exerting pressure on the Indian rupee. The anticipation of GDP and labor market data from the United States further influenced trader sentiment. Concerns over inflation in India were highlighted in the Reserve Bank of India's (RBI) monthly bulletin, emphasizing the need to bring down headline retail inflation to the medium-term target of 4% to support sustainable growth. The November retail inflation rate in India exceeded market expectations, reaching 5.55%, prompting RBI Governor Shaktikanta Das to stress the importance of making the 4% target a durable achievement. The RBI's projection of CPI inflation averaging 4% in July-September 2024 indicates the central bank's commitment to price stability. In October, the RBI intervened in the foreign currency market by selling $310 million, as revealed in its monthly bulletin. Additionally, the surge in India's outstanding bonds traded in the market, reaching $2.47 trillion in the September quarter, underscores the resilience of its financial markets. Looking at technical aspects, the market witnessed short covering with a 2.89% drop in open interest, settling at 3,691,473. The USDINR pair is currently supported at 83.2, and a breach could test 83.14 levels. On the upside, resistance is anticipated at 83.31, with a potential move above leading to a test of 83.36.

Snapshot

- USDINR trading range for the day is 83.14-83.36.
- Rupee declined as dollar demand from local oil companies weighed
- The Reserve Bank of India’s (RBI) monthly bulletin emphasized a strong warning on inflation.
- Indian headline retail inflation rate rose 5.55% in November, worse than the market expectation.

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EURINR

Expiry	Close	Resist 2	Resist 1	Pivot	Support 1	Support 2
27-Dec-23	91.2400	91.51	91.38	91.22	91.09	90.93

Commentary

EURINR closed higher by 0.19% at 91.24, driven by traders evaluating economic and monetary policy prospects in the Eurozone. European Central Bank (ECB) Vice-President Luis de Guindos emphasized that it is premature to discuss interest rate cuts, indicating a need for stable inflation convergence to the 2% target before easing monetary policy. However, France's Francois Villeroy de Galhau suggested the possibility of rate decreases in the coming year, aiming to bring inflation back to 2% by 2025. In contrast, Greece's Yannis Stournaras advocated for a more conservative approach, insisting on inflation remaining below 3% by mid-next year before considering a reduction in borrowing costs. Concerns over potential inflation growth linger, especially with the recent attacks on ships in the Red Sea by Houthi militants in Yemen. While the European Central Bank is monitoring the situation, the net impact on inflation remains uncertain, according to ECB chief economist Philip Lane. The attacks raise concerns about supply chain disruptions, echoing the challenges faced during the COVID-19 pandemic. Technically, the market shows signs of short covering, with a 0.82% drop in open interest, settling at 160,957. The EURINR pair finds support at 91.09, and a breach could lead to a test of 90.93 levels. On the upside, resistance is expected at 91.38, with a potential move above indicating a test of 91.51.

Snapshot

- EURINR trading range for the day is 90.93-91.51.
- Euro remained in range as traders assess both the economic and the monetary policy outlook.
- ECB's de Guindos: too early to talk about interest rate cut
- ECB’s Villeroy suggested rates may decrease next year, aiming to bring inflation back to 2% by 2025 at the latest.

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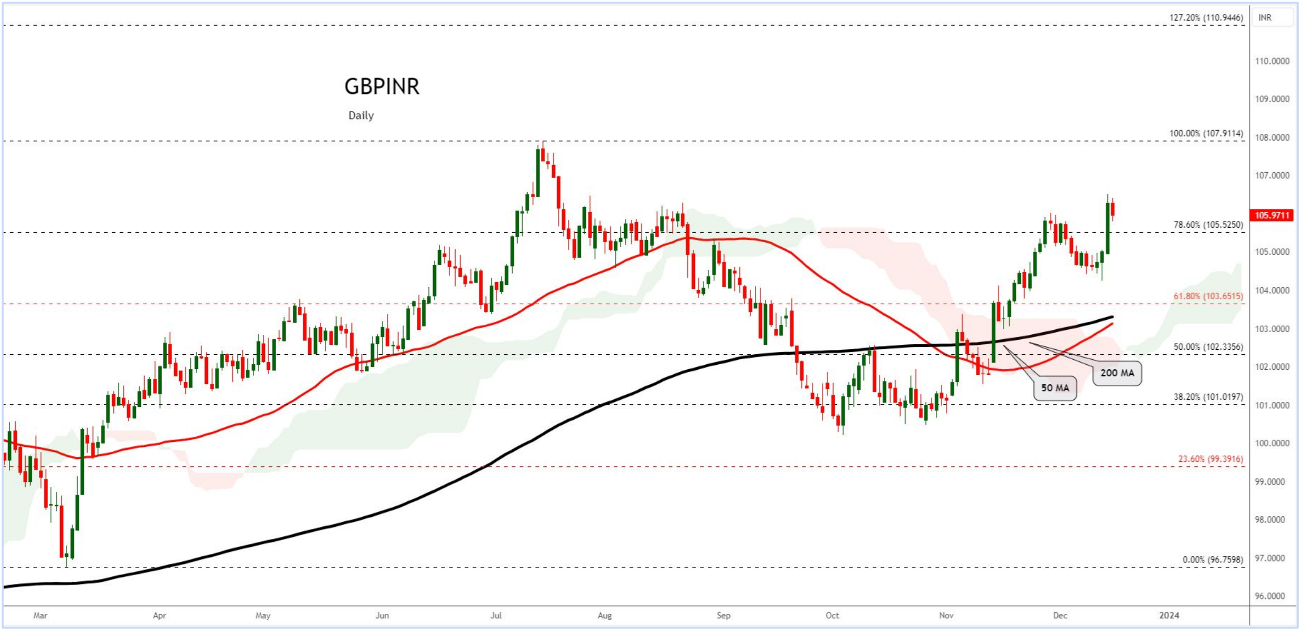
GBPINR



Expiry	Close	Resist 2	Resist 1	Pivot	Support 1	Support 2
27-Dec-23	105.3150	105.58	105.44	105.24	105.10	104.90

Commentary

GBPINR recorded a modest gain of 0.03%, closing at 105.315, as traders absorbed the latest insights into the UK budget deficit and the cooler-than-expected November inflation print. The Pound Sterling faces downward pressure due to the loss of its competitive advantage resulting from a significant decline in inflation. Despite a potential preference for a restrictive policy stance by the Bank of England until price stability is assured, market participants are keeping rate cut expectations alive. The upcoming Retail Sales data for November is anticipated to be a crucial economic trigger. A higher-than-expected growth in consumer spending could offer some relief for the Pound Sterling. Finance Minister Jeremy Hunt acknowledged the easing inflation pressures, providing room for potential early rate cuts by the BoE in 2024. Investors are currently pricing in a 50% chance of the first rate cut by March. However, investment bank Goldman Sachs has adjusted its projection for the initial rate cut to May, citing the recent two-year low in inflation. Technically, the market displays signs of short covering, with a 4.37% drop in open interest, settling at 189,756. GBPINR finds support at 105.1, and a breach could lead to a test of 104.9 levels. On the upside, resistance is expected at 105.44, with a move above potentially testing 105.58.

Snapshot

- GBPINR trading range for the day is 104.9-105.58.
- GBP steadied as traders digested the latest snapshot of the UK budget deficit
- A steady US Dollar and increasing bets over upcoming BoE rate cut weighing.
- BoE policymakers may continue favouring a restrictive policy stance until price stability is ensured

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JPYINR

Expiry	Close	Resist 2	Resist 1	Pivot	Support 1	Support 2
27-Dec-23	58.2875	58.47	58.38	58.26	58.17	58.05

Commentary

JPYINR saw a notable uptick of 0.29%, closing at 58.2875, benefiting from an upward revision in Japan's economic growth estimates by the government. The Japanese Cabinet Office's twice-yearly economic outlook raised the real economic growth rate projection for fiscal 2023/24 to 1.6%, up from the previous estimate of 1.3%. The positive outlook continued into fiscal 2024/25, with a growth projection of 1.3%, slightly higher than the earlier estimate of 1.2%. Despite these optimistic figures, the BoJ maintained its ultra-dovish stance, with Governor Kazuo Ueda providing no clear signals on the timing of an exit from the negative interest rates policy. On the global front, the US Dollar's weakening trend, driven by expectations of rate cuts by the Federal Reserve as early as March 2024, contributed to the JPYINR's upward momentum. The anticipation that the Fed might shift away from its hawkish stance has led to a decline in US Treasury bond yields, reaching multi-month lows and overshadowing better-than-expected US macro data. Technically, the market indicates signs of short covering, with a 5.05% drop in open interest, settling at 54,291. JPYINR finds support at 58.17, and a breach could lead to a test of 58.05 levels. On the upside, resistance is likely at 58.38, with a move above potentially testing 58.47.

Snapshot

- JPYINR trading range for the day is 58.05-58.47.
- JPY gains amid turnaround in the risk sentiment, along with an upward revision of Japan's growth estimates
- BOJ decision to maintain its ultra-dovish stance earlier this week might keep a lid on any further gains for the currency.
- Japan's Cabinet Office published its twice-yearly economic outlook and estimated real economic growth rate for fiscal 2023/24 at 1.6%

News

The U.S. current account deficit was the smallest in more than two years in the third quarter amid rising petroleum exports, government data showed. The Commerce Department's Bureau of Economic Analysis said that the current account deficit, which measures the flow of goods, services and investments into and out of the country, contracted $16.5 billion, or 7.6%, to $200.3 billion last quarter. That was the smallest since the second quarter of 2021. The current account gap represented 2.9% of gross domestic product, the smallest share since the first quarter of 2021, and down from 3.2% in the second quarter. The deficit peaked at 6.3% of GDP in the fourth quarter of 2005. The United States is now a net exporter of crude oil and fuel. Though the deficit remains large, it has no impact on the dollar given its status as the reserve currency. Exports of goods increased $19.1 billion to $516.4 billion, driven by petroleum and related products. Exports of services rose $2.7 billion to $252.2 billion as an increase in personal travel partially offset a decline in technical, trade-related, and other business services.

The budget picture for British Prime Minister Rishi Sunak has deteriorated, official data showed, but a smaller debt interest bill thanks to slowing inflation could yet restore some of his limited room for pre-election tax cuts. Public sector net borrowing, excluding state-owned banks, totalled 116.4 billion pounds ($147 billion) in the financial year so far, 24.4 billion pounds higher than in the April-November period a year earlier, the Office for National Statistics said. In November alone, the deficit of 14.3 billion pounds was bigger than expected - a poll of economists had pointed to a shortfall of 12.9 billion pounds. Britain's statistics office revised up borrowing for each of the previous seven months by 3.7 billion pounds in total. British borrowing has surged in recent years, first as the government supported the economy during the COVID pandemic and then as it provided massive aid to households and businesses to offset the surge in energy prices in 2022. Thursday's figures served as a reminder of the fragility of the so-called fiscal headroom which Sunak hopes will allow for more tax cuts ahead of elections expected next year.

Japan's government slightly raised its economic growth projections for this fiscal year from its previous estimates, as external demand is likely to more than offset weak domestic consumption, the Cabinet Office said. In the twice-yearly economic outlook, the real economic growth rate for fiscal 2023/24 is estimated at 1.6%, up from 1.3% seen half a year ago as external demand contributed 1.4 percentage points to overall growth, due to a recovery in inbound tourism and automobile output. Auto manufacturing had been hit earlier by chip shortages. The economic growth rate is forecast to slow down slightly to 1.3% in the next fiscal year starting in April as the external demand contribution weakens sharply reflecting a rebound in domestic consumption. The fiscal 2024 economic growth projection is slightly higher than the previous estimate of 1.2%. Domestic demand is expected to rebound in the next fiscal year with the help of planned income tax cuts on top of the ongoing trend of wage hikes, a Cabinet Office official said.

China stood pat on benchmark lending rates at the monthly fixing, matching market expectations, after the central bank kept its medium-term policy rate steady earlier last week. But market watchers continued to expect Beijing to deliver further monetary easing into the new year to support a sputtering economic recovery as deflationary pressure push up real borrowing costs. The one-year loan prime rate (LPR) was kept at 3.45%, while the five-year LPR was unchanged at 4.20%. Most new and outstanding loans in the world's second-largest economy are based on the one-year LPR, which stands at 3.45%. It was lowered twice by a total of 20 basis points in 2023. The five-year rate influences the pricing of mortgages and is 4.20% now. It was lowered by 10 basis points so far this year. The steady fixings came after the central bank kept its medium-term policy rate unchanged, and the one-year LPR is loosely pegged to the medium-term lending facility (MLF) rate. Market participants typically see changes in the MLF as a precursor to changes in the LPR. The People's Bank of China (PBOC) ramped up liquidity injections through medium-term policy loans last week, while keeping the interest rate unchanged.

Disclaimer

Recommendation Parameters for Fundamental/Technical Reports:

Buy Absolute return of over +10%

Accumulate Absolute return between 0% to +10%

Reduce-Absolute return between 0% to -10%

Sell-Absolute return below -10%

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