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GLOBAL SCENARIO

Widening growth and interest rate differentials between the US, European, and Japanese economies reinforces appreciating bias towards the US. Recent economic and financial market developments have prompted market participants to review their expectations about the beginning of the tightening cycle in top-tier central banks in the US and the UK. The sharp collapse in crude oil prices was mainly supply driven and not mimicked in all commodity markets sending disruptive shocks to commodity-sensitive currencies. Volatility in global foreign exchange markets continues to escalate, fuelled by intensifying price wars amongst global oil producers.

Dollar Index

We have witnessed the biggest yearly rise (of 12.55 percent) since 2005 in Dollar Index (DI). The US DI is further expected to appreciate in 2015. Fourth quarter US real GDP growth came in at 5.00 % q/q annualized, outpacing the bulk of the advanced economies and marking the third quarter of robust gains. In addition, strong US equity markets coupled with low global bond yields have supported investment inflows into the US. This fundamental backdrop coupled with positive sentiments support ongoing strength in the USD. We continue to believe that the Fed will raise its policy rate in Q2 2015.

Technical Outlook: DI

Technically, in yearly chart a sharp rise after a prolonged accumulation phase is being considered as a symbol of bullishness for the coming year also. But, till the second quarter of 2015, DI is expected to remain in dilemma or may correct from the current levels. Yearly Range of DI can be Rs. 87.40 – 95.00

Fed's Stance: Key Highlights

The minutes from the FOMC's October meeting support its October policy statement and re-affirm the following:

- a) Optimism about labor market
- b) Muted significance of its 'considerable time' guidance by addition of caveat
- c) Less concern about deteriorating global growth or a strong USD
- d) Falling oil prices seen as net positive
- e) Inflation moving towards 2% goal over the coming years despite near-term downward pressures created by energy prices and other factors



Currency	Major Factors	Technical Outlook	Yearly Strategy
USD-INR	<p>International:</p> <ul style="list-style-type: none"> ➤ Lower global energy prices ➤ Optimism in US labor market ➤ Hike in US interest rate expected <p>Domestic:</p> <ul style="list-style-type: none"> ➤ Reform in the subsidy regime for fuel prices ➤ RBI rate cut expected ➤ Increase in bond buying by FIIs ➤ Growth potential seen with the implementation of various structural reforms ➤ Economic momentum to pick up from 5½% to 6% till 2016 	<p>USD-INR is expected to adjust itself in the range of Rs. 61.50 – Rs 66.00 for the next year. For the short term Strong resistance is seen at 64.20, on sustained trade above market is likely to test the levels of 66. While, as of now market is expected to remain down side for the short term till 62.00.</p>	<p>Buy above 64.20; &or; Buy on the dip around 61.80 – 62.00</p>
EUR-INR	<ul style="list-style-type: none"> ➤ A slow and vulnerable economic recovery ➤ Disinflationary pressures ➤ Extreme weakness in Italy and near-zero growth in France ➤ Governing council is considering a program of sovereign debt purchases ➤ Push for economic union ➤ Euro zone real GDP is expected to advance 0.8% this year, 1.0% in 2015 and 1.3% in 2016 	<p>We have seen a bearish mode during the previous year in EUR-INR. Formation of the short term reversal pattern in EUR-INR is suggesting correction for the coming year also. Next year range for EUR-INR is expected to be Rs 74-80</p>	<p>Sell on rise</p>
GBP-INR	<ul style="list-style-type: none"> ➤ Delays in the tightening cycle ➤ Real GDP growth is expected to decelerate from around 3% y/y during 2014 to 2.5% in 2015 and 2% in 2016. 	<p>We have seen sideways mode on the higher side for this year. This is suggesting short term trend reversal in the coming year. Next year range for GBPINR is expected to be Rs. 101.50 – 95.50.</p>	<p>Sell on rise</p>
JPY-INR	<ul style="list-style-type: none"> ➤ Japan’s real GDP contracted by 1.6% q/q on an annualized basis ➤ Japan’s economic and currency weakness may risk triggering competitive currency realignments in the Asia/Pacific region ➤ Recent action by the Bank of Japan combined with Prime Minister Abe’s call for a snap election has forced a downward revision to our forecast 	<p>Technical studies warn of further decline. With fundamentals, sentiment, flows and technical all working in tandem against the JPY, we hold a year-end 2015 JPYINR forecast below Rs. 50.00.</p>	<p>Sell on rise</p>

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