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USD-INR -2013

January 2013

Volatile 2012 for USD-INR

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Looming domestic and global economic concerns turned the USD-INR volatile throughout the calendar year 2012. It made a historical high of Rs 57.32 in the month of June 2012, and ended the year with a gain on 3.12%. An ailing economy pulled down by poor performance of manufacturing and agriculture sectors; disappointing IIP numbers in the middle of the year and below 6% GDP for the last three successive quarters' dampened investor sentiments. Besides, burgeoning current account deficit owing to large oil and gold imports made the Indian currency vulnerable to capital inflows

Outlook for 2013:

From the above analysis, we expect that USD-INR should remain on a volatile note during the start of the 2013. After that, any positive developments in the budget session during the March- April are likely to lead to sell off in the pair, which could further boost the local and global equity markets. However, USD-INR remains challenged by a very weak current account position which continues to leave it at the whim of portfolio flows.

We expect that the USD-INR to test Rs 52.80-52.50-51.00 levels during the H1 of the 2013 (Expected D point as per the Gartley Pattern). Further down side moves are may be seen only below Rs 50.50, till Rs 48.50 levels. Otherwise, from the Rs 52.80-51.00 levels buying is expected which may take USD-INR towards Rs 53.50/54.00 levels (61.8 % retracement at least from CD leg of Gartley Pattern) in the second Half of the year. After that, further move will depend on new global and national developments.

Mid-to-Long Term Recommendation:

Thus, our long term view is short in far month USD-INR Future; at around Rs. 56.20- Rs. 56.00 with Rs 57.60 levels as strict stop loss and projected target of Rs. 52.80/51.80 levels.

Major Events and Their Impact on USD-INR during the year 2013: (Section 2)

- **Monetary policy by the Reserve Bank of India (RBI):** With the inflation coming down and steps taken by the government towards fiscal consolidation over the last year, the ball is in RBI's court to initiate rate cuts. With the central banks largely expected to do rate cuts starting January,13 selling pressure will be seen on USD-INR.

- **Inflation** - Inflation is expected to remain a point of concern (projection at 7.5% by end-March 2013), which would attract keen attention from the RBI to shape its monetary policy stance. There is however, a case for the RBI to reduce interest rates by 50 bps in H2 FY13 as food inflation can moderate more due to the high base effect and the inflow of the Kharif crop. Also, major projection for 2013 inflation is on reduction from 2012 levels. This will also help to moderate USD-INR.

- **FDI Inflow** - In winter session 2012-13 FY, the cabinet approved limit for foreign investors such like Single retail brand from 51% to 100%, 49% in Aviation, 49% in Insurance and 26% FDI in Pension. Meanwhile, FDI in broadcasting services sector was raised from 49% to 74% and Withholding tax was reduced from 20% to 5% on interest income for foreign investors in the same session. These reforms came in as much awaited move and there is an expectation for a boost to the economy. This may add some selling in to the USD-INR as a result of increase in FDI in-flows.

- **Effect of widening current account deficit -** India's current account deficit widened to a record high of 5.4 percent of GDP in the September quarter as export growth slowed more sharply than imports. Going by the current data it is likely that the data for the Oct-Dec quarter would be even worse and it would be a key factor for the USD-INR in the coming year.

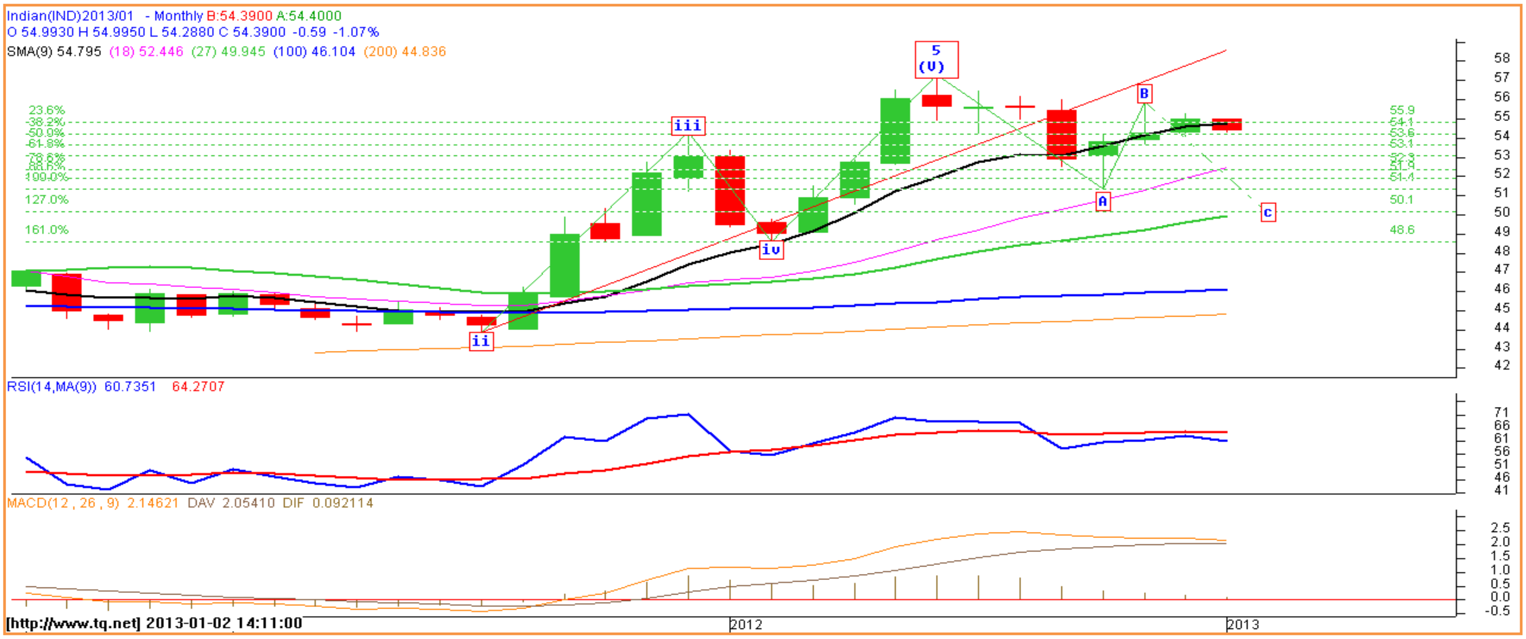
- **Budget session -** During the March to April period, USD-INR will reflect through the Railway and Union Budget, any positive announcement could lead correction in the pair. Hopes for more outdoors for the FIIs are likely to boost the local market.

- **Global situations** - Progress on European banking union for the future framework, Fed policy along with measures taken to resolve fiscal cliff and debt ceiling issue in the US will help to support USD-INR during the start of the year. Further, looking out at 2013, there are significant EUR downside risks that are difficult to ignore- bouts of political uncertainty, economic contraction and negative headlines are likely to weigh heavily on fragile market sentiment driving a small appreciation in dollar in 2013. Furthermore, growth in the China in Q1 2013 is expected to exceed 8% y-o-y which may boost the Asian currencies against the dollar.

USD-INR Yearly Chart: High wave candle stick pattern

On the yearly chart USD-INR spot formed a high wave doji candle stick after a sharp really in the last seventieth year, which represent for direction change. The pair had made yearly high of Rs 57.32 while low of Rs 48.60 and settled at Rs 54.98 with the gain of 3.54 percent. For the year 2013, Rs 57.40 will act as an important resistance level for the pair only sustains trade above it could open for Rs 59/60 levels.

USD-INR Monthly Chart: Elliot wave



As per the wave count drawn on the above monthly chart, the USD-INR spot long term uptrend started from July, 2011 with an impulsive wave's structure. The rise from Rs 43.85 (ii) to Rs 57.32 (Jun, 2012) is high of wave 5th (V).

The correction from Rs 57.32 to Rs 51.35 (Oct 2012) is considered as corrective wave A. The subsequent up move from Rs 51.35 to Rs 55.88 is treated as a wave B (Nov, 2012).

Now the pair is assumed to ready for corrective wave C with projection till Rs 50 levels. Also, sustaining below drawn trend line (high of Rs 57.32 (29/6/12) to high of Rs 55.88 (30/11/12) is giving strong indication for the above movement.

MACD is at on the overbought zone and treading on the verge or bearish cross over which makes the probability of sustained trading above Rs 55.05 levels quite low. Meanwhile, it was also found trading above its 100 and 200 SMA and is signaling for a retest of medium term moving averages.

USD-INR Weekly Chart: Gartley Bullish Pattern

On the above weekly chart, USD-INR was found forming Gartley Bullish Pattern. The following conditions justify the above pattern:

- On the chart, X point is considered at Rs 48.95 levels (26 Feb 2012).
- The A point is at Rs 57.52 levels (24 June 2012).
- The correction from Rs 57.52 levels to Rs 52.10 levels (7th October 2012) is considered as A-B point which amounts to 38.2% retracement of the X-A.
- The subsequent up move from Rs 52.10 levels to Rs 55.92 levels is treated as point B-C (25 Nov 2012).
- From the above pattern, the pair is assumed to be preparing for point C-D.
- D point may just above X point (78.6% retracement from X-A levels), confirming for Gartley Bullish Pattern, thus giving a projection up to Rs 52.80 levels.

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