11th May 2022

Last week we have done comparison of private banks, IT stocks and FII Selling & DII buying. Going into US FOMC meeting on 3 – 4 May 2022, we got a surprise rate hike from RBI. In a unscheduled RBI MPC meeting held from 2 – 4 May 2022, outcome on 4-May-22 @ 2 PM, RBI hiked @ 40 bps and CRR hiked by 50 bps.

This week we will cover currency, will focus on Dollar Index which have tested 104, highest level since March 2020 since COVID-19. Dollar Index tested 104 again this week as US Fed increase rate by 50 bps followed by 25 bps rate hike in March 2022 FOMC meeting.

This week, we would discuss INR/USD which have tested 77.50 level yesterday, all-time low against US Dollar. INR as compared with EUR & GBP have performed better. So now the key highlight remains strength of US Dollar against major global currencies.

USD/INR @ 77.50 – all time low against USD.

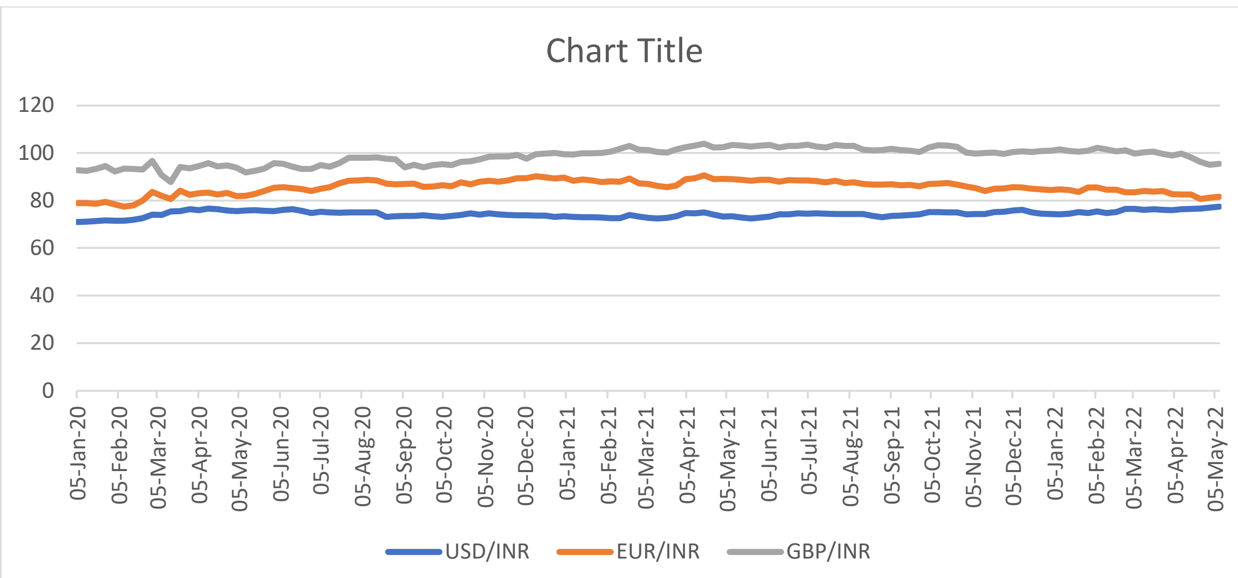


Chart: INR against 3 major currencies – USD, EUR & GBP from 1-Jan-20 to 9-May-22.

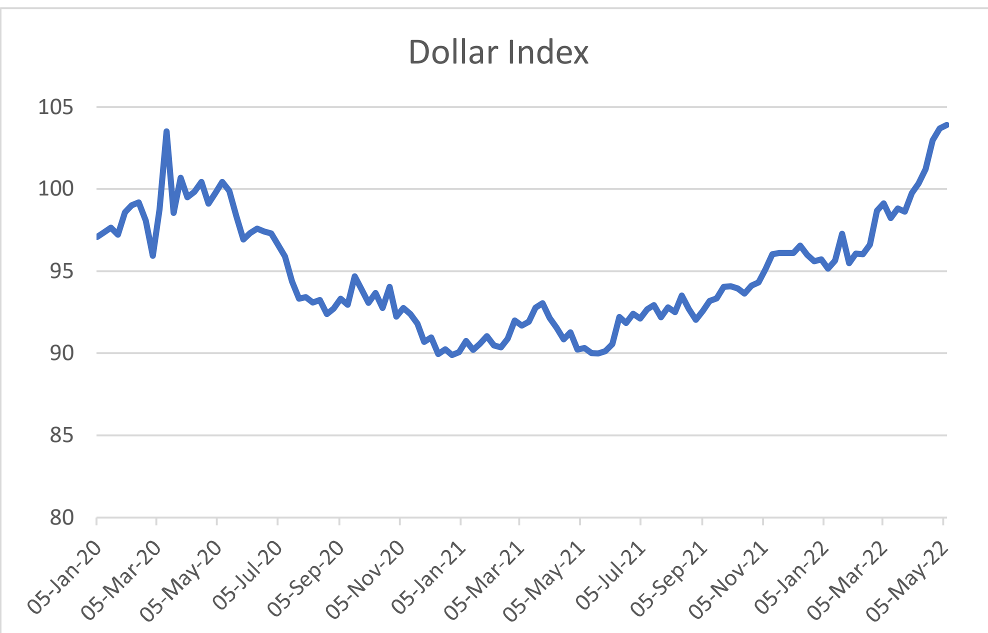
Any move in currency of any country is due to multiple reason and it is very dynamic in nature. Strong currency reflects strength of that country and vise-a-versa. Normally central banks in developing country intervene in currency market in view of the domestic interest.

Indian Rupee is partially convertible and RBI intervenes in forex market to absorb or supply foreign currency with various objective from time and again.

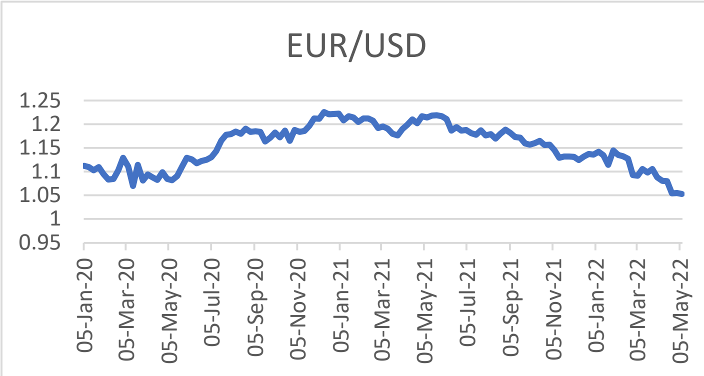
USD/INR @ 77.50 – all time low – Key developments

- US Fed increase interest by 25 bps in March 2022 & by 50 bps in May 2022 meeting. US Fed announce Balance Sheet downsizing starting from 1-June-22 with $47.5 billion and will reach its full amount of $95 billion by September 2022.
- It is triggered risk-off trade globally, most currencies have weakened against US Dollar post US FOMC move.
- Crude oil above $100, as India imports more than 80% of its oil & gas requirement, it creates big burden on Indian forex reserve and putting pressure on BOP (Balance of Payment) and Trade deficit.
- Russia-Ukraine crisis have triggered major financial crisis due to sanctions on Russia by US & European nations have sky rocketed commodity prices.
- US 10-year bond yield is trading around 3.15% and Indian 10-year G-Sec trading around 7.45%. One of the key reasons for INR to depreciate as gap have decreased by 10-year yield of both countries.
- FII have been selling in Equity market from October 2021, but FDI inflow and other factors keep INR comparatively stable around 75.
- USD/INR was trading @ 75.06 on 20-Feb-22, a week before Russia-Ukraine crisis begins on 24-Feb-22. USD/INR closed at 76.41 on 27-Feb-22.

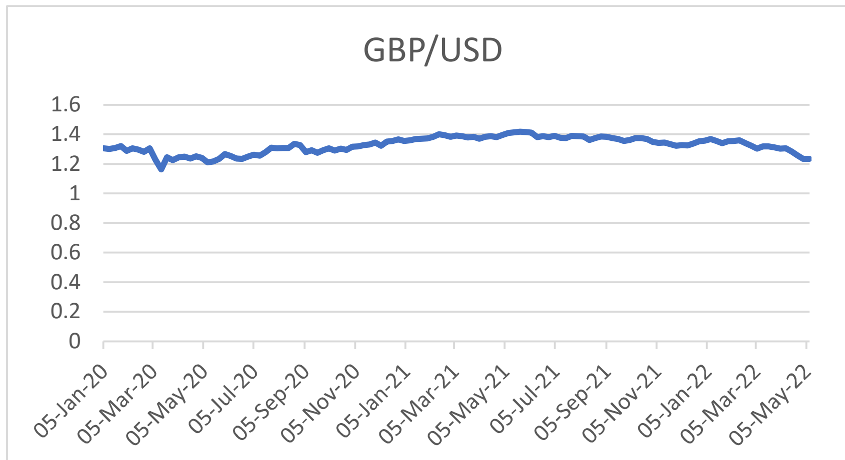
Dollar Index @ 104 – highest level since March 2020 since COVID-19



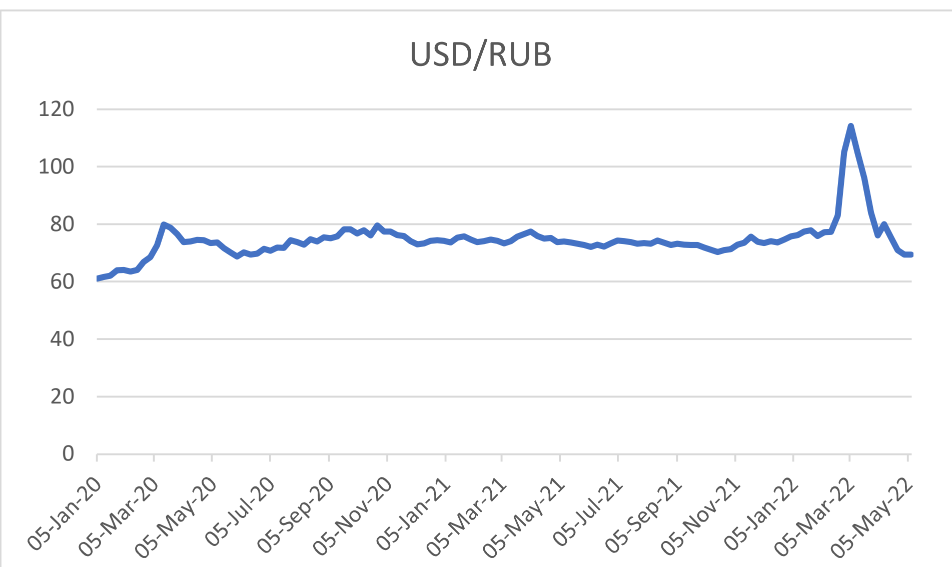
- US Dollar being a reserve currency and enjoys the status of safe heaven investment, any risk-off trade will move money towards US treasury and US Dollar.
- US Dollar Index basket consists of 6 currencies – EURO, SWISS FRANC, JAPENESE YEN, CANADIAN DOLLAR, BRITISH POUND AND SWEDISH KORNA.
- US is crude oil exporting & Natural gas which have saw sudden spike post Russia-Ukraine crisis. High crude oil & Natural gas prices.
- US FOMC post its 25 – 26 Jan policy – has dramatically changed its monitory policy due to increase in inflation averaging above 7% - 8%.
- US Fed chairman in its various testimony have maintain its view of strong and robust job market and have showed firmness towards tighter monitory policy.



Eurozone have been impacted adversely by Russia-Ukraine crisis and European nations depend heavily on cheap Russian gas and Crude oil.



European nations along with US have supported sanctions on Russia have proved to self-destructive as some of the European countries have agreed to Russian term of paying them in Rubble.



Rubble continues to trade strong compared to other currencies since Russia-Ukraine crisis. It had a highly volatile move post announcement on sanctions by US & European nations.

Russia's president Putin term to accept only Ruble as payment for non-friendly countries have resulted in RUBLE strength.

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If we summarize, its economic war going on to retain financial supremacy at a time of stagflation and politician globally are facing heat of high inflation from the people of their respective countries. We believe next 3 – 6 months will be critical for government and central banks across the world.

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