

28th March, 2011

Indian rupee

The Indian currency enjoyed gains throughout last week and even climbed towards a two and a half month high during the period following strong domestic share markets and significant dollar inflows due to corporate borrowings. Reports showed that Indian companies had approvals to borrow \$3.4 billion from overseas in December 2010 and \$2.7 billion in January.

The partially convertible rupee ended at 44.6650/6750 per dollar, 0.2 percent stronger than its previous close of 44.745/750. It strengthened as much as 44.6150 during the day, its strongest since Jan. 4. However, the Libyan crisis induced price rise in crude oil is expected to increase the demand of refiners for US dollar, which can result in the Indian rupee capping its gains.

Nevertheless, Indian shares managed to post their best weekly gain in the last 20 months and rose 2.5 percent to a two-month closing high on Friday, as investors picked up bargains from beaten down stocks before the end of the quarter. Foreign investors have bought \$539.19 million worth of shares in the month to March 24, but have sold shares worth around \$1.67 billion so far this year. In the currency futures market, the most traded near-month dollar-rupee contracts on the National Stock Exchange, the MCX-SX and the United Stock Exchange were at 44.6950, 45.6850 and 44.6850, with the total volume at about \$7.8 billion.



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USDINR pair has fell last week after failing to climb above the 50 and 100 week moving averages, which coincides with the down trend line resistance of 46. The market is expected to sustain the momentum in the selling pressure and has next support at the trend line at 44.20. However, short term pullback could take prices up towards the short term resistance of 44.90, where fresh selling pressure can be seen. Only a break and close above the earlier mentioned resistance of 46 can take the market higher.

EURO: The influence of an expected rate hike could be short lived as European Debt crisis reignite

The pair had started the week off on a positive note and climbed to another four month high of 1.4248 on Tuesday as it basked in the glory of a likely rate hike from the European Central Bank. The pair, however, failed to sustain the momentum and stepped back from the highs it scaled as fundamentals started turning sour.

The Prime Minister of Portugal, Jose Socrates, resigned last week following his efforts to push for additional budget cuts. The country was also downgraded by two credit rating agencies. Apart from Portugal, the 1.6 percent fall in Ireland's growth also hurt the European sentiment last week. There was also news of downgrade of 30 Spanish banks, which compounded the fears of escalating debt troubles in the region.

No measures to palliate the debt crisis in the European Union materialized from the EU summit that took place during the end of last week, turning the situation even murkier and uncertain. The US dollar index rose against its major counterparts during the period following better than expected growth figures. Government data showed that the GDP for the fourth quarter grew 3.1 percent as opposed to the expectation of a 2.8 percent growth. The US dollar also benefitted from the hawkish stance of the Fed. US Federal Reserve mentioned the possibility of Fed fund rates to rise towards 2.5 percent by the same time next year. However, the economic data from the US front were not all heartening. University of Michigan consumer sentiment fell to the lowest in more than a year and durable goods orders also fell more than expected.

The report showed that consumer sentiment index was downwardly revised to a reading of 67.5 in March from the preliminary estimate of 68.2 and is well below the February reading of 77.5. Economists had expected the index to be revised down to a reading of 68.0. The market will be keeping its eye on the Bank of England stress tests next week in the European front and the Non-farm payrolls data from the US.

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The EURUSD fell last week from the four month high but has firm support which also coincides with the chart support of 1.40. The market is expected to consolidate between 1.412 and 1.40 in the short term. The RSI-14 shows a negative divergence, increasing the chance of short term correction. Further supports lie at 1.3844.

The rising inflation poses serious threats to growth

The British cable remained sandwiched between the rate hike expectations and the rumbling European debt crisis that has weighed the currency down against the US dollar last week. The rate hike, however, seems the imperative of the Bank of England when viewed in the light of rising inflation in the region.

Consumer prices rose 4.4 percent, the highest since October 2008, from a year earlier after a 4 percent increase in January, the Office for National Statistics showed. A separate report showed the budget deficit unexpectedly widened as government revenue fell. Another government report showed a significant drop in retail sales, affirming that inflation is overbearing.

The Office of National Statistics (ONS) said this morning that retail sales fell by 0.8% in February, more than the 0.6% decline forecast from the previous month as department store sales dropped the most in two years. From a year earlier, sales grew just 1.3% after climbing 5.1% in January. The BoE

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minutes released last week mentioned the possibility of inflation climbing even above 5 percent. In addition, the Moody's and Fitch iterated the downside risks of growth in the region, which poses a danger to the 'AAA' status of its sovereign.



The pair has fallen towards the firm support of 1.60 last week, closing below the short term 50-day moving average. However, the weekly close recorded was at 1.604. If the pair manages to sustain above 1.60, pullbacks towards 1.6123 can be seen. Further supports lie at 1.586.

Intervention offsets yen repatriation, fears continue to loom

The relentless efforts from Japan and the rest from that of the G7 countries to offset repatriation in the Japanese yen seem to be paying off as the currency has consistently traded above 80 during last week.

Central banks of the Group of Seven countries banded together and sold some 530 billion yen on March 18 to stem a surge in the yen after Japan's devastating earthquake and tsunami. Since then, the yen has held steady, with the dollar trading near 81 yen as investors bet companies will repatriate yen to pay for reconstruction, increasing demand.

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The currency also retains its status as a safe haven, drawing investors in times of turmoil, such as the troubles in the Middle East. However, fears remain as they gauge the aftermath of the most devastating event in Japan since The Second World War. Japan's Economic and Fiscal Policy minister, Kaoru Yosano, said that there may be a need to create a separate budget to support the reconstruction process of the country.

MAJOR DATA RELEASES FOR THE WEEK AHEAD

Date	Currency	Description	Time	Forecast	Previous
Mon Mar 28	USD	USD Personal Consumption Expenditure Core (MoM)	12:30	0.20%	0.20%
Mon Mar 28	USD	USD Personal Spending	12:30	0.50%	0.30%
Mon Mar 28	USD	USD Personal Income	12:30	0.40%	1.20%
Mon Mar 28	USD	USD Pending Home Sales (MoM)	14:00	0.90%	-2.80%
Mon Mar 28	JPY	JPY Jobless Rate	23:30	4.90%	4.90%
Mon Mar 28	JPY	JPY Retail Trade s.a. (MoM)	23:50	0.50%	4.10%
Tue Mar 29	EUR	EUR German Consumer Price Index (MoM)		0.40%	0.50%
Tue Mar 29	GBP	GBP Total Business Investment (YoY)	8:30		10.00%
Tue Mar 29	GBP	GBP Current Account (Pounds)	8:30	-10.4B	-9.6B
Tue Mar 29	GBP	GBP Gross Domestic Product (QoQ)	8:30	-0.60%	-0.60%
Tue Mar 29	USD	USD Consumer Confidence	14:00	66	70.4
Tue Mar 29	JPY	JPY Industrial Production (MoM) (FEB P)	23:50	-0.10%	1.30%
Wed Mar 30	EUR	EUR Euro-Zone Consumer Confidence	9:00	-10.6	-9.9
Wed Mar 30	USD	USD Challenger Job Cuts (YoY)	11:30		20.00%
Wed Mar 30	USD	USD ADP Employment Change	12:15	205K	217K
Wed Mar 30	USD	USD DOE U.S. Crude Oil Inventories	14:30		1745K
Thu Mar 31	JPY	JPY Construction Orders (YoY)	5:00		-10.70%
Thu Mar 31	GBP	GBP Nationwide House Prices s.a. (MoM)	6:00	-0.10%	0.30%
Thu Mar 31	USD	USD Initial Jobless Claims	12:30	380K	
Thu Mar 31	USD	USD Continuing Claims	12:30		
Thu Mar 31	USD	USD Factory Orders	14:00	0.50%	3.10%

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Fri Apr 01	EUR	EUR German Retail Sales (MoM)	4:00	0.40%	1.40%
Fri Apr 01	EUR	EUR Euro-Zone Unemployment Rate	9:00	9.90%	9.90%
Fri Apr 01	USD	USD Change in Non-farm Payrolls	12:30	190K	192K
Fri Apr 01	USD	USD Unemployment Rate	12:30	8.90%	8.90%
Fri Apr 01	USD	USD Construction Spending (MoM)	14:00	0.50%	-0.70%
Fri Apr 01	USD	USD ISM Manufacturing	14:00	61	61.4
Fri Apr 01	USD	USD Total Vehicle Sales	21:00	13.37M	13.38M

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