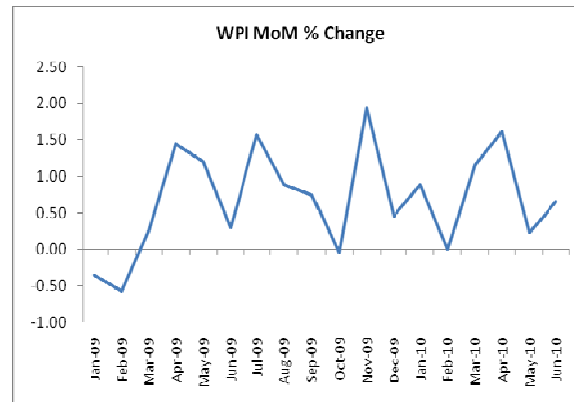


The FX market seems to have factored in the “public debt” issue of the Euro zone as US dollar slid against the hard currencies and emerging currencies during the second fortnight of last month. The US dollar which is regarded as a safe haven during uncertainties is now struggling with improved risk appetite. The EUR/USD recovered almost 7% from its low of 1.1874 posted on 7<sup>th</sup> June and currently stands smart above 1.2700. The gain of the Euro improves risk appetite while the Indian rupee failed to see any significant recovery of the recent decline from 44.15 to 47.75. Indian economic fundamentals are still signaling towards a strong rupee while the USDINR pair continues holding above the 46.00 mark, simply denying the fundamentals.

Inflation has been a major concern for markets with current prices are up above 10% YoY. The market consensus forecast of inflation for the financial year has been revised to 8.5% from earlier 7% on account of the recent fuel price hike announced by the government.

The recent hike and the deregulation of petrol are expected to push inflation up by almost 100-150 points in the next 3 months. The double digit inflation hurting the economy will be the focal policy discussion in the 27<sup>th</sup> July RBI monetary policy review where RBI is expected to hike the interest rate by another quarter basis point.



The market holds bullish view for the second quarter of corporate report card starting this week. The government policies seasoned with improving fundamentals project a positive outlook for the rupee. The rupee should display strength against the USD in the coming month on account of strong FII inflow into the economy since the year start. The FI inflow is expected to increase further as the government is opening gates for foreign investment into closed sectors of the Indian economy like retail.

Foreign Institutional Investors activity during July-2010						
Date	Equity (Rs. Crore)			Debt (Rs. Crore)		
	Gross Purchase	Gross Sales	Net Purchase /Sales	Gross Purchase	Gross Sales	Net Purchase /Sales
09-Jul-2010	5,777.90	2,312.30	3,465.60	1,204.10	679.60	524.50
08-Jul-2010	2,552.40	1,361.50	1,190.90	457.00	139.30	317.70
07-Jul-2010	1,523.80	1,488.60	35.20	1,642.90	13.00	1,629.90
06-Jul-2010	1,901.50	1,526.10	375.40	3,316.20	307.00	3,009.20
05-Jul-2010	880.60	1,096.80	-216.20	813.10	544.70	268.40
02-Jul-2010	1,802.90	2,035.00	-232.10	1,194.70	216.50	978.20
<b>TOTAL</b>	<b>14,439.10</b>	<b>9,820.30</b>	<b>4,618.80</b>	<b>8,628.00</b>	<b>1,900.10</b>	<b>6,727.90</b>

The recently concluded 3G auction, advance tax payments and Wi-Max auction has attracted around Rs. 50,000 crores into the government coffers. **On account of capital inflow the RBI has given the forecast of our fiscal deficit reducing to 4.5-5% by the end of this year.** The narrowing of fiscal deficit from current level will also boost the sovereign credit outlook in the eyes of credit agencies that are meticulously following the sovereign statistic. An up gradation from the credit agencies would definitely help India in attracting FDI and FII in the crucial sectors of the economy which were kept insulated from foreign hands.

From US economy perspective, the recovery is expected to moderate and GDP growth rate for the next quarter is expected to decline from present 2.7%. The recent string of economic data such as manufacturing, housing market, labor market and widening trade balance suggest consolidation in business activity in the 2<sup>nd</sup> and 3<sup>rd</sup> Quarter. The recent dovish statement from the FOMC suggests no policy rate hike for next quarter.

### An inter market analysis- NIFTY and the USDINR

The INFTY index trades around 5380 with it recording only a marginal growth in first half (Jan-June) of 2010 as compared to Dec 2009. As per the weekly chart, market is trading in the upward channel from 4700 to 5600 in the last six months. The Index facing a key resistance at 5400 levels which is the recent peak of April 2010 and also a 61.8% Fibonacci extension target. If sustains above can result 5550 in the coming months. Market sustained and taken support at 50 weeks EMA twice this year and has also closed well above the short term 10, 20 weeks EMA's, suggesting firmness in the counter. The momentum indicator RSI is reading at 0.65 levels near to overbought territory.

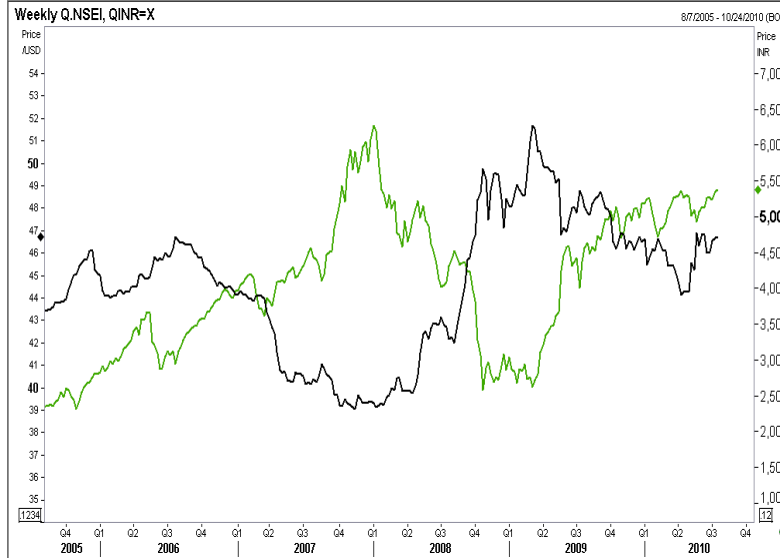


For the short term, the index needs to close above the 5400 levels and there is scope for it to test the upper trend channel resistance of 5520 and 5700 can be witnessed in coming weeks. Meanwhile the major support is at 5210, a break of which can extend the downward correction till 5100 and 4980.

### USDINR vs. Spot Nifty

The Nifty, the equity index of NSE, influences the domestic Indian currency profoundly and any gain or loss of the index is usually followed by an appreciation or depreciation respectively of the value of the currency. As

per the seasonal analysis a negative correlation can be seen in USD/IND and Nifty around 0.80% since last few years.



The above chart illustrates the high frequency negative correlation the rupee, except for a few aberrant situations. We are expecting that a positive momentum can kick-off the index in the short term and can limit the depreciation of Indian rupee against dollar.

**Spot USD/INR-Correction Due**

The pair has gained sharply after testing firm support at 43.90 on April 2010 which is the 61.8% Fibonacci retracement from the 2008 low of 39.10 to 52.10, the high of 2009 and also the life time high. However, the gains were restricted at inner trend line resistance at 47.75 (high so far in 2010). The MACD is reading above the '0' line and indicates positive divergence. However, the momentum indicator stochastic is reading near to overbought levels. The pair has closed and is trading well above the short term EMA's.



The current market is trading between the downward slope trend-channel and facing an immediate resistance at 47.15. A failure to break and sustain above can pull down the pair towards the supports at 46.10 and any falls below this may result in 45.50.

On the upper side, a successful rally above 47.15 may push the pair higher in the short term towards 47.75 and the trend line resistance at 48.50. (CMP-46.65)

**Trading Tactics:** MCX-SX-USDINR (Jul) can be sold at 47.20-47.25, for the target of 46.50 with strict a loss at 47.85.

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