

USD/INR	ST Trend of US\$	Target	Reversal	Prev. Close	Supports	Resistances
49.96	Up	50.76	48.83	49.84	49.65-48.83	50.76-51.21



	05/03	12/03	% chg
Currencies			
Dollar (USD-INR)	49.84	49.96	0.24
Euro (EUR-INR)	65.86	65.69	-0.26
Pound (GBP-INR)	79.06	78.09	-1.23
Yen (INR – JPY)	1.63	1.65	1.23
USD – EUR	0.76	0.76	0.00
USD – JPY	81.31	82.32	1.24
%chg refers to change in value of the base currency. Thus in the case of USD-INR, USD is the base currency			
Equities			
Sensex	17362.87	17587.67	1.29
Nifty	5280.35	5359.55	1.50
Debt			
3 mth T - Bill (%)	9.06	9.06	0.00
10Yr G-Sec Yield (%)	8.23	8.30	0.85

Source: Bloomberg & SEBI

The week gone by

The week gone by saw the Indian Rupee depreciating against the US Dollar. The Rupee's losses came on the back of rising crude oil prices and the dollar's strength in global markets. W-o-W, the USDINR pair gained 0.24%.

Foreign markets

The US dollar rallied against every one of its liquid counterparts last week and reinforcement of this move could trigger a correction in the riskier asset classes. In this context, market participants would keenly await the US Federal Reserve Rate Setting Committee's meeting this week.

They would look for any mention of "scope" or "possibility" of further quantitative easing "if it's needed". If the Fed decides to focus on the improved economic outlook as being seen in better labor market conditions, expectations of a third round of quantitative easing later in the year will start.

A bad reaction from capital markets to a no-stimulus outcome from the Fed would benefit the greenback. Moreover, if the stocks and other riskier assets are over leveraged, an unwinding could be disorderly. Volatility and risk aversion help the US dollar, given its safe-haven status. W-o-W, the US Dollar gained 1.24% against the Jap Yen.

Outlook

In what promises to be a very eventful week in India, market participants will have a keen eye on the WPI-based inflation rate to be announced on Wednesday. This data will provide guidance on the strength of inflationary pressures.

Market participants will particularly focus on the inflation data, especially in light of recent build-up in inflationary pressures: the already high global crude oil prices are rising even higher.

Headline inflation rate is expected to print higher than the previous month, which could mean even core inflation could be higher. Persistence of inflationary pressures is likely to postpone rate cuts by the RBI until April and the first rate cut could be of 50 bps. Market participants would keenly await guidance from the central bank on the path of its monetary policy easing. The March 16 Budget is keenly awaited by local and foreign investors alike, and it is likely to have a lasting impact on stock markets and the rupee.

Investors have been worried about the loss of growth momentum, with investment climate weakening due to policy uncertainty on critical issues such as land acquisition, fuel availability, higher interest rates, stalled infrastructure development and other supply constraints.

Moreover, hardening oil prices have significantly impacted government's finances. Rising fuel and fertilizer subsidies have pushed up government spending significantly, thereby widening the fiscal deficit.

On the external front, current account deficit has also gone up on the back of higher oil prices this fiscal year. These twin deficits, combined with high inflation, have significantly affected investors' appetite for Indian assets, especially equities. In 2012, there has been an improvement in portfolio capital inflows, sustenance of which is dependent on government's commitment to reviving growth and controlling inflation.

Market participants would, therefore, look for credible efforts from the government to improve the investment climate by providing more funds for infrastructure spending, reducing subsidies, containing market borrowings and by committing to a medium-term strategy towards reducing fiscal deficit and public debt. So, budget announcements looking to focus on improving the growth and investment climate, especially in the infrastructure and farm sector, and efforts to reduce fiscal deficit, would benefit the rupee.

Similarly, with the RBI having indicated a peak in interest rates, any reiteration of easing monetary policy stance, would benefit the rupee and the stock market. Having cut the CRR ahead of the policy, the RBI may choose to emphasize its discomfort on inflation, considering that the inflationary pressures from higher oil prices remained suppressed due to incomplete pass-through to local prices. That could affect the rupee negatively.

Outside these local events, pressure on the rupee can continue from a strengthening dollar and high oil prices. A successful completion of Greek debt swap agreement, however, would continue to boost investor risk appetite. That could counter some of the downward pressure on the rupee. Technically, the USDINR remains in an uptrend and our upside targets for the week are at 50.76.

Upcoming Major Macro Events

Date	Country	Event	Bloomberg Estimate	Previous Level
08-Mar-2012	USA	Jobless Claims	351k	351k
13-Mar-2012	USA	FOMC Meeting Announcement		
14-Mar-2012	India	WPI Inflation (YoY Chg)	6.75%	6.55%
15-Mar-2012	USA	Jobless Claims	355k	362k
15-Mar-2012	India	Mid-Quarter Review of Monetary Policy		
16-Mar-2012	India	Union Budget		

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