

USD/INR	ST Trend of US\$	Target	Reversal	Prev. Close	Supports	Resistances
54.97	Up	56.00	52.67	53.92	54.42-53.53	55.50-56.00



	14/05	21/05	% chg
<b>Currencies</b>			
Dollar (USD-INR)	53.92	54.97	1.95
Euro (EUR-INR)	69.16	70.44	1.85
Pound (GBP-INR)	86.80	86.96	0.18
Yen (INR – JPY)	1.48	1.44	-2.70
USD – EUR	0.78	0.78	0.00
USD – JPY	79.84	79.30	-0.68
%chg refers to change in value of the base currency. Thus in the case of USD-INR, USD is the base currency			
<b>Equities</b>			
Sensex	16215.84	16183.26	-0.20
Nifty	4907.80	4906.05	-0.04
<b>Debt</b>			
3 mth T - Bill (%)	8.44	8.39	-0.59
10Yr G-Sec Yield (%)	8.52	8.54	0.23

Source: Bloomberg & SEBI

### The week gone by

The Indian rupee continued to weaken against the US dollar as it posted its longest weekly losing streak since the 2008 global financial crisis. The weakness this week was more in line with other Asian currencies and not entirely due to concerns about weakening economic fundamentals.

The weakness in the Rupee this week came despite the fact that the RBI provided support to the rupee by selling dollars. The rise in consumer price inflation to 10.36% in April underpinned the fact that inflationary pressures remained strong. Weaker rupee will add to inflationary pressures as it is negating the softness seen in crude oil prices. W-o-W, the USDINR pair gained 1.95%.

### Foreign markets

Financial markets world over remained entrenched in risk aversion. Global equities and other growth assets struggled to consolidate as chronic euro zone worries were joined by disappointing US economic data.

Concerns about Europe have increased after Moody's downgraded 16 Spanish banks and on elections in Greece in June, which could lead to the country's eventual exit from the euro.

The euro fell for a third week against the US dollar, touching a four-month low on concerns that the failure of Greek leaders to form a government may spread to other nations in the monetary union. It lost 1.1% against the greenback in the earlier part of the week before finally recovering to close flat. It has dropped 3.5% so far this month.

The euro bounced back on Friday as a spokesperson for EU denied rumours that the group is working on a contingency plan for a Greek exit, while German chancellor Angela Merkel showed an increased willingness to assist Greece. However, hedge funds and other large speculators increased their bets in futures market on a weaker euro.

Asian currencies had their biggest weekly drop since November as concerns that the Europe crisis will worsen spurred demand for dollars amid signs of the US and Chinese economies losing momentum.

### Outlook

Going ahead, the focus of the market will entirely be on the euro zone, particularly Greece. The most prominent concern is a possibility of a Greek exit from the euro zone. There is a prominent threat for the shared currency because the impact of this worst-case scenario is so significant – and it is no longer such a far-fetched outcome. For now, the market will wait till the Greek election on June 17 to see what next steps will be taken as few decisions will be made without a government.

Another, more expansive concern is the broader region's financial health. Spain, in particular, seems at risk. If concerns about the financial system are not quelled quickly, we will have a serious problem as it would spread to other bailout countries (Ireland and Portugal) and potentially even expose core members (like Italy).

In the local market, the rupee is now in an uncharted territory with market momentum firmly against it. Policy support is very crucial for the market to withstand the unprecedented pressure the rupee is facing on account of global and domestic problems.

The RBI will use its foreign exchange reserves sparingly to support the rupee in the near term as any escalation in the euro zone problems is likely to lead to a large capital outflow and the central bank will then have to stand behind the rupee more firmly. Therefore, along with direct intervention, the RBI will continue to use capital controls and may even consider controls on current account transactions in case of large outflows.

The Government, on its part, must address the structural problems specifically aimed at improving the investment climate and should look to curb fiscal deficit that, in turn, will help reduce the current account deficit also. As an immediate measure, the government can increase the fuel prices and try and curb gold imports. Issuance of dollar denominated bonds like the India Millennium Deposits can also be considered.

This week, unless there are overtly bad incremental developments in the euro zone, rupee can stabilize between 54.50 - 55.50 range, but the pressure is on the downside. Any indications of a Greek exit from the euro may prompt another round of free fall for rupee and most Asian currencies. Technically, the USDINR remains in an uptrend and our upside targets for the week are at 56.0.

### Upcoming Major Macro Events

Date	Country	Event	Bloomberg Estimate	Previous Level
24-May-2012	USA	Jobless Claims	371k	370k
25-May-2012	USA	Money Supply (M2 Weekly Change)		-1.7 Bn
25-May-2012	India	IIP Core (YoY Chg)		2%
25-May-2012	India	FX reserve		-1.37 \$Bn

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