

| USD/INR | ST Trend of US\$ | Target | Reversal | Prev. Close | Supports    | Resistances |
|---------|------------------|--------|----------|-------------|-------------|-------------|
| 55.19   | Up               | 56.00  | 52.67    | 54.97       | 54.42-53.53 | 55.50-56.00 |



|  | 21/05    | 28/05    | % chg |
|--|----------|----------|-------|
| <b>Currencies</b>  |          |          |       |
| Dollar (USD-INR)   | 54.97    | 55.19    | 0.40  |
| Euro (EUR-INR)   | 70.44    | 69.21    | -1.75 |
| Pound (GBP-INR)  | 86.96    | 86.51    | -0.52 |
| Yen (INR – JPY)  | 1.44     | 1.44     | 0.00  |
| USD – EUR  | 0.78     | 0.80     | 2.56  |
| USD – JPY  | 79.30    | 79.47    | 0.21  |
| %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   | 16183.26 | 16438.58 | 1.58  |
| Nifty  | 4906.05  | 4990.10  | 1.71  |
| <b>Debt</b>  |          |          |       |
| 3 mth T - Bill (%)   | 8.39     | 8.39     | 0.00  |
| 10Yr G-Sec Yield (%)   | 8.54     | 8.54     | 0.00  |

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 Rupee fell to a record low this week. The losses were curbed by the RBI to a certain extent as it continued to support the rupee via direct sale of dollars in the inter-bank market towards the end of the week and through measures aimed at curbing speculation in the market.

In measures announced last week, the central bank clamped down on bank's participation in the currency futures market. Moreover, the sharpest ever increase in petrol prices and indication that diesel prices would be raised as well helped boost market sentiment.

There are hopes that the government is now willing to take unpopular steps which would help the economy in the long run. Foreign institutional investors continued to remain on the sidelines. W-o-W, the USDINR pair gained 0.4%.

### Foreign markets

Financial markets remained shaky last week due to concerns about Greece (non-trivial probability of an exit from the euro zone), Spain (financial troubles) and China (waning growth).

In the currency markets, the euro had its biggest weekly loss of 2.56% since December against the US dollar to touch its weakest level since July 2010.

Hedge funds and other large speculators increased wagers that the euro will decline versus the greenback to a record high for a second consecutive week. Net short positions increased for a third week, totaling 195,361 in the week to May 22, compared to 173,869 the previous week, according to the Commodity Futures Trading Commission.

Asian currencies fell for a fourth week, the longest stretch of losses this year, on speculation Europe's debt crisis will stall the global economic recovery and hurt demand for the region's exports.

### Outlook

This week, market participants will continue to track Greece and Spain along with the official rhetoric from euro zone policymakers. Key US growth and employment data will further add to volatility this week.

The euro stands to fall further against the safe-haven dollar amid uncertainty, but the US economic data could change market dynamics as this week brings reports of US GDP growth and non-farm payrolls (NFP) data. Any major surprises in the first revision to Q1 GDP data could force volatility; and NFP figures could spark further volatility.

The key question is whether the US Federal Reserve will ease monetary policy further in the face of slowing domestic labor market growth and financial markets' difficulties. A substantial fall in job creation rate could prompt calls for a third round of the Fed's quantitative easing (QE3). Any big surprises in the payroll data could force major moves not only in the greenback but also across the board.

There will no doubt be plenty of news this week about the outcome of Greece's political situation as well as the quickly deteriorating health of the Spanish banking system. Between the two, the market has had less time to adjust for the latter.

Overall, the general uncertainty favors staying short 'risk' and long 'safety'. Markets remain extremely bearish and there is risk that sentiment and positioning is a bit too extreme. There is a strong chance that we may see a short-term relief rally, but it is difficult to speculate on a small bounce within the larger downtrend.

In India, rupee seems to be in an early phase of consolidation after falling sharply in recent weeks. This consolidation can gather pace depending on the RBI's support for the rupee, and on any policy decisions by the government to reduce fiscal deficit and to improve foreign investment flows. Any sharp decline in oil prices could also further rupee consolidation.

Other than that, market participants would continue to follow the events in the euro zone. Any improvement in risk sentiment on the back of positive news flow from the region, like, say, issue of euro-area bonds to contain debt crisis, would help the rupee.

Overall, the market sentiment remains unfavorable for the rupee though the depreciation momentum may have slowed for now. 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 |
|-------------|---------|-----------------------|--------------------|----------------|
| 30-May-2012 | India   | IIP Core (YoY Chg)    |                    | 2%             |
| 31-May-2012 | USA     | Jobless Claims        | 370k               | 370k           |
| 31-May-2012 | USA     | Real GDP - Q/Q change | 1.9%               | 2.2%           |

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