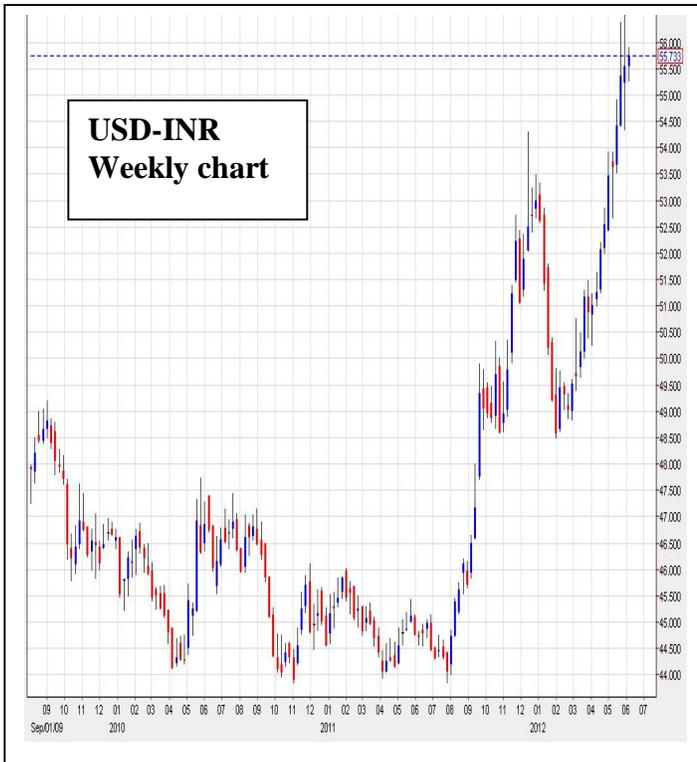


USD/INR	ST Trend of US\$	Target	Reversal	Prev. Close	Supports	Resistances
55.56	Up	56.00	55.01	55.36	55.27-55.01	56.00-56.50



	06/06	13/06	% chg
<b>Currencies</b>			
Dollar (USD-INR)	55.36	55.56	0.36
Euro (EUR-INR)	69.64	69.82	0.26
Pound (GBP-INR)	85.56	86.13	0.67
Yen (INR – JPY)	1.43	1.43	0.00
USD – EUR	0.79	0.80	1.27
USD – JPY	79.22	79.43	0.27
%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	16454.30	16880.51	2.59
Nifty	4997.10	5121.45	2.49
<b>Debt</b>			
3 mth T - Bill (%)	8.39	8.27	-1.43
10Yr G-Sec Yield (%)	8.36	8.16	-2.39

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. It had gained earlier in the week after the government announced measures to revive domestic growth and exports along with speculation that the RBI will cut interest rates on June 18.

This helped revive positive sentiment in the market on hopes that government initiatives would attract foreign investment. W-o-W, the USDINR pair ended 0.36% higher.

### Foreign markets

Global financial markets saw a mini rally last week as investors picked up riskier assets. Extreme short market positioning combined with the news of a monetary stimulus by China and the growing possibility of a rescue package for the Spanish banking sector (which finally materialized on Saturday), allowed for some optimism and risk-taking.

China reduced its key interest rates for the first time since 2008, providing some fuel to riskier assets. The US S&P 500 index registered an advance of 3.7% – the best weekly performance for the broad risk measure since December.

However, with US Federal Reserve chairman Ben Bernanke ruling out another round of quantitative monetary easing, risk appetite was dampened to some extent. A three-notch downgrade of Spain by ratings agency Fitch, and Moody's warning of a euro zone-wide ratings reassessment, added to the market caution.

In the currency market, the greenback pared its losses on Thursday as Bernanke refrained from signaling additional steps the central bank might take to spur growth. W-o-W, the US dollar gained 1.27% against the Euro. Currencies of commodity-exporting countries rose after China cut interest rates. The country's one-year deposit and lending rates were decreased by 0.25% to counter increasing downward economic pressure.

## Outlook

A relatively low-key week for European and US economic event risk will leave markets focusing squarely on developments in European fiscal crises. Spain will continue to dominate headlines, and the developments for the at-risk government and banking system will likely drive sentiment this week. Spanish banks are perhaps the biggest risk to the central government and, by extension, to the euro zone financial stability through the foreseeable future.

Spain's government is currently facing significant difficulty as it funds bond redemptions and an estimated 2012 deficit worth another 8.5% of GDP. If the market deems the euro zone's bailout for Spain on Saturday insufficient, it could leave the euro far more sensitive to speculation of trouble in Spain, Greece or perhaps others countries like Italy.

For the safe-haven US dollar, the possibility that one of the most pressing threats to market stability could find short-term resolution means that the heavy market-wide risk aversion driver that lifts the greenback could ease temporarily, potentially drawing a correction.

Beyond this week, the risk trends will be driven by significant events starting from the Greece re-elections on June 17, the EU summit towards the end of the month, the G20 meeting and the Fed rate decision. These events would decide how investors perceive risk.

In India's inter-bank market, the rupee movements would continue to be driven by global events. Declining oil prices are the most important positive development for the rupee in recent weeks. Oil prices declined sharply last week and this could provide the much-needed respite for the Indian unit for now. Other than that, any improvements in investor risk appetite on a successful bailout package for Spain or any other positive developments would help the rupee too.

Market people in India would also be keenly watching the index of industrial production (IIP) and WPI (wholesale price index) inflation data due for release this week. The IIP could very well register negative growth while headline inflation could print closer to 8%.

These conflicting signals would make it difficult for the RBI to cut rates immediately, especially if core inflation flares up again. Local market sentiment has improved on hopes of rate cut. So, any indication of a delay could prove negative for the market sentiment and the rupee.

This week, the rupee could continue to trade with a depreciation bias even as it receives support from lower oil prices. 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
14-Jun-2012	USA	Jobless Claims	375k	377k
14-Jun-2012	USA	Consumer Price Index M/M change	-0.2%	
14-Jun-2012	India	WPI Inflation (YoY Chg)	7.53%	7.23%
18-Jun-2012	India	Mid-Quarter Review of Monetary Policy		

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