

USD/INR	ST Trend of US\$	Target	Reversal	Prev. Close	Supports	Resistances
55.92	Up	56.50	54.78	55.32	55.32-55.04	56.50-56.80



	16/07	23/07	% chg
Currencies			
Dollar (USD-INR)	55.32	55.92	1.08
Euro (EUR-INR)	67.88	67.74	-0.21
Pound (GBP-INR)	86.05	86.72	0.78
Yen (INR – JPY)	1.42	1.40	-1.41
USD – EUR	0.81	0.83	2.47
USD – JPY	78.82	78.30	-0.66
%chg refers to change in value of the base currency. Thus in the case of USD-INR, USD is the base currency			
Equities			
Sensex	17103.31	16877.35	-1.32
Nifty	5197.25	5117.95	-1.53
Debt			
3 mth T - Bill (%)	8.23	8.19	-0.49
10Yr G-Sec Yield (%)	8.05	8.07	0.25

Source: Bloomberg & SEBI

The week gone by

The week gone by saw the Indian rupee depreciating against the greenback. The market sentiment towards rupee and stocks was buoyed by the WPI inflation showing signs of softening, raising hopes of monetary easing by the RBI. FIIs remained net buyers of Indian assets. Rising oil prices, however, tempered the market optimism towards the rupee. W-o-W, the USDINR pair gained 1.08%.

Foreign markets

The euro zone debt crisis came back to the forefront of investors' worries towards the end of last week during which data and events were largely supportive of global investor risk appetite.

Riskier assets led by equities advanced during the week, thanks to encouraging second-quarter corporate earnings reports from the US. Optimism about corporate earnings and monetary stimulus by the US Federal Reserve has sent the S&P 500 up 6.6% from a low on June 1. A bunch of broadly positive US economic data, particularly with regard to housing, also helped.

However, on Friday, the broader market sentiment started to deteriorate sharply, on another burst of concern over Spain's fiscal position. Yield on Spain's 10-year government bond rose above 7% - the threshold level for global bailouts of Greece, Ireland and Portugal.

The rise in Spanish yields was triggered by soaring borrowing costs at Thursday's €3 billion bond auction, which saw poor response from investors. The move was given further momentum by anti-austerity protests and after the Valencia region requested aid.

Revival of investor angst hurt the euro severely on Friday. The single currency hit record lows against other global currencies and reached its weakest level against the US dollar in more than two years, after the European Central Bank said it would stop accepting Greek sovereign bonds as collateral and Spanish borrowing costs rose to euro-era highs. The turmoil in Spain also infected Italy, the world's third largest bond market. W-o-W, the US Dollar gained 2.47% against the Euro.

The euro fell for a fourth straight week against the yen, touching the lowest level since 2000. The single currency also sank to the lowest level since 2008 versus the pound and the weakest on record against the Australian dollar on speculation that Europe's fiscal turmoil will broaden.

The US dollar dropped against most major peers as investors added to bets that the Fed will take new steps to stimulate economic expansion that may weaken the greenback. The US dollar fell against most major counterparts after Fed chairman Ben Bernanke reiterated to the Congress last week that policymakers are "prepared to take further action as appropriate to promote a stronger economic recovery". The Fed bought \$2.3 trillion of securities from 2008 to 2011 in two rounds of quantitative easing (QE) of money supply to support growth.

Asian currencies had a second weekly advance on speculation the US and China will adjust policies to revive the world's two biggest economies, boosting demand for riskier assets. Chinese premier Wen Jiabao said that the Government needs to assess the situation in China's economy, which grew at the slowest pace since the last quarter of 2009. Malaysia's ringgit gained the most since January and South Korea's won reached a two-week high.

Outlook

The fate of the euro-dollar pair, which enjoys the status of the world's most liquid currency duo, has the potential to be a catalyst at the start of this week. The euro-dollar movement can spill over to the rest of major currencies. That sets up a tense opening as the pair closed at its lowest level in two years on Friday, finding itself on the threshold of another round of aggressive euro selling.

That said, the choppy but persistent upward move in the US equities since the low set at the beginning of June can work against the safe haven US dollar, especially against the high-yielding currencies.

There are many risks related to the euro zone crisis, but to move to the next phase of panic, market participants would need to see an escalation and possibly a clearer threat of a global pandemic.

A critical aspect of the euro crisis focus is its potential to drive general risk trends. Given the current status of the euro zone's financial tension and diminished expectations for global growth, it would not take much to rouse risk aversion.

The US 2Q GDP data is due for release on Friday. It has a low probability of delivering a bullish surprise. Far more influential is the growing hope for QE3. The Fed and Bernanke have offered no clear hints on this front for now. The GDP data would be crucial against this backdrop, as weaker-than-expected growth can bolster the case for monetary stimulus by the Fed.

In India, besides global developments, market participants would be looking also for government measures to boost growth. Media reports have been speculating that a slew of measures can be introduced soon with presidential elections out of the way. Any steps by the government to boost the economy and foreign capital inflows will be positive for the rupee.

Technically, however, the USDINR pair is in an uptrend and could move higher this week. Upside targets for the week are at 56.5.

Upcoming Major Macro Events

Date	Country	Event	Bloomberg Estimate	Previous Level
26-July-2012	India	IIP Core (YoY Chg)		3.8%
26-July-2012	USA	Jobless Claims	380k	386k
27-July-2012	USA	Real GDP - Q/Q change	1.2%	1.9%
31-July-2012	India	1st Qtr Review of Monetary Policy 2012-13		

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