

USD/INR	ST Trend of US\$	Target	Reversal	Prev. Close	Supports	Resistances
55.44	Up	56.50	54.78	55.92	55.20-54.80	56.50-56.80



	23/07	30/07	% chg
<b>Currencies</b>			
Dollar (USD-INR)	55.92	55.44	-0.86
Euro (EUR-INR)	67.74	68.14	0.59
Pound (GBP-INR)	86.72	87.26	0.62
Yen (INR – JPY)	1.40	1.40	0.00
USD – EUR	0.83	0.82	-1.20
USD – JPY	78.30	78.16	-0.18
%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	16877.35	17143.68	1.58
Nifty	5117.95	5199.80	1.60
<b>Debt</b>			
3 mth T - Bill (%)	8.19	8.14	-0.61
10Yr G-Sec Yield (%)	8.07	8.15	0.99

Source: Bloomberg & SEBI

### The week gone by

The week gone by saw the Indian rupee appreciating against the greenback. The gains came on the back of a rally in the local equity markets, which was in line with the gains seen in the global markets after the European Central Bank vowed to protect the euro zone. W-o-W, the USDINR pair shed 0.86%.

### Foreign markets

Towards the end of last week, equities were driven to multi-month highs while the euro managed to register some gains on the back of expectations that the ECB was prepared to increase the support to the euro by reviving bond purchases, rate cuts and/or another large-scale liquidity injection programme.

The single currency had the biggest weekly gain versus the US dollar since February as ECB officials and European leaders pledged to support the shared currency amid surging sovereign-bond yields and concern the region's financial crisis is worsening. Futures traders decreased bets that the euro will fall against the greenback, Commodity Futures Trading Commission data showed.

### Outlook

This week, markets will focus on the support of major global central banks to a flagging global economy. The week will see the US Federal Reserve, the ECB and the Bank of England meeting to decide on the future course of their respective monetary policy. As was seen at the end of the last week, expectations are running high that there will be another round of support offered by world's largest central banks.

First up is the monetary policy announcement by the Fed on Wednesday. There has been considerable speculation that the world's largest central bank will escalate its efforts to support the US economy. Considering that the Fed announced the extension of its Operation Twist programme at its last meeting and 2Q US GDP was generally stable at 1.5% on-year growth, the domestic pressure for a move is relatively modest.

A preemptive move is always a possibility given the backdrop of the euro zone sovereign crisis. Many Fed officials have voiced their doubts about expanding the quantitative easing programme as further stimulus would likely have a diminished impact. Therefore, even if there is a next move, it could be judged for its limitations as much as its support.

The market will be more concerned about the ECB's next move on Thursday. Market participants recognize the euro zone financial troubles as the greatest overall risk to the global economy. Not only does the euro slowdown have a significant weight, but the funding issues like at the time of the Lehman crisis can arise.

If the Fed and ECB disappoint this week, it could lead to a severe risk aversion in the markets. Underlying fundamentals in recent weeks have weakened and confidence in riskier assets has ebbed. Should it become apparent that only hopes of monetary stimulus and policy support are keeping these markets buoyant, last week's pick up may have just added volatility to an inevitable collapse in speculative assets. Market participants will be comparing hopes to reality soon after the central bank gatherings with July US non-farm payrolls data due on Friday.

In India, inflationary pressures persist and risks to inflation remain firmly on the upside. Recent inflation data -- headline WPI, core inflation and CPI inflation -- showed only marginal moderation. Both headline WPI and CPI inflation remain well above the RBI comfort zone. Oil prices have risen back above the \$100 per barrel mark in recent days despite growing fears of slower growth, as key global central banks have been easing monetary levers. Monsoon deficiency is going to add to the already high price inflation.

The rupee thus remains prone to depreciation despite some stabilization in recent weeks. Market participants have been awaiting policy action from the government. No concrete actions have been taken by the government to curtail fuel subsidies or to remove the bottlenecks holding back infrastructure projects.

Against this backdrop, if the global risk appetite weakens sharply, then the rupee could come under sharp downward pressure. The risks of the rupee-dollar pair breaking into a higher range are increasing, especially as expectations of government action are beginning to come off.

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

**Analyst: Subash Gangadharan ([subash.gangadharan@hdfcsec.com](mailto:subash.gangadharan@hdfcsec.com))**

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HDFC Securities Limited, I Think Techno Campus, Building – B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Fax: (022) 3075 3435

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