

### From Research Desk

- **Fundamentals**
- **Technical Aspect**
- **Recommendation**
- **Disclaimer**



<i>Trade</i>	<i>Scripts</i>	<i>Stop loss</i>	<i>Targets</i>
<i>Sell</i>	<i>USD/INR on every rise 68.40-68.60</i>	<i>69.50</i>	<i>67.40-66.80</i>
<i>Sell</i>	<i>EURINR Next/Far Month Future on every rise towards 72.00-72.25</i>	<i>73.50</i>	<i>70.00</i>

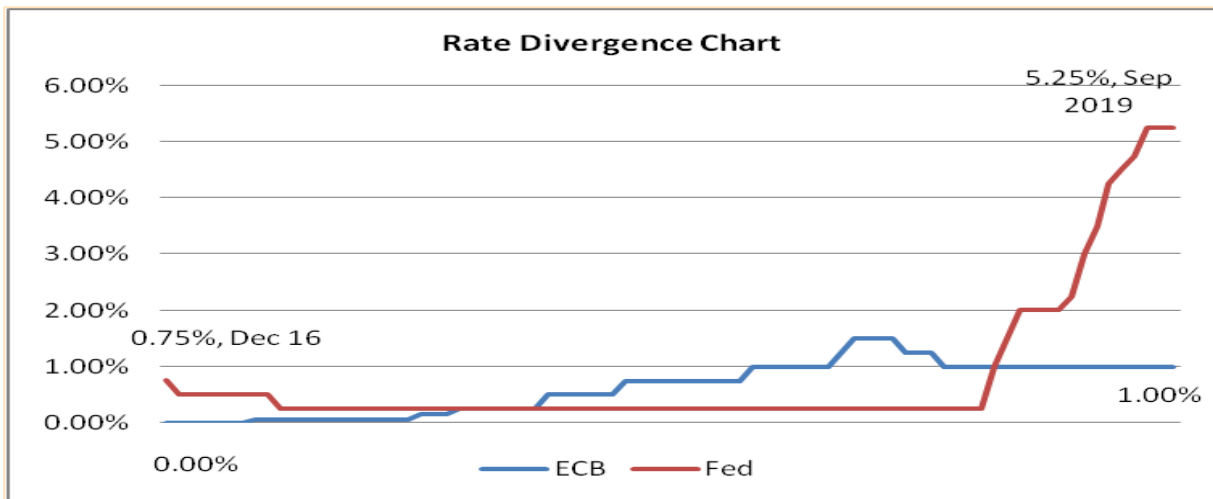
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Perceiving divergence among two largest economies in the world, United States and Euro area has contributed an abrupt move in Dollar index and EUR from last 2-3 months. This could further add to currency-market turbulence that has produced a 12% increase in the value of the dollar against the euro since the start of the year 2016.



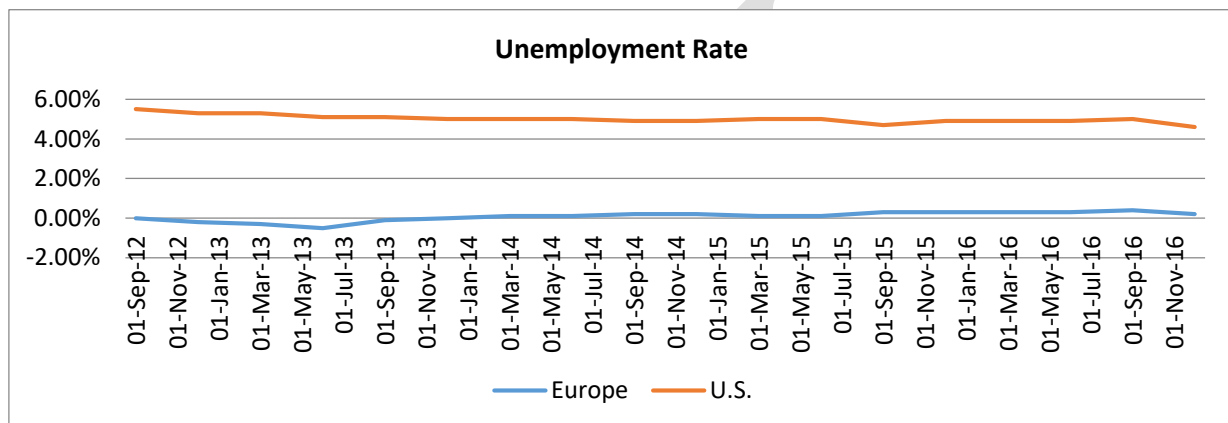
**Snap Short of Policy Divergence between Fed & ECB**

**US Fed**

U.S. Fed continued trying to tighten their policy since Dec 2015 and has recently hiked Fund rate by 0.25bps, second time after Dec 2015, and had also signaled a faster pace of tightening interest rates in the coming year. This is in response to the strong momentum in the US economy along with the fiscal stimulus policies from Republican tax-cuts. Fed raised the target range for its federal funds rate by a quarter-point to 0.5-0.75%, as was widely expected in the financial markets. And the prospect of three more hikes in US interest rates next year has sent the dollar to a 14-year high and the rate hike prospective may hold aggressive demand for the greenback in near term also putting pressure on dollar.

## European Central Bank

European Central bank took decision just opposite to that of the Fed from last two years. Recently, ECB announced that their asset purchases will continue at the current EUR80bn pace until March 2017. The Council also stated that asset purchases will then continue at a reduced pace of EUR60bn from April 2017 until December 2017 (increased from March 2015). The programme will be extended beyond December 2017 if necessary and, in any case until the ECB sees a sustained upturn in inflation consistent with its inflation aim. Deposit Rates have been unchanged at -0.40% with the main refinancing rate at 0.0% and marginal lending facility at 0.25% since the March 2016. The prospect of further rate hike by Fed and ECB bond purchase program until March 2017 continued to hold bearishness in the EUR against the dollar.

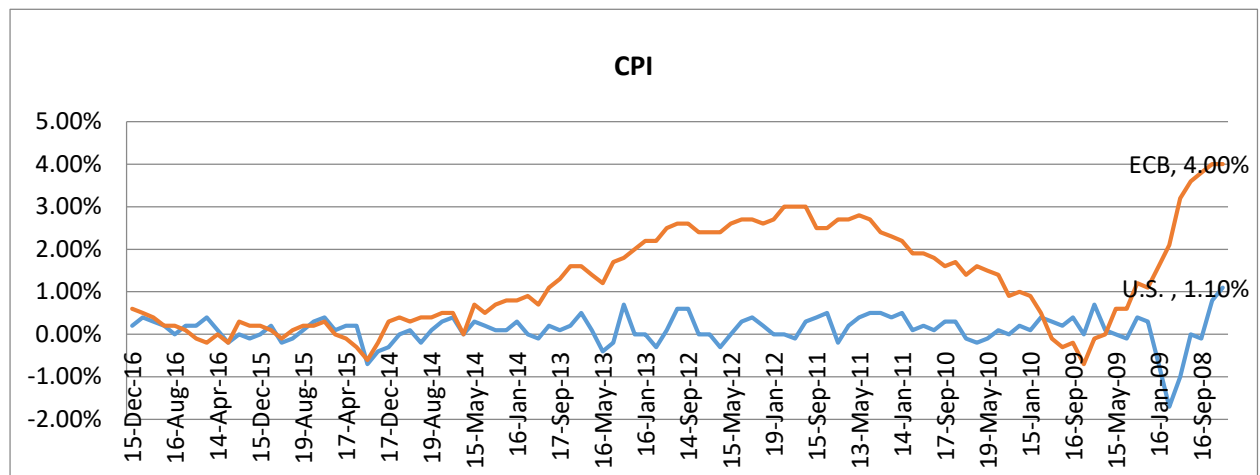


## Unemployment at U.S. and Europe Playing Vital Role for Policy Divergence

Unemployment situation of both U.S. and ECB had compelled policy makers to change their policy statement very frequently. Looking to the U.S. it witnessed favorable recovery and data of unemployment recovered at faster pace in a decade with the unemployment rate at 4.6% its lowest level since 2007, while weekly initial jobless claims fell to its lowest level in over forty years in the week ended Nov 11, 2016. This gave strong confidence for the rate hike scenario. Recently, Fed officials indicated that full employment may be getting closer and was intact to 2% inflation. In the Eurozone after 2013 unemployment remained somewhat flat in 2016. European debt crisis and Brexit factors continue to drive up the unemployment across the euro zone. Unemployment rate peaked at 12.1% between April and June 2016, however it reconverted as EU's fractured political culture may be a big problem in coming year.

## Targeting Inflation Major Concern for Both Fed and ECB

### Inflation



Inflation was the big jeopardy for both the FED and the ECB due to decent fall in global crude oil prices that has witnessed speculative statement through both banks. The deflationary pressure for the Europe was the biggest challenge for ECB. Eurozone inflation was well below the ECB's 2 percent target, but step taken helped to support the recovery and bring down the euro zone's sky-high unemployment rate. The annualized consumer price index contracted by -0.60% in January 2015 as a result of decent fall in the global crude oil prices that kept lowers outlook for Europe inflation and consequently the ECB eased the monetary policy.

Although, same time U.S. economy also faced the same problem due to oil prices, but it recovered faster than Europe CPI and in May 2016 it stood at 0.40% when Europe CPI stood at -0.20%. Fed said on Inflation that market-based measures remain low but have moved up considerably.

#### Impact of the Expectation of US Fed & ECB Policies on Dollar and EUR

In the wake of a Fed rate hike, monetary policy divergence would increase between the US and the euro area in 2017 also, which could further attract attention towards the US dollar. The European Central Bank will have fresh economic data this month that may likely to confirm downside risks are still present. These will encourage the central bank to adjust its asset purchase program. The divergence policy may bring more liquidity and huge volatility in both currencies in 2017 as well.

## **Prospect of Rate hike and Trump could hold bullishness in the dollar index towards 106.00**

U.S. dollar witnessed a speculative jump of 12.70% from 91.88 (low of May 2016) to 103.63 (high of December 2016) on U.S. Federal Reserve Bank rate hike hope and U.S president election outcome. An optimistic outlook about the US labour market conditions by Fed Chair also added some gain in the greenback.



Dollar index continued its bullish from Mid May 2016 it hit upside level of 103.63 levels and currently trading at 103.11 levels. On the monthly chart currency is trading above its more than one year consolidation resistance 100.60. Since, February 2015 dollar index consolidated in between low of 93.16 (May 2015) and high of 100.60 (December 2015), in last month, it broke the resistance 100.60 and tested 102.12, its highest levels after 2003. Both of which are indicating for long term bullish trend and its expected that any downside consolidation towards 100.00-99.50 levels could attract huge buying for next upside levels towards 106. A break above 106.00 would open the door for final upside 113.50 which is coinciding with its life time trend line resistance.

## EUR/USD stuck between the Policy divergence and Brexit



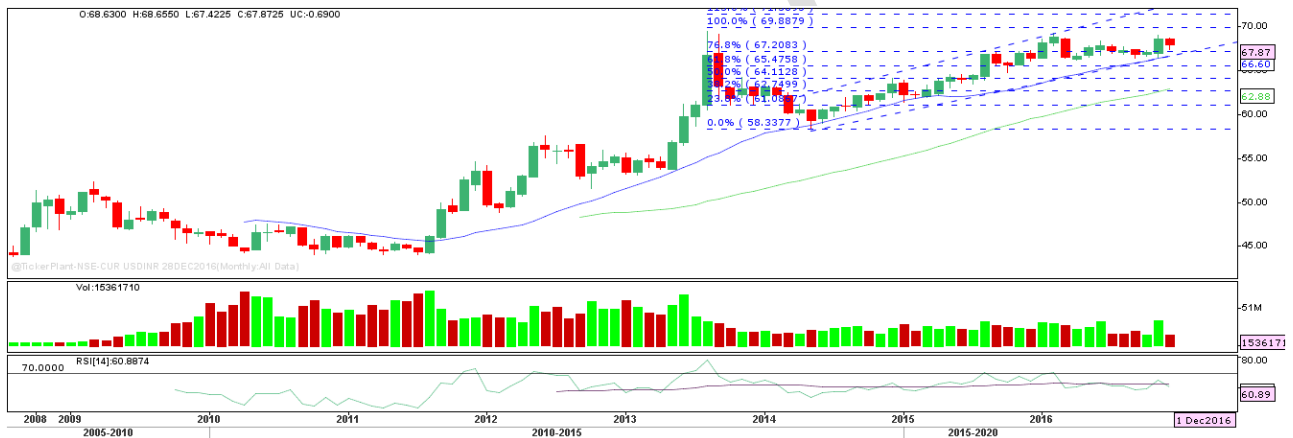
EUR/USD turned into long term bearishness trend since May 2014 a period from which ECB give the hits for fresh monetary policy to consider more bond buy purchase and lowering interest rate. EUR/USD dropped more than 26% from the high 1.3993 (high of May 2014) and heading towards 1.0352 (low of December 2016). The U.S. election, political uncertainty after BREXIT and Italian Referendum continued decent from mid-2016. The bearish trend that has been started after ECB started to buy a total of 60 billion euro (\$69 billion) a month starting from March 2015 till September 2016, and then increased it to in assets including government bonds, debt securities issued by European institutions and private-sector bonds to stimulate growth and to overcome deflation. The divergent paths for the Fed and the ECB could weakness further in the euro, crimping U.S. exporters while giving a leg up to European ones.

On the Monthly chart, although, EURUSD drop more than 10% after March 2016, and tested 11 year low of 1.0352 against the dollar, it's expected that bearish trend is yet not over as no one turning to go long for long time. Pair has been in downtrend and break 1.618% Fibonacci Retracement of 2001-2008 gain. July 2012- May 2014 gain and formed three black crows candle stick pattern. Further, recently pair broke its nine month consolidation support 1.0456 (low of March 2016) both which is indicating for bearishness in near term.

But, EUR/USD needs to break below 1.0330 levels in order to witness new collapse. Initial target below \$1.0330 levels could be predicated towards \$0.9850 then \$0.8950 in EURUSD (current price is \$1.1327 levels) which is coinciding with 2.618% Fibonacci retracement.

## USD-INR Future

In domestic front, gain in USDINR remained limited compare to strength in U.S. dollar index and pair witnessed only 2.20% positive, where it witnessed it jumped towards highest level of 68.9875, since January 2016, currently trading at 67.9125.



Domestically, Suspected FCNR (B)-related outflows and announced temporary hike in cash reserve ratio on incremental deposits so as to suck out excess liquidity appreciated the pair domestically. The Reserve Bank raised as much as \$26 billion from FCNR (B) deposits and the maturity of these deposits is due between Octobers to December. Further, in a bid to curtail inflation and black market activates, government of India have decided to abruptly discontinue their largest bank notes. By invalidating 500 and 1000 rupee bills also contributed somewhat bullishness in the USDINR.

On the monthly chart, USD-INR turned neutral since April 2016, and attempt consolidation in between 66.50-67.40. Pair squeezed above the crucial support of 67.00 which is coincided with 76.8% Fibonacci Retracement of August 2013 – May 2014 fall. Further, a strong support of rising Channel trend line was found on the chart that drawn from May 2014 low (58.3250) to September 2015 (67.14) and February 2016 high (69.2150) both of which are creating probability for bullishness in the USDINR.

However, the gain will expect to remained limited as there is strong resistance of 69.50 which is coincide with its life time peak and USD-INR would need to break it in order to test 71.50 then 72.00. Else, failure of the break could result trend reversal from 69.20-69.45.

Based on the above factors, USDINR expect to struggle in between 66.20-69.00 unless it gives either side breakout.

Hence one can follow below strategy -

**Sell USDINR Next/Far Month Future on every rise 68.40-68.60. Target 67.40-66.80 strict stop loss above 69.50.**

Or

**Buy above 69.50 Targets 71.50-72.30. Stop loss below 68.95**

### EUR-INR Future





*A breakdown the triangle continuation pattern on the monthly chart is indicating for the bearishness towards its first immediate resistance 70.05 after that sustain trade below this level probability could arise for the next level of 67.80-65.95 levels that will coincide with its previous swing low.*

*On the Upside, immediate resistance is seen at 73.50 and sustain trade above only will create probability for recovery towards 74.40-75.60.*

**Strategy – Sell EURINR Next/Far Month Future on every rise towards 72.00-72.25 Target 70.00 then 67.80. Stop loss above 73.50.**

### **Disclaimer**

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