

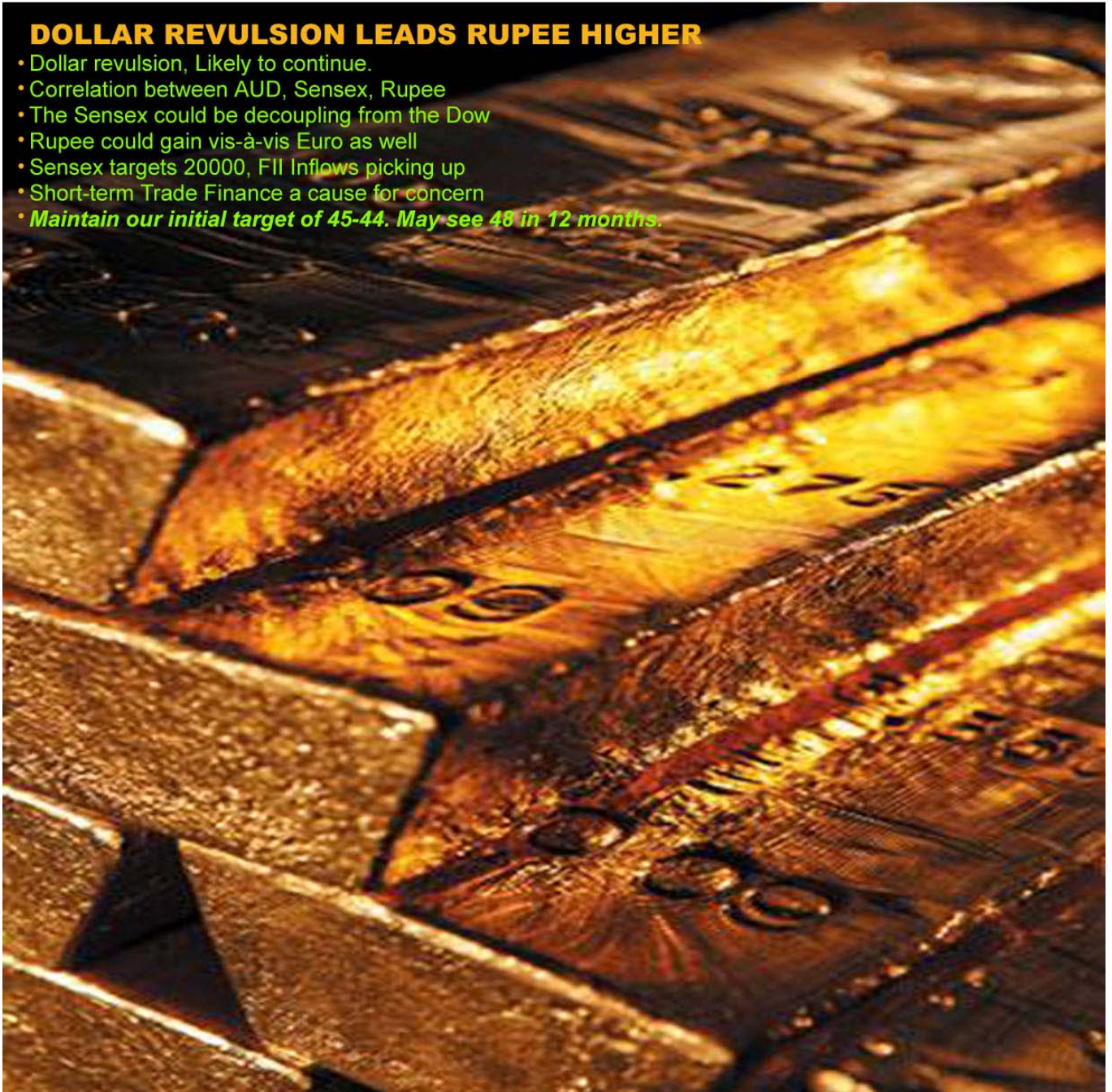
08-October-09
USDINR Spot at 46.34
Sensex 16844

Rupee

Special Report

DOLLAR REVULSION LEADS RUPEE HIGHER

- Dollar revulsion, Likely to continue.
- Correlation between AUD, Sensex, Rupee
- The Sensex could be decoupling from the Dow
- Rupee could gain vis-à-vis Euro as well
- Sensex targets 20000, FII Inflows picking up
- Short-term Trade Finance a cause for concern
- *Maintain our initial target of 45-44. May see 48 in 12 months.*



Kshitij Consultancy Services

RECAP

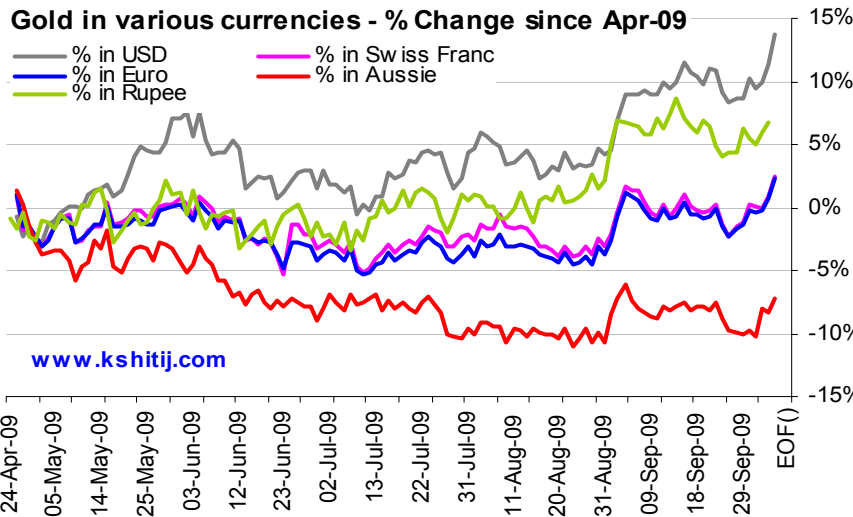
On 06-Jul-09 (USD-INR 48.54) we had maintained our overall Rupee-bullish stance, setting a long-term target of 45-44. We had, however, cautioned about an interim rally towards 49.46-50.10. The Dollar did indeed move up during the last three months to 49.44 (13-Jul) and 49.21 (02-Sep), but has fallen again since then, bringing 45-44 back into focus.

EXECUTIVE SUMMARY

- Dollar revulsion. Likely to continue.
- Correlation between AUD, Sensex, Rupee
- The Sensex could be decoupling from the Dow
- Rupee could gain vis-à-vis Euro as well
- Sensex targets 20000, FII Inflows picking up
- Short-term Trade Finance a cause for concern
- **We maintain our initial target of 45-44. May see a reversal to 48 in 12 months.**

The Dollar has jumped out of the window

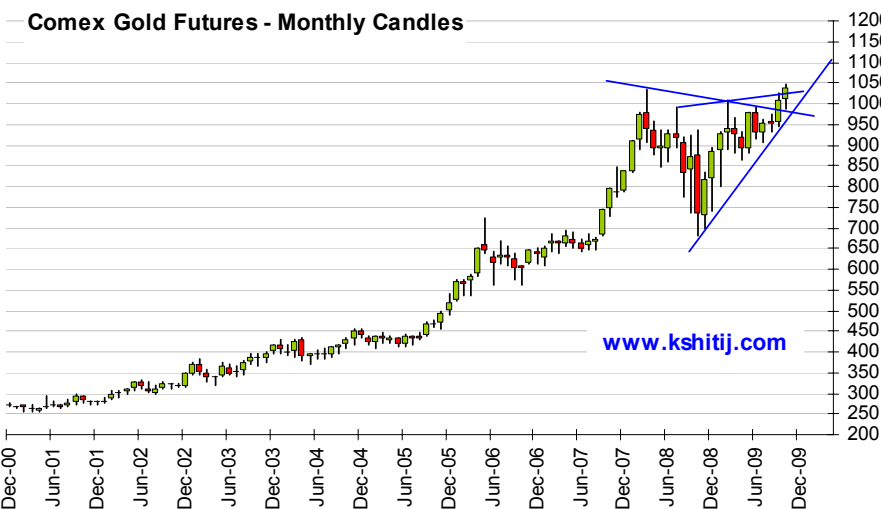
Most currencies, equities and commodities have seen a sharp and substantial increase since April-09. The sheer pace and extent of the rise has baffled most people. This is not surprising, given that everything in the world is priced in Dollars and when seen from the Dollar prism, the price of everything has gone up tremendously since April-09. Seen from a different point of view, however, *the world remains more or less where it was in April. It is only the Dollar that seems to have jumped out of the window.* The chart below shows the movement of



various currencies indexed against Gold. While the US Dollar has fallen 14% vis-à-vis Gold, the Euro and Swissy have been stable. The Rupee has fallen 6% while the Australian Dollar has gained 7% against Gold, (and thus 21% against the USD). In other words, *most currencies have not moved much against Gold or against each other. Rather, it is the US Dollar that has fallen against everything else.*

Dollar revulsion to continue

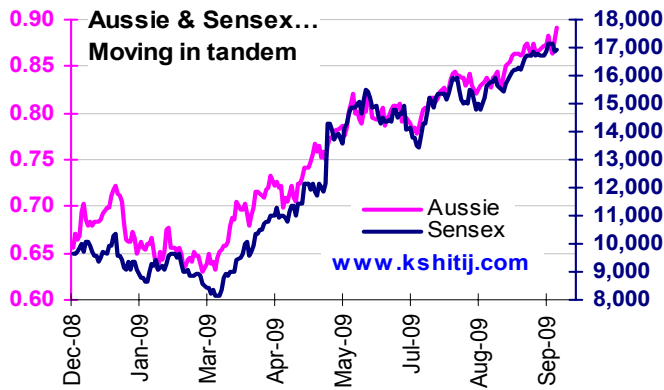
On 08-Oct-09 Gold Futures set a record high of \$1058.50



The vast amounts of public debt being issued in the USA is causing a *Dollar revulsion not only in China and the Middle East but also in America itself.* This is reflected in the rise of Gold, the only trusted store of value since the beginning of history. Gold Futures on the Comex have

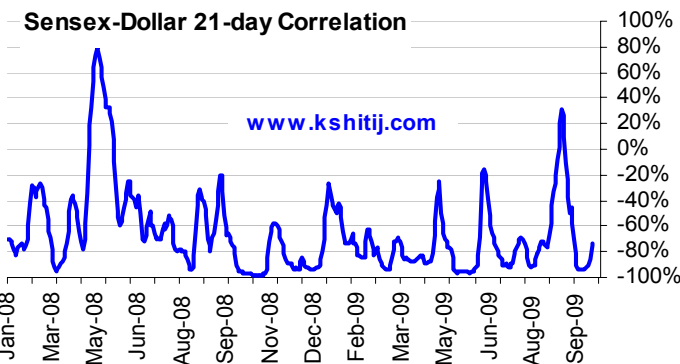
recently broken above \$1030 an ounce and *looks set to rise further towards \$1100-1200, as long as there is Support at \$1000. This builds on our forecast of \$1050 made in Apr-09, when Gold was trading near \$897.*

From Dollar revulsion to Rupee strength



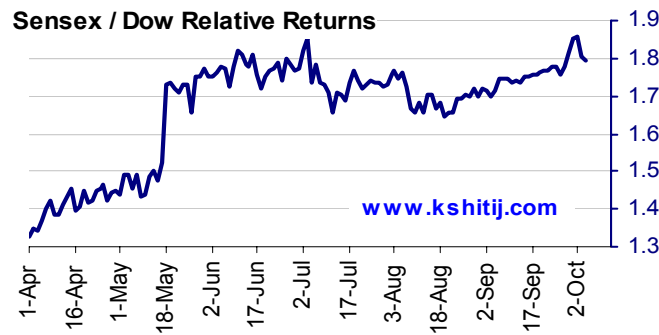
The strength of the Aussie against Gold is important for the Rupee because the Aussie has been moving in perfect tandem with the Sensex, especially since May-09. "Real Money" investors are favouring both the Australian Dollar and the Sensex, in equal measure, while searching for an alternative to the Dollar.

The Sensex may continue to rise while Dollar revulsion is in force.

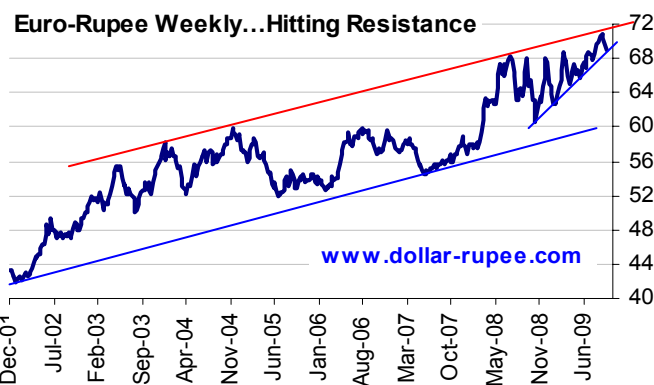


Everybody knows there is a high positive correlation (65-80%) between the Sensex and the Rupee (or negative for Sensex/USD, as on the chart alongside). This correlation saw a 20% inversion recently in September. Strength in the Sensex did not get reflected in the Rupee. However, the positive correlation is back in force now, near 75%. *Sensex gains can again translate into Rupee gains.*

Sensex and Rupee decoupling from Dow and Euro?



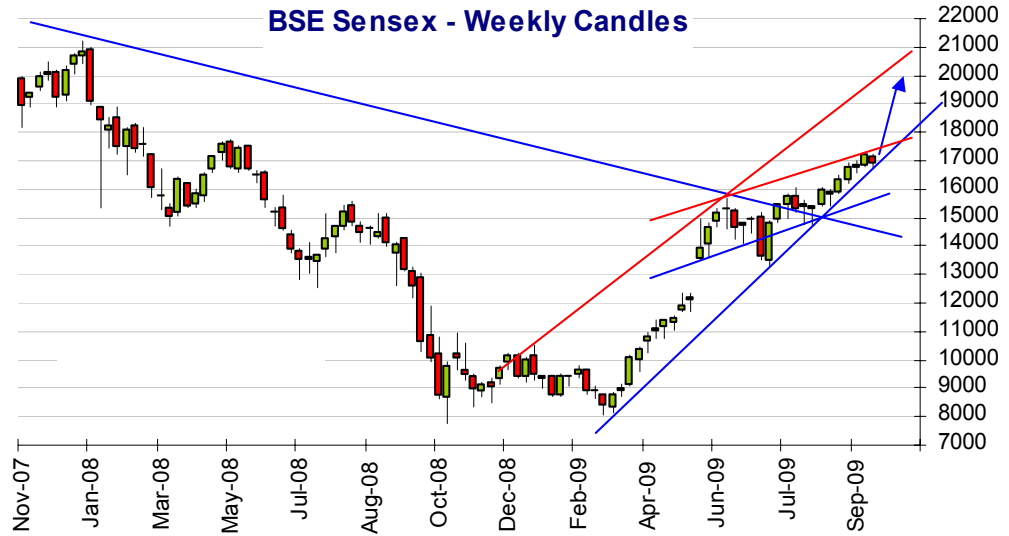
Further, doubts about the strength of the Dow (as a symbol of global Equities) may not necessarily impact the Sensex. The relative returns on the Sensex vis-à-vis the Dow are continuing to move up, especially after the post-Elections re-rating and again since August. *This suggests a modicum of "decoupling" between the Dow and the Sensex.*



Additionally, there can be chances of the Rupee gaining vis-à-vis the Euro also. The Euro-Rupee cross rate has been rising in an orderly channel from 42.40 in Feb-02 to almost 72 in Sep-09, where it faces a Resistance now. While below 72, and especially on a fall below 68, the *Euro-Rupee rate can come down towards 64, or lower. If so, the Rupee is likely to remain strong against USD.*

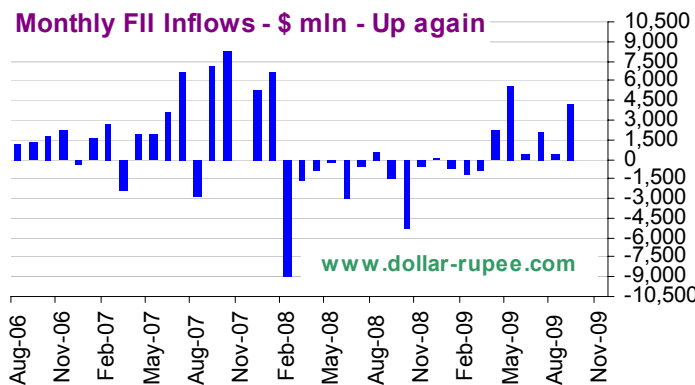
Sensex targets 20,000

On 08-Oct-09
Sensex has closed at
16843.54



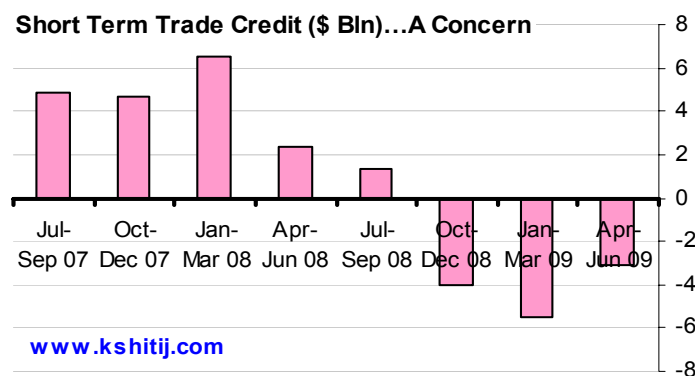
The Sensex has a good chance of rising towards 20000 by Dec-09 or by Mar-10. After the post Election re-rating in May, the Sensex rose to 15600 in June. From there, it fell to 13220 in July, but encountered strong, committed buying from “real money” investors, who have continued to buy since then, overcoming strong and popular bearish sentiment through August and September. There is strong trend Support at 16500 now and while that holds, we see good chances of a rise towards 20000 in the weeks and months ahead.

FII Inflows picking up again



A couple of important fundamental factors supporting the technical picture are that (a) the Indian equity market is the most liquid and developed among the BRIC countries and (b) India is seen to be the least dependent on exports for growth. These factors are reflected in the pickup in FII inflows in September, as seen in the chart alongside.

Short term Trade Finance a concern



That said, the one major cause for concern is that Short Term Trade Finance (used to finance exports and imports) has been negative over the last three reported quarters, as against an average of (+) \$3-5 bln in a normal year. Continued pressure on this front can have a negative impact on Exports and Imports.

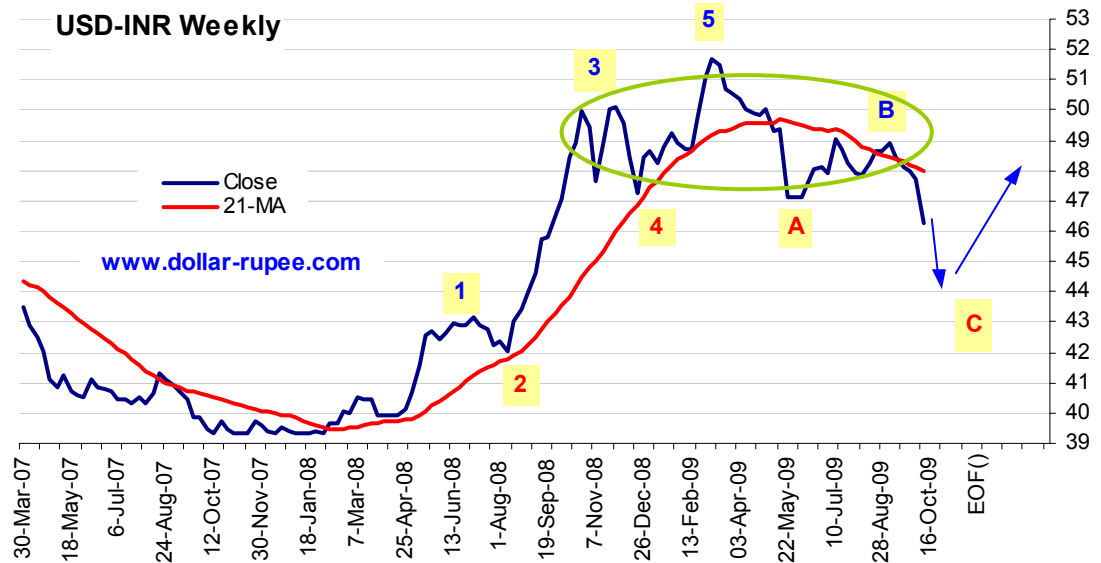
Optimistically, the global credit squeeze is seen to be easing, reflected in the slightly less negative figure for the Apr-Jun '09 quarter, as seen in the chart above.

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www.dollar-rupee.com

**Dollar-Rupee
Technical
target 45-44**

On 08-Oct-09
USD-INR has closed at
46.34



Finally, our Wave Count continues to serve us well. In the Jul-09 forecast, we had set a long term target of 45-44. The corrective B-wave of the overall A-B-C downmove actually got over in the rally to 49.44 on 13-Jul, although there was another rally to 49.21 on 02-Sep. **The final C-Wave is underway** now and can take the Dollar lower from here. Additionally, a **Bear Shoulder-Head-Shoulder can also be seen** clearly now (the green oval in the chart above). The Bear SHS has a projection of 42, the rough distance between 52.21(top of the Head) and 47.00 (Neckline) deducted from the Neckline.

However, we would like to be a little circumspect and cautious. **We would stick to our targets of 45-44**, rather than look for 42. Note that 44.15 is the 61.8% retracement of the earlier rise from 39.16 (Jan-08) to 52.21 (Mar-09) and that seems a fair target to us. An interim Support may be found at 45.69, the 50% retracement of the 39.16-52.21 upmove.

Would not be surprised to see 48 a year later

From 44.15, we would not be surprised to see the Dollar rise back towards 48.00. This is because it is possible that the current Dollar revulsion may have run its course by then. Gold may have reached \$1200 by then and the Sensex too might have touched 20000. **A corrective decline in both Gold and Sensex may thereafter trigger a rise in Dollar-Rupee towards 48, possibly 12 months down the line.**

INDIA'S BALANCE of PAYMENTS		Estimates 2009-10		Comments & reasons for changes over Jul-09	
BOP Component	2007-08	2008-09	Est Jul09		Est Oct09
Current Account	-17.0	-29.8	-43.0	-32.0	Lower projection reflects fall in Trade Deficit
Balance of Trade	-91.6	-119.4	-126.4	-115.9	Assumed lower on sharp fall in Imports, although Imports rising again.
Invisibles	74.6	89.6	83.4	83.9	Software down in Q1-0910 but Pvt Transfers have picked up.
Capital Account	108.0	8.9	53.3	54.1	Overall same, but share of Equity & Debt different
Equity Inflows	45.0	3.6	34.1	41.7	Increase reflects better outlook for FII Investments
FDI (Net)	15.4	17.5	15.6	18.3	Inflows average \$2.18 bln p.m. Outflows estimated at 30% of Inflows.
FII	29.6	-13.9	18.5	23.4	Assumed 1.57 times \$14.88 bln, FII Investments recd Apr-Sep'09
Debt Inflows	63.0	5.2	19.2	12.4	Lowered on concerns on Short-term Trade Credits
ECBs	22.6	8.2	8.0	8.0	Assumed lower on strain in global financial market.
External Assistance	2.1	2.2	2.1	1.8	Assumed stable, average of last four years.
Banking Capital (ex NRI Depos)	11.6	-7.7	-3.8	-3.8	Assume average of last 3 years, excluding positive figure of 2007-08.
NRI Deposits	0.2	4.3	2.9	4.3	Assumed higher again on recent pickup in NRI Deposits
Short term Trade Credits	17.2	-5.8	5.4	-0.4	Adjusted downward as Q1-0910 figures negative, like in Q3-Q4 08-09
Rupee Debt	-0.1	-0.1	-0.1	-0.1	Assumed stable, average of last three years.
Other Capital	9.5	4.2	4.8	2.6	Adjusted downward slightly
Change, Reserves *	91.0	-21.0	10.3	22.1	Net-net, reflects reduction in Trade Deficit

2007-08 & 2008-09 figures are as per RBI. 2009-10 figures are projections by KSHITIJ. (*) Exclusive of Valuation changes.

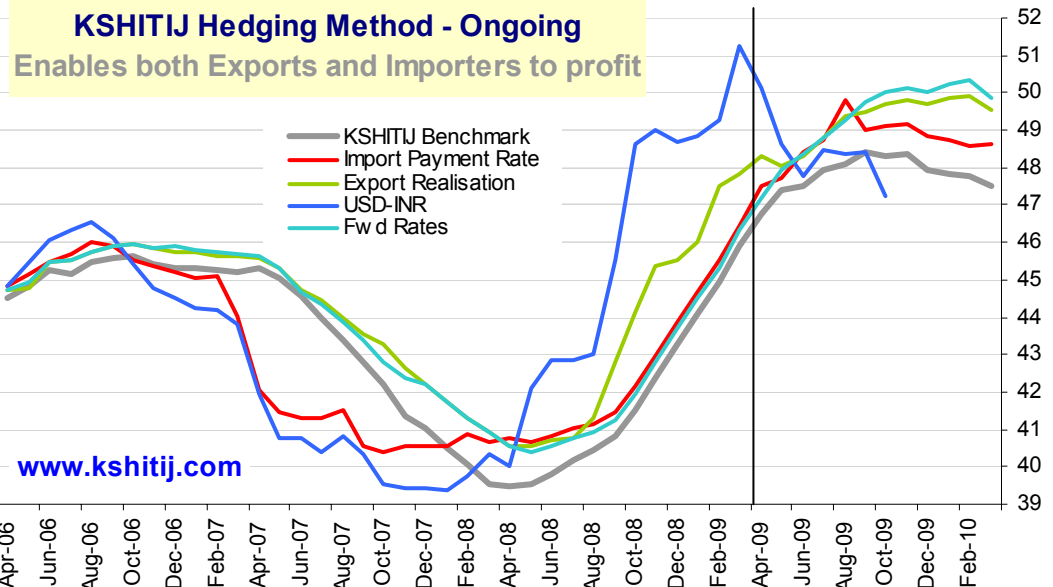
The KSHITIJ Hedging Method continues to make money

The **KSHITIJ Hedging Method** is a complete decision making framework for managing FX Risk.

It has been tested in **REAL** time and has been profitable in all market conditions over the last three years - **Ranged** (2006-07), **Falling** (2007-08) and **Rising** (2008-09). Further, it is continuing to make money in 2009-10.

Results of the actual Export Realisations and Import Payments (net of all Hedging Costs) are given alongside, compared against the Rupee (No Hedge scenario), against the KSHITIJ Dynamic Benchmarks and against Forwards (Fully Hedged scenario).

CALL NOW to see how the KSHITIJ Hedging Method can make money for you!



Results of the KSHITIJ Hedging Method					
	2006-07	2007-08	2008-09	2009-10	4-Yr Avg
Export Realsn	45.56	43.30	43.59	49.24	45.42
Benchmarks	45.24	42.76	41.86	47.82	44.42
USD-INR	45.19	40.24	46.00	48.42	44.97
Import Paymt	45.28	40.97	42.62	48.69	44.39
Fwd Rates	45.60	43.21	42.42	49.32	45.14
Exp - Imp	0.28	2.32	0.96	0.55	1.03
% Gain	0.6%	5.7%	2.26%	1.13%	2.42%

Avg Export-Import Margin over 4 years **2.42%**

Comparing against Rupee	Export Realsn	0.81%	7.59%	-5.26%	1.69%	1.21%
	Import Paymt	-0.18%	-1.81%	7.35%	-0.55%	1.20%
	Gain/ Loss	0.63%	5.78%	2.10%	1.14%	2.41%
Comparing against Benchmark	Export Realsn	0.70%	1.26%	4.11%	2.96%	2.26%
	Import Paymt	-0.08%	4.17%	-1.81%	-1.81%	0.12%
	Gain/ Loss	0.63%	5.44%	2.30%	1.15%	2.38%
Comparing against Forwards	Export Realsn	-0.10%	0.21%	2.75%	-0.17%	0.67%
	Import Paymt	0.72%	5.17%	-0.48%	1.28%	1.67%
	Gain/ Loss	0.62%	5.38%	2.27%	1.11%	2.35%