

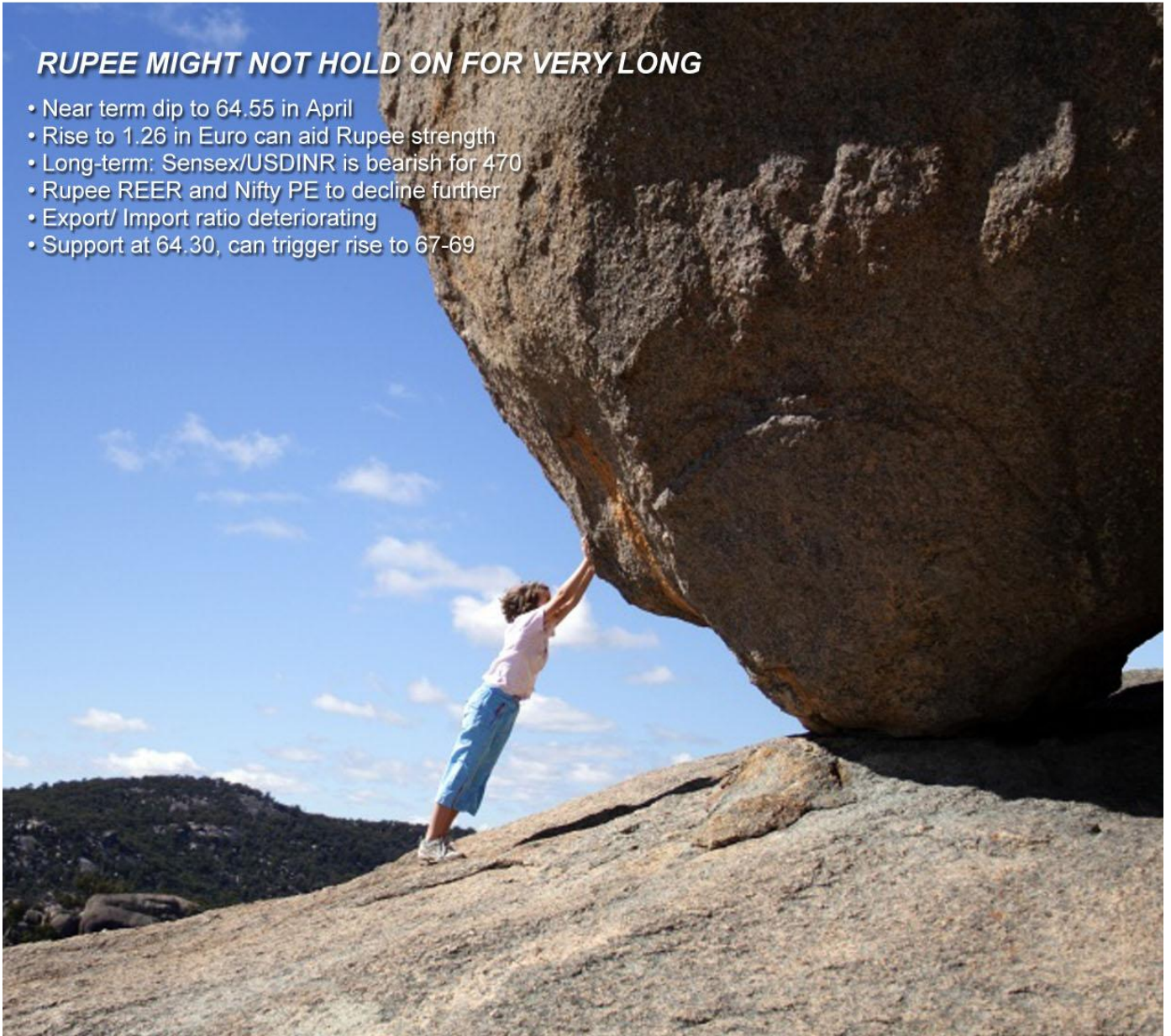
03-Apr-18
USDINR Spot 65.00
Nifty 10113
Euro 1.2315

₹upee

Quarterly Forecast
70% Reliable

RUPEE MIGHT NOT HOLD ON FOR VERY LONG

- Near term dip to 64.55 in April
- Rise to 1.26 in Euro can aid Rupee strength
- Long-term: Sensex/USDINR is bearish for 470
- Rupee REER and Nifty PE to decline further
- Export/ Import ratio deteriorating
- Support at 64.30, can trigger rise to 67-69



RECAP (03-Apr-18): USD-INR 65.00 / Nifty 10113 / Euro 1.2315

We voiced doubt about Rupee strength in our Jan-18 quarterly forecast (when USDINR was 63.37) and called for a rise to 65.00. Accordingly, the Rupee weakened to 65.3075 in February and has consolidated sideways in March along with stability in the Euro. At the same time, the Rupee has weakened against the Euro and Yen, as expected. Global Equities tumbled in February but have stabilized since despite Trump declared trade wars in March. The ECB and FOMC meetings did not move markets much in March.

EXECUTIVE SUMMARY

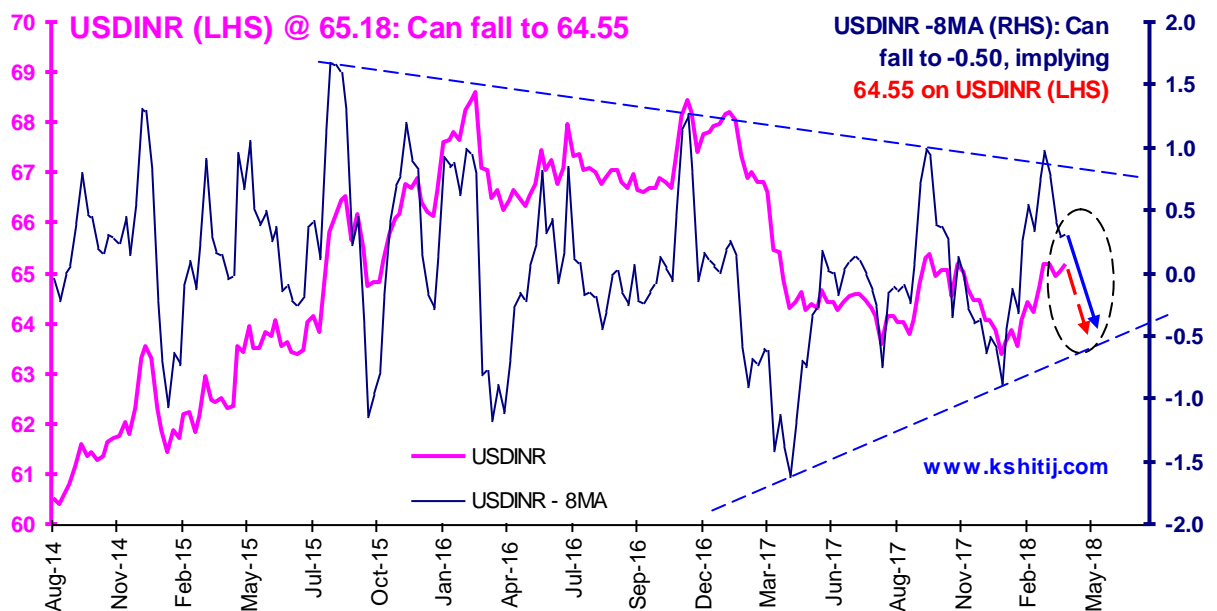
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NEAR TERM
USDINR is overbought in the near term.

Correction down to 64.55 is possible in April.

03-Apr-18:
USDINR Spot
65.00

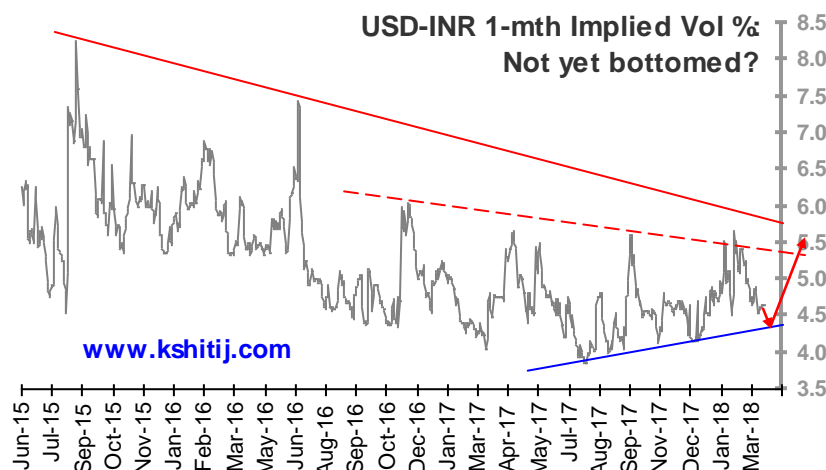
Spot - 8Wk MA
0.17



The sharp rise from 63.2525 in Jan-18 to 65.3075 in Feb-18 had left Dollar-Rupee technically Overbought in the medium term, as measured by the difference between the Spot and the 8-week Moving Average. The sideways consolidation in March has brought this measure down a bit. A further correction down to -0.50 is possible in April, which can pull Dollar-Rupee down towards 64.55.

Option Volatility
too is falling in the near term

02-Apr-18:
USDINR 1-month
Option Implied
Volatility 4.65%



The sharp rise in Dollar-Rupee from Jan to Feb had also resulted in a sharp rise in the 1-month Option Implied Volatility (1M IV) to 5.65%.

However, instead of rising further to and past 6.00%, the IM IV has fallen back to 4.65% and may dip some more to 4.40% before picking up again.

Such a dip to 4.40% can also help pull Dollar-Rupee

down to 64.55 in April. Thereafter, assuming that the 1M IV starts moving up again towards 5.50%, the Rupee might again start weakening towards 65.35 and possibly higher.

Euro can rise to 1.26 in April-May while above 1.22

03-Apr-18
 EURUSD 1.2315



The Euro has consolidated sideways between 1.2556 and 1.2154 in February and March. **While above 1.22 there are chances of the Euro moving up towards 1.26 and maybe even 1.28 over the next 4-5 weeks. Should that happen, Dollar-Rupee can well come down towards 64.55.**

Resistance at 1.26 on Euro to be watched

03-Apr-18
 EURUSD 1.2315
 EURINR 80.10



Although the Euro can move up to 1.26 in the next few weeks (leading to near-term Rupee strength), and **we also think there are chances of further rise to 1.28-30, we are also aware of long-term Resistance near that level.** If that holds, the Euro could come down in the longer term, leading to long-term Rupee weakness.



In any case, the Euro-Rupee is in a decent upmove targeting 83-84 while above Support at 79. As such, while we see chances of near-term Rupee strength towards 64.55, the Rupee may weaken in the longer term. **Note that 84 on Euro-Rupee and 1.27 on Euro-Dollar translates into 66.14 on Dollar-Rupee.**

Sensex/ Dow can rise in near term.

02-Apr-18:
 Sensex/ Dow
 1.4065



Although the overall sentiment for Global Equities is bearish, the Sensex is outperforming the Dow Jones in the near term.

The Sensex/Dow has risen from a low near 1.3146. **If it manages to break above 1.41, it can rise to 1.45, which is a stronger Resistance. This rise can help Dollar-Rupee dip to 64.55 in April.** Thereafter, Sensex/Dow can again start falling from 1.45, leading to fresh Rupee weakness.

LONG TERM

Sensex is bearish in Dollar terms. Can target 470, possibly lower.

03-Apr-18
Sensex/USDINR
512.49



In the bigger picture, the Sensex/USDINR has peaked at 567 and can fall towards 470 by May or June, preceded by a small rally to 525.

While the small rally to 525 can help USDINR fall to 64.55 in April, the next decline to 470 on Sensex/USDINR can lead to a rise towards 65.35 over May-June.

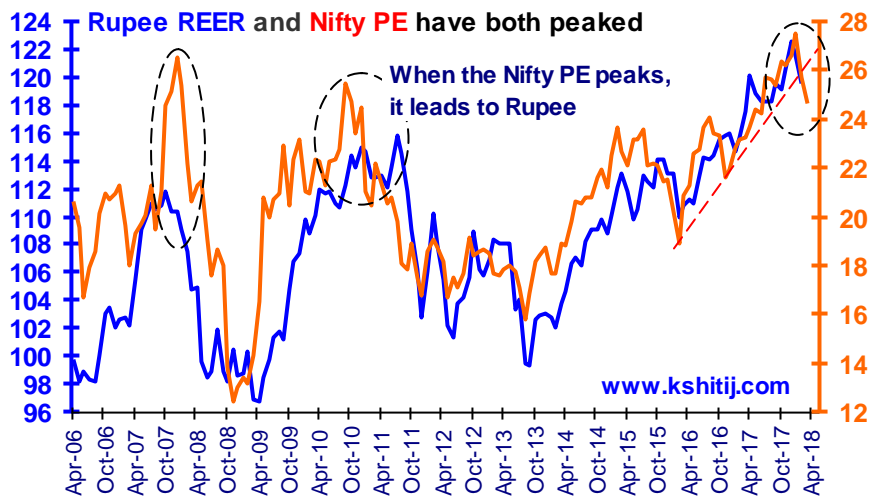
Beyond that, a break below 470 (if seen) can be very bearish and

could trigger a rise in Dollar-Rupee past 65.65-75 also, targeting 67-69. To be watched.

Rupee REER and Nifty PE have peaked. Further weakness likely.

Feb '18
Rupee REER
119.51

Mar '18
Nifty PE 24.66



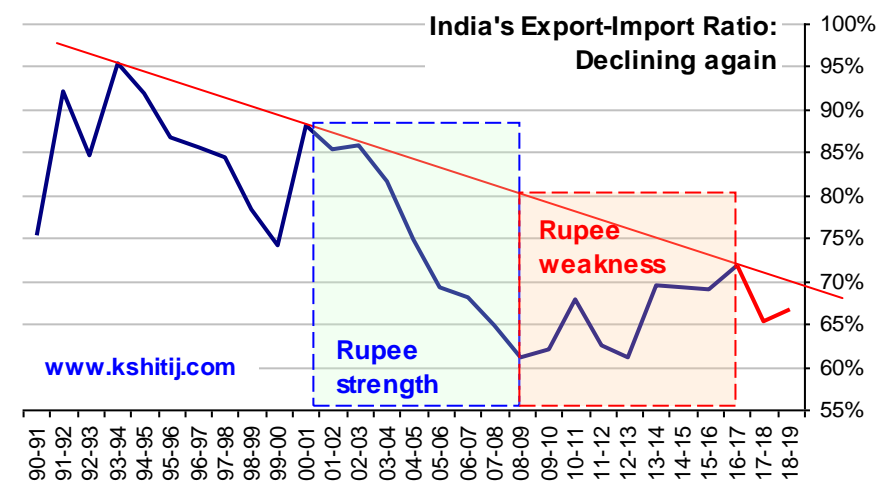
The Rupee REER and Nifty PE have both peaked, in line with our warnings over the last six months. There are now chances that **the Nifty PE can come down further towards 23, maybe even 22**, over the coming months.

If so, **it can well drag the Rupee REER down with it, leading to Rupee weakness** in the coming months.

Weakness in Export/Import ratio. Increase requires Rupee weakness.

2017-18
Export/ Import
ratio 65.3%

2018-19
projected at
66.7%



On a "fundamental" note, **the long-term decline in India's Export/ Import ratio (the portion of imports financed by exports) has resumed** in FY 2017-18, after an improvement in 2008-17, from 61% to 71.8%. This period had seen the Rupee weaken from 40 to 69 (see the area marked in red).

Prior to that, the period 2001-08 had seen the

Export/Import ratio deteriorate from 88% to 61% (blue area), during which the Rupee had also gained from 49 to 40. This seems to confirm the economic theory that Rupee strength tends to lead to loss of export competitiveness and vice versa. If this hypothesis be correct and **if the ratio is to improve even a little bit to 67% in 2018-19, it might mean that the Rupee will have to weaken a bit, at least towards 67, maybe even 69.**

Initial dip to 64.55 to be followed by multi-month rise that can target 67, even 69.



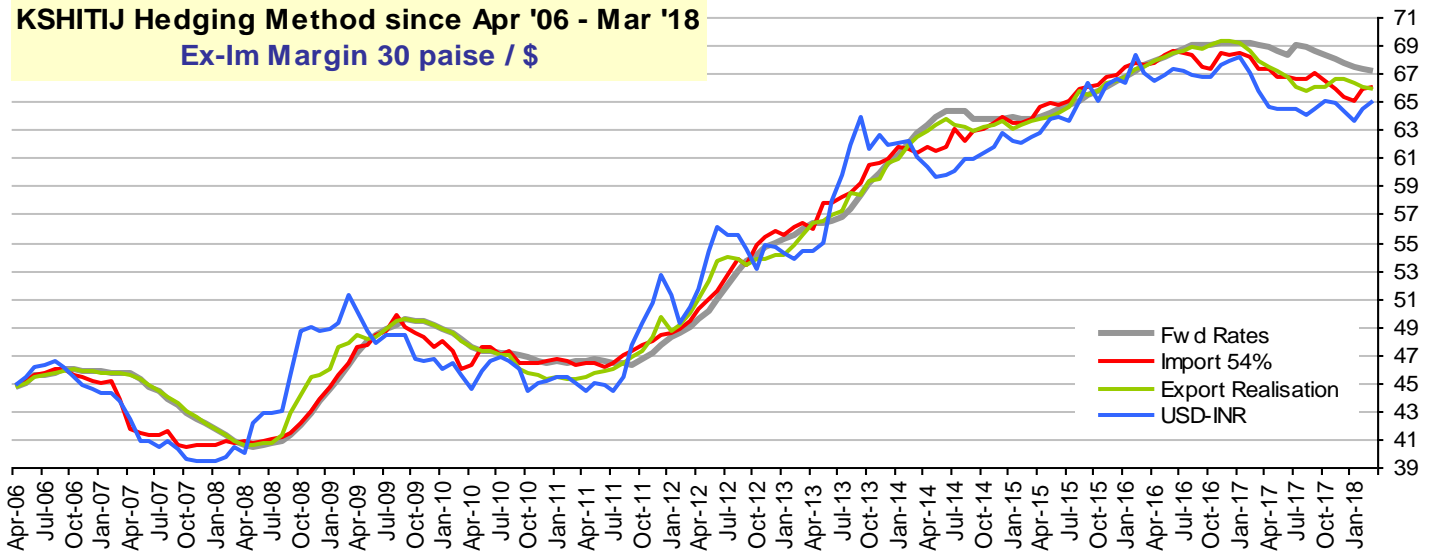
Taking everything into consideration, we are projecting a dip to 64.55 in April '18. There should be a strong trendline Support at 64.30 in May '18. If that holds (we think it might based on the reasons cited in the last page), it could trigger a multi-month rise that could target 67, even 69, in the long term. For that to happen, we will have to see a rise past 65.35 in May-June and then a rise past 65.65 thereafter.

There is clarity that the Sensex could weaken in the long term, which would be a catalyst for long-term Rupee weakness.

However, there is lack of clarity on the Euro. At the moment we think that there are greater chances of Euro strength towards 1.28-30 in the coming months, which would traditionally support Rupee strength, rather than weakness. However, in case the Resistance at 1.26 turns out to be unsurmountable for the Euro and it starts falling towards 1.20 and 1.18, such a fall would surely exacerbate Rupee weakness.

INDIA'S BALANCE of PAYMENTS		Est 2017-18			Comments & reasons for changes over earlier estimates	
BOP Component	15-16	16-17	28-Sep-17	5-Jan-18		25-Mar-18
Current Account	-22.2	-15.3	-46.0	-49.4	-49.3	Current Account Deficit can rise on higher Imports
Exports	266.4	280.1	299.3	308.3	309.8	
Imports	396.4	392.6	441.0	459.6	472.0	Look for higher Imports based on higher Crude imports
Balance of Trade	-130.1	-112.4	-141.7	-151.3	-162.1	
Invisibles	107.9	97.1	95.6	102.0	112.9	Invisibles rise due to higher Transfer Receipts + Misc. Receipts
Capital Account	41.1	36.5	72.9	72.8	84.0	Projected higher on higher Debt inflows
Equity Inflows	31.9	43.2	48.1	52.1	53.4	FPI Inflows estimated higher due to FPI investment into the Debt market.
FDI (Net)	36.0	35.6	32.0	37.4	31.7	
Portfolio Investments	-4.1	7.6	16.1	14.7	21.8	
Debt Inflows	5.9	-14.3	22.2	21.2	30.0	Projection increased
ECBs	-4.5	-6.1	4.2	1.4	0.8	Projection of net inflow on ECBs is reduced
External Assistance	1.5	2.0	2.3	1.5	2.0	
Banking Cap (ex NRI Depos)	-5.4	-4.2	3.0	4.9	8.3	
NRI Deposits	16.1	-12.4	7.4	4.8	7.0	
Short term Trade Credits	-1.6	6.5	5.4	8.6	12.0	Short-term Credit projected higher.
Rupee Debt	-0.1	-0.1	0.0	0.0	0.0	
Other Capital	3.3	7.6	2.6	-0.5	0.6	
Errors & Omissions	-1.1	0.4	0.4	1.0	1.8	
Change, Reserves *	17.9	21.6	27.2	24.4	36.5	FX Reserves may increase, but slightly

KSHITIJ Hedging Method since Apr '06 - Mar '18
Ex-Im Margin 30 paise / \$



Results of the KSHITIJ Hedging Method upto Mar 2018							
	Export Realsn	Benchmarks	Dollar-Rupee	Import Paymt	Fwd Rates	Exp - Imp	% Gain
06-07	45.56	45.24	45.18	45.23	45.60	0.33	0.73%
07-08	43.29	42.49	40.29	40.94	43.21	2.34	5.73%
08-09	43.59	41.86	46.00	42.62	42.42	0.96	2.26%
09-10	48.79	47.54	47.46	48.05	48.67	0.74	1.53%
10-11	46.19	46.62	45.56	46.72	46.87	-0.54	-1.15%
11-12	47.41	46.74	47.91	47.52	47.18	-0.11	-0.24%
12-13	53.69	51.96	54.39	53.86	53.29	-0.18	-0.33%
13-14	59.03	56.35	60.34	59.52	58.95	-0.48	-0.81%
14-15	63.26	62.07	61.17	62.85	63.86	0.42	0.66%
15-16	65.63	64.50	65.38	66.14	65.62	-0.51	-0.78%
16-17	68.66	67.26	67.06	68.06	68.82	0.60	0.88%
17-18	66.37	65.82	64.47	66.29	68.21	0.07	0.11%
144 Mth Avg	54.29	53.21	53.77	53.98	54.39	0.30	0.56%
Average Export-Import Margin							0.56%

Comparing against Rupee - Unhedged scenario				Comparing against Forwards - Fully Hedged scenario			
Year	Export Realsn	Import Paymt	EXIM P/L	Year	Export Realsn	Import Paymt	EXIM P/L
06-07	0.83%	-0.10%	0.73%	06-07	-0.10%	0.82%	0.73%
07-08	7.45%	-1.63%	5.82%	07-08	0.19%	5.24%	5.43%
08-09	-5.26%	7.35%	2.10%	08-09	2.75%	-0.48%	2.27%
09-10	2.80%	-1.25%	1.55%	09-10	0.24%	1.27%	1.51%
10-11	1.37%	-2.55%	-1.18%	10-11	-1.46%	0.32%	-1.14%
11-12	-1.05%	0.81%	-0.24%	11-12	0.48%	-0.73%	-0.24%
12-13	-1.29%	0.96%	-0.33%	12-13	0.75%	-1.09%	-0.34%
13-14	-2.16%	1.36%	-0.80%	13-14	0.14%	-0.96%	-0.82%
14-15	3.43%	-2.75%	0.68%	14-15	-0.94%	1.59%	0.65%
15-16	0.39%	-1.18%	-0.79%	15-16	0.01%	-0.80%	-0.78%
16-17	2.40%	-1.50%	0.89%	16-17	-0.23%	1.10%	0.87%
17-18	2.95%	-2.83%	0.12%	17-18	-3.29%	2.81%	-0.48%
144 Mth Avg	0.97%	-0.41%	0.56%	144 Mth Avg	0.04%	0.56%	0.60%