Forex Fortune

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UP ELECTION RESULTS HOLD KEY TO NEXT WEEK MARKET DEVELOPMENT

Highlights:

--GLOBAL and INDIAN MARKET DEVELOPMENTS
-DATA HIGHLIGHTS AND FX MARKET DEVELOPMENTS
-TECHNICALS
-STRATEGY FOR HEDGING AND SUGGESTED PORTFOLIO
-DATA AND EVENTS FOR NEXT WEEK.

Major economic events:

INR weakened as persistent demand for Oil payments overshadowed FII inflows. Equity markets also cooled off from its recent highs as market participants are nervous of taking positions ahead of UP election results due on March 6 th. Trade deficit also worsened in Jan as higher imports offset moderate pick up in Exports. Indian Jan exports climbed 10.1% to USD 25.34 bn. Imports climbed 20.25% to USD 40.1 bn. Jan trade deficit is higher at USD 14.76 bn. Apr-Jan Exports is now at USD 242.79 bn vs prior year data of USD 196.63. Imports in Apr-Jan is USD 391.45 bn as against USD 302.53 bn during the same period last year. Trade deficit in Apr-Jan stands at USD 148.66 bn as against USD 105.89 bn during the same period last Year.

As expected, GDP growth also slowed down. Indian GDP grew by 6.1% in Oct-Dec period. This is the slowest growth in 2 years.

Rally in Crude prices has triggered renewed concern on future inflation and may constrain RBI from effecting rate cut on March 15 th. Tight liquidity in domestic market also spurred 30 and 90 day rates to climb beyond 11%.Globally, rally in Equity and commodity markets may stall as major central banks are unlikley to pump further liqudity.

In the last few months, major asset classes have rallied due to BoE asset purchases, ECB'S LTRO, BOJ's pledge to pursue monetary easing and Fed Chairman's pledge to keep rates low till 2014. ECB lent 529.5 bn Euro in LTRO as against Euro 489 bn expected by market.

There has been some dampening of mood as Fed Chairman in his last week testimony refrained from dovish statement. There has also been opposition from Germany to further LTRO operation by ECB. In the last few days, USD treasury yield curve has steepened providing a base for further USD gains against Yen.

Global economic data has shown further improvement. US last quarter GDP was revised upwards to 3%. Jobless claims has fallen and PMI (mfrg) has shown improvement in China.

Summary: Rally in Crude and nervousness on UP election results along with expanding trade deficit and slow down in GDP pushed Equity markets and INR lower. Euro ended the week lower as Fed Chairman refrained from QE talk and also due to Spanish announcement that fiscal deficit target will be revised higher. ECB has lent Euro 529 bn in LTRO. 25 member states signed EU fiscal treaty.

UP election results and ECB/BOE rate decisions along with US employment report are the major events in the coming week.

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Important levels to watch for are: 1) EUR/USD: 1.3150/1.3070/1.2975 on the downside and 1.3320/1.3485/1.3545 on the upside. 2) USD/INR Supports: 49.32/49.05/48.85 on the downside and 49.75/50.50 on the upside.

Other Significant market news:

Fed Chairman said that economic recovery has to be stronger for job growth. Fed Chairman added that sustaining a highly accommodative monetary policy stance is consistent with the Fed's goals of achieving full employment with low and steady inflation. He left the door open for another round of monetary stimulus.
G 20 said that EU has to do more before it could qualify for IMF funding and called on EU Zone to put stronger firewalls. Italy was able to sell long term bonds at lower yields. Greece was downgraded to selective default. Euro tumbed as Spain revised its fiscal deficit target. 25 out of 27 member states signed EU fiscal treaty.
BOJ Governor reiterated that monetary easing may have to continue till inflation of 1% is achieved.

BOE member said that there is no merit in further QE as surge in Oil prices and potential wage pressures pose threat to inflation stability.

Data Highlights of last week:

-US Pending home sales climbed 2% m/m vs consensus of 1.1%.
-US Durables order declined sharply by -4% m/m. Ex-autos, the indicator declined by -3.2% m/m.
-US House price index declined more than expected by -4% y/y and Conference board consumer confidence was reported at 70.8.
-US GDP (Q 4) was revised higher to 3% and Chicago PMI was higher at 64 vs consensus of 61.6.
-US Personal income climbed only 0.3% vs consensus of 0.5%, Personal spending grew less than expected by 0.2%. Core PCE deflator was reported at 0.2% m/m.
-Weekly jobless claims was marginally lower at 350 k vs 351k consensus.
-EU PMI (mfrg) was finalized at 49 and flash CPI estimate was reported at 2.7% Y/Y
-EU unemployment rate inched higher to 10.7% from 10.6%.
-EU CPI was mildly lower at 2.6% and Core CPI moderated to 1.5% y/y vs 1.8% consensus.
-Eurozone confidence indicators showed some mild improvements. Economic confidence rose to 9.44., industrial confidence improved to -5.8.
-EU money supply climbed 2.5% y/y.
-German unemployment was reported at 7.4%.
-German Gfk consumer climate was reported at 6. German CPI rose 2.3% y/y.
-EU PPI rose 0.7% m/m and 3.7% y/y in Jan.
-UK PMI(construction) improved to 54.3.
-UK CBI realized sales was better than expected at -2.
-UK Gfk consumer confidence was unchanged at -29. Money supply increased by 1.6%.Mortgage approvals climbed to 59k.
-UK PMI(mfrg) moderated to 51.2 vs consensus of 51.9. Nationwide house price index climbed 0.6%.

-Japanese PMI(mfrg) was reported at 50.5. Industrial production grew 2% m/m and housing starts declined -1.1% y/y

-Japanese household spending declined -2.3% y/y and unemployment rate was unchanged at 4.6%.

-Japanese National Core CPI was unchanged at -0.1% y/y.

Market developments:

1) WTI Crude closed at USD 106.50.
2) Gold closed the week at USD 1712.
3) Indian Nifty closed at 5359.
4) USD 3 M libor closed at 0.48% and US 10 Year Treasury Yield closed at 1.98%.

WEEKLY Technical's:

EURO/USD: The pair is above 50, but below 20/100/200 day averages. Weekly resistances are at 1.3325/1.3485 1.3550. Supports are at 1.3150/1.3070. Daily MACD is in sell zone, implying an important top at 1.3485.Weekly MACD is in buy zone, implying important bottom at 1.2625.

GBP/USD: The pair is now above 50/100 day major moving averages. The pair closed below 200 day average and is still short of 3 month high.Support is at 1.57. Next important resistance is at 1.5992 and upside break of the same would put the pair in new bull orbit. Downside break of 1.57 could trigger bigger fall and imply that the rally to 1.5992 is over for the present.Daily MACD is in buy zone, implying important support at 1.5650 and weekly MACD is in buy zone, implying important bottom at 1.5235.

USD/YEN: The pair is now above 20, 50 and 200 day moving averages, Daily MACD is in buy zone, implying important bottom at 76 and weekly MACD is in buy zone, implying another important bottom at 75.50. Next Important resistance is at 85. Only a downside break of 80 would turn the pair sideways again.

USD/INR: The pair has recovered from 3 month low of 48.65 to close the week at 49.50. Rally above 49.75 could accelerate gains to 50.50 (100 and 50 day moving averages). Daily MACD is in buy zone, implying important bottom at 48.65 and weekly MACD is in sell zone, implying important top at 54.30. 200 day moving average support is now at 48.25.

Strategy for USD/INR: Buyer's credit be hedged from comfort angle. Imports be hedged on dips to 49.35/49.05 and Exports be hedged at 50.50.

Currency Map:

Currency Pairs	WEEKLY CLOSE	PRIOR WEEK CLOSE	% change
EURO/USD	1.3197	1.3448	-1.86
GBP/USD	1.5833	1.5872	-0.24
USD/JPY	81.79	80.60	1.47
USD/INR	49.50 1.3197	48.94 1.3448	1.14 -1.86

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USD/INR WEEKLY CHART

Suggested Portfolio: 1) USDINR longs be initiated at 49.32 stop 48.85 target 50.50. 2) Euro/USD can be bought on dips to 1.3070, stop 1.2960, target 1.3320.

Hedging suggestion: Considering the volatility in the markets, suggest hedging of Currency exposures be done from costing/affordability angle.

Data and Events for upcoming week:

US Data: ISM (non mfrg), Factory orders, ADP employment report, Challenger job cuts. Jobless claims, Nonfarm payrolls, trade balance and wholesale inventories jobless claims, Challenger job cuts, nonfarm productivity, Fed chairman testimony, ISM (non mfrg), unemployment rate and non farm payrolls.

EU data : Sentix investor confidence, retails sales, revised GDP, German factory orders, German Industrial production, ECB press conference

UK data: PMI(services), Halifax HPI, MPC rate statement, Manufacturing and Industrial production, PPI, GDP estimate)

Japan: leading indicators, Final GDP, Machine tool orders