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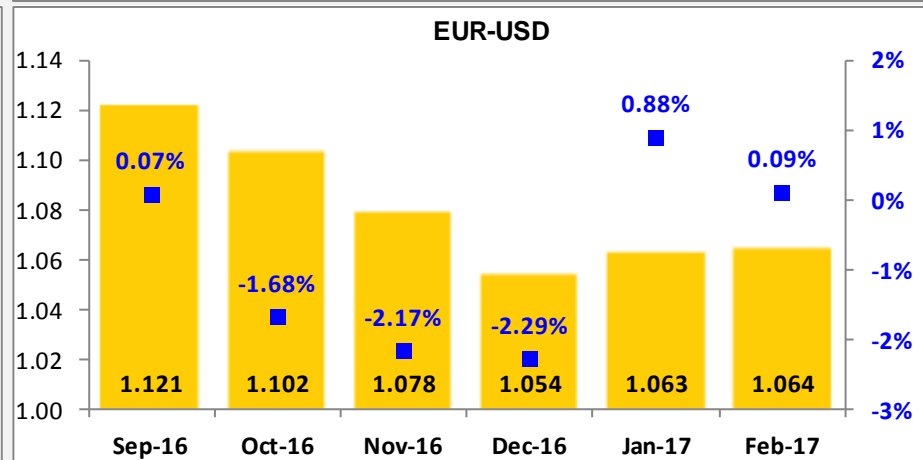
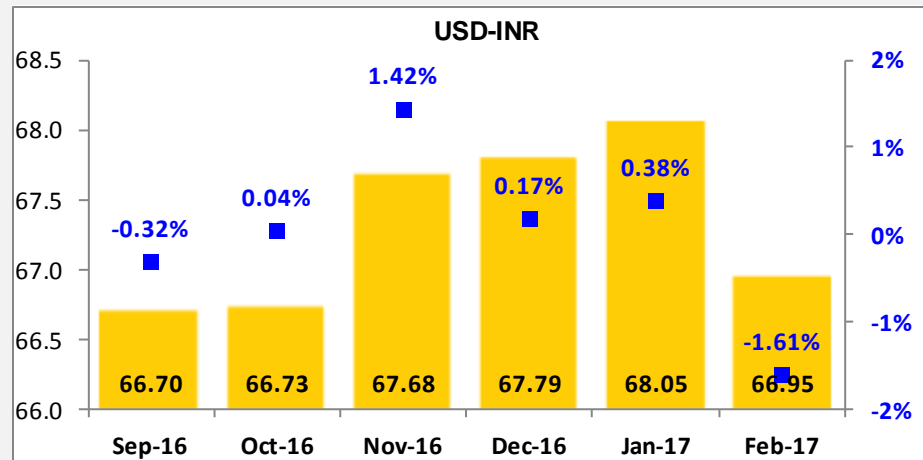
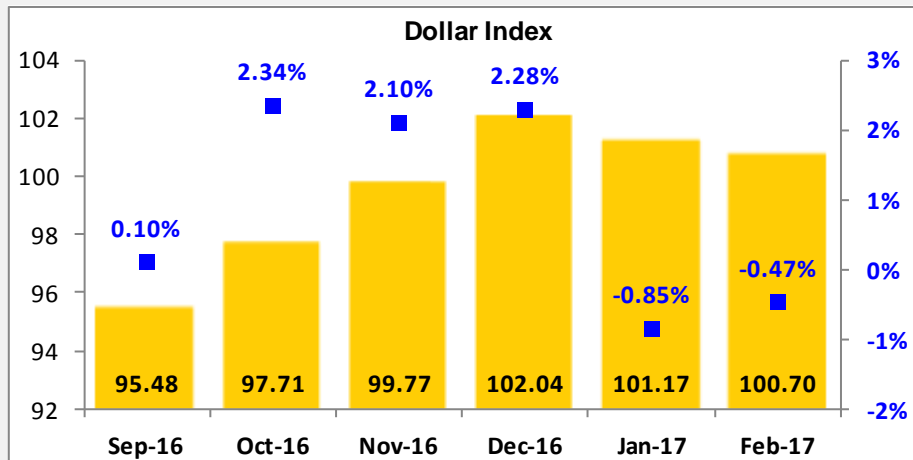
Medium term Outlook on Currency markets

March 2017



Market recap

- Upbeat sentiments post union budget and hawkish stance from RBI resulted in Rupee strengthening to post Demonetization highs against the Dollar
- Lack of clarity on fiscal policies from Trump administration weighed on Dollar and kept the trade mixed. Political uncertainty in EU over French elections pressured the Euro



Key drivers for currency markets moving ahead

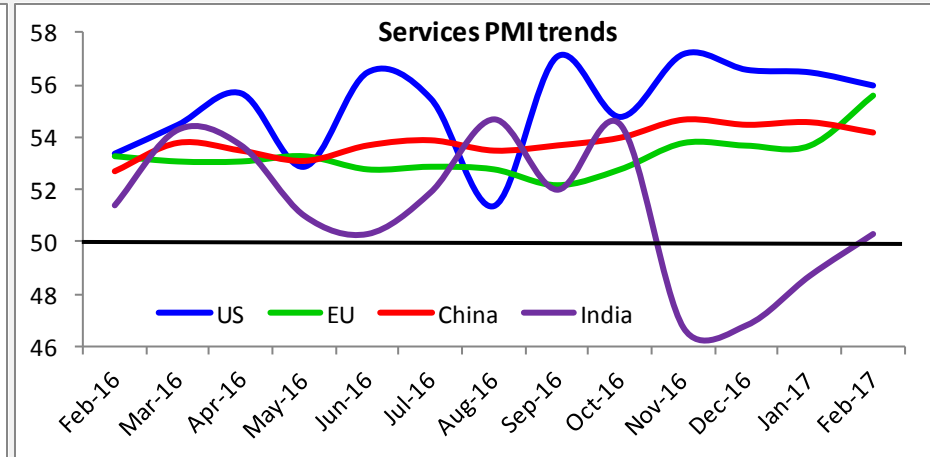
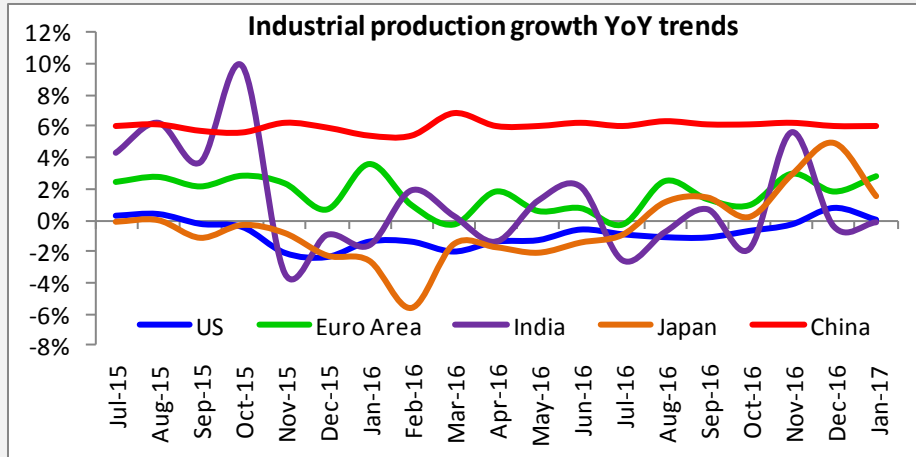
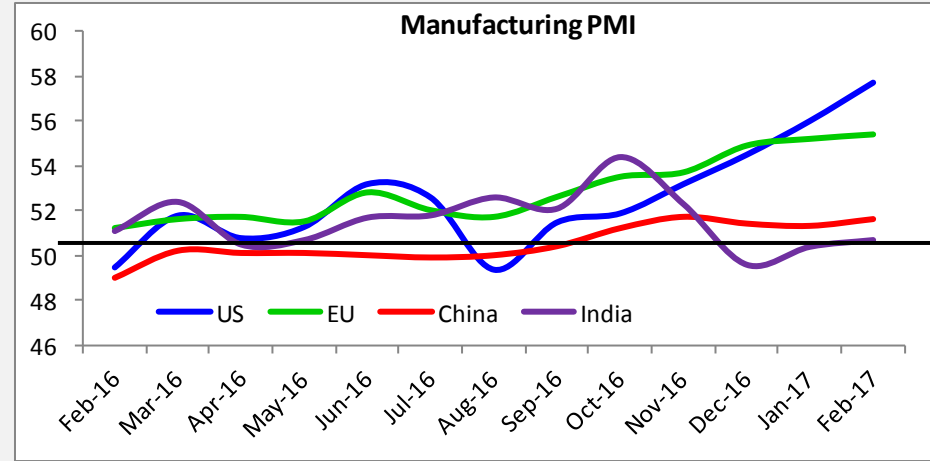
- ECB Monetary policy meeting (Mar 9th) – Although ECB is expected to maintain status quo in the current monetary policy, comments and committee projections will be keenly eyed to gauge the monetary policy stance for the remainder of the year and beyond in the wake of recent jump in inflation
- US NFP data (Mar 10th) – With expectations over a rate hike as early as March seen surging in the recent days tracking hawkish statements from FOMC officials and Trump's statements on his promised fiscal boost, NFP data will be keenly eyed with any subdued numbers weighing on the rate hike prospects
- US Debt ceiling suspension expires on Mar 15th – The ceiling on the US federal debt was suspended back in November 2015 through March 15th this year. When the suspension is lifted on March 15th, the debt ceiling will be put at just above USD 20 billion which shall provide about six months time for the US president to increase the limit if he were to enact the promised spending plans. However, with republicans being in control in both the houses of congress, Senate and house of representatives, Trump is likely to get the bill to increase the ceiling get passed in time to avert any standoff.
- FOMC meeting and Rate Decision (Mar 14 – 15th) – Although expectations of rate hike from FOMC in the March meeting itself have increased in the recent days, it is expected that FOMC to wait till next meeting to raise the rates as clarity lacks over the guidelines and quantum of fiscal boost the Trump administration is planning to provide.

Global economy

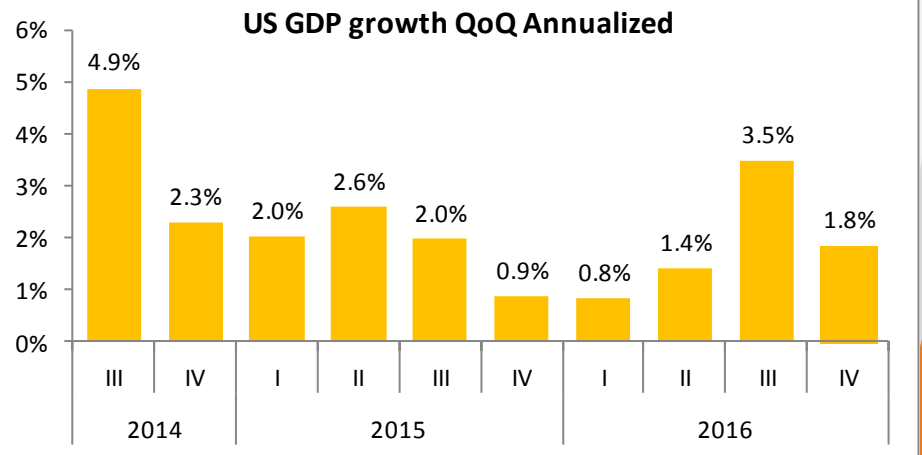
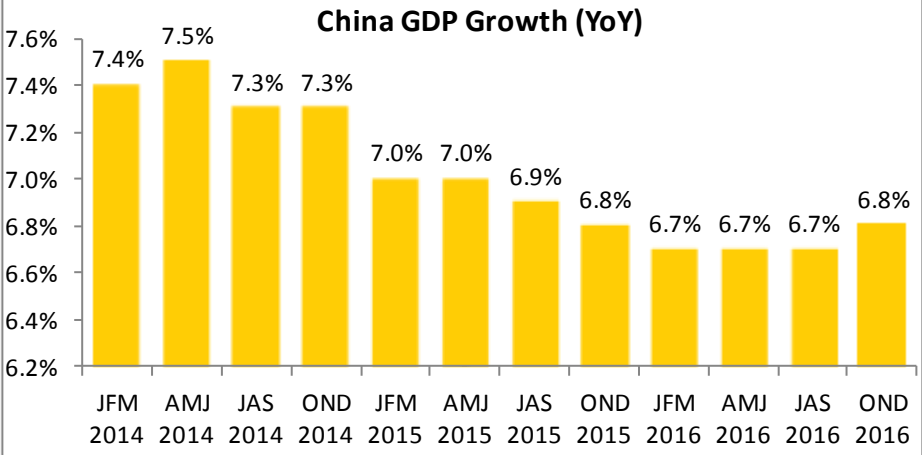
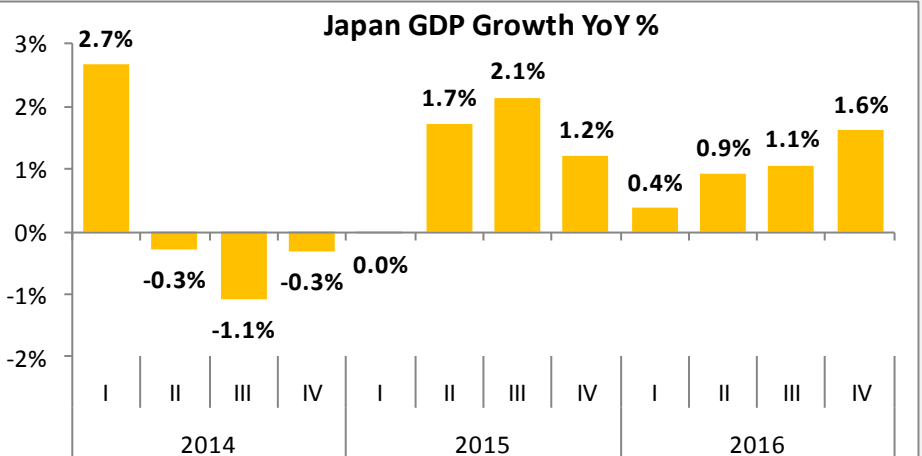
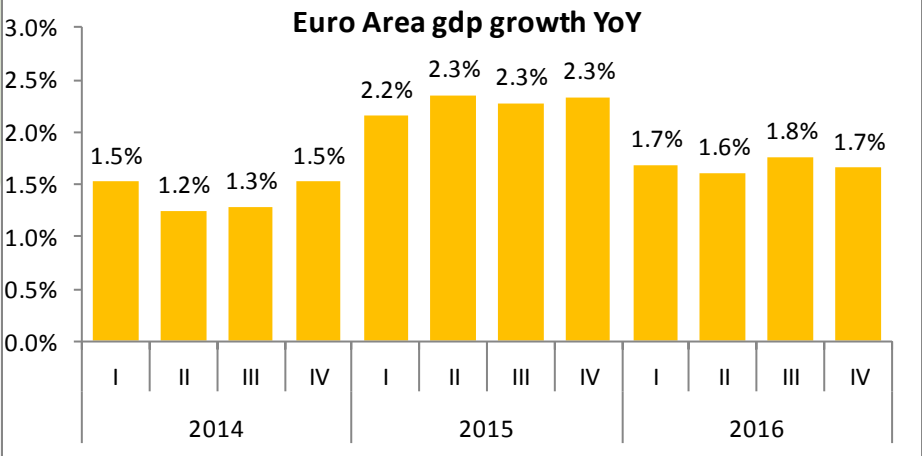


Improvement in Manufacturing around the globe to aid sentiments

- Continued improvement witnessed in manufacturing PMI in US, Euro Zone and China
- Revival in Indian PMIs indicating demonetization impact waning off

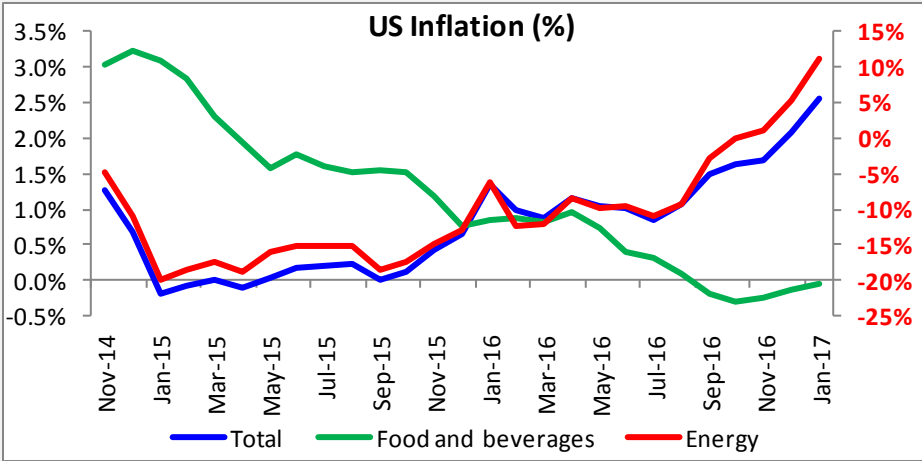


Global growth reviving in H2 owing to improvement in US and Japan



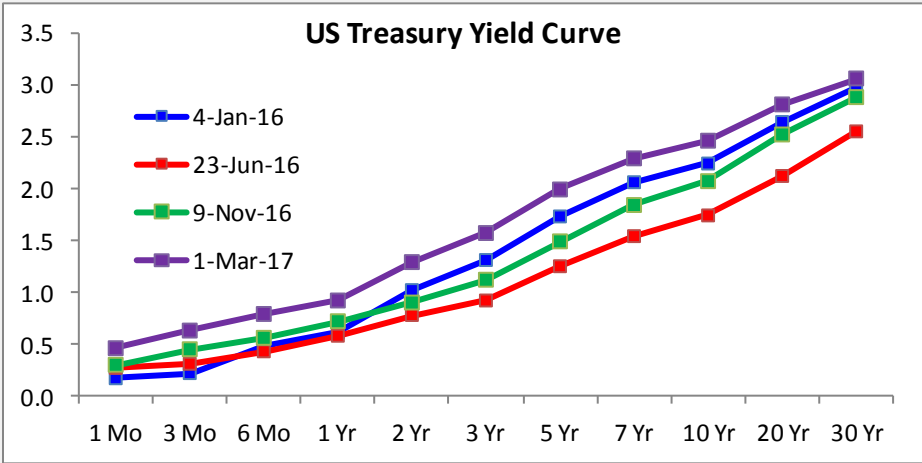
Pick up inflation and treasury yields bode well for rate hike scenario

- Surge in crude prices and low base effect led to sharp increase in inflation in the recent months
- With this, rate hike bets also increased sharply in the recent days further resulting in higher treasury yields



CME Fed Watch Tool Probabilities as on March 2nd					
Meeting Date	50–75	75–100	100–125	125–150	150–175
15-Mar-17	24.7%	75.3%			
3-May-17	21.0%	67.7%	11.3%		
14-Jun-17	9.4%	41.9%	42.5%	6.2%	
26-Jul-17	7.7%	36.2%	42.4%	12.5%	1.1%
20-Sep-17	4.8%	25.3%	40.0%	23.9%	5.5%
1-Nov-17	0.2%	22.9%	38.3%	25.9%	7.7%
13-Dec-17	1.4%	10.3%	27.9%	34.2%	19.9%

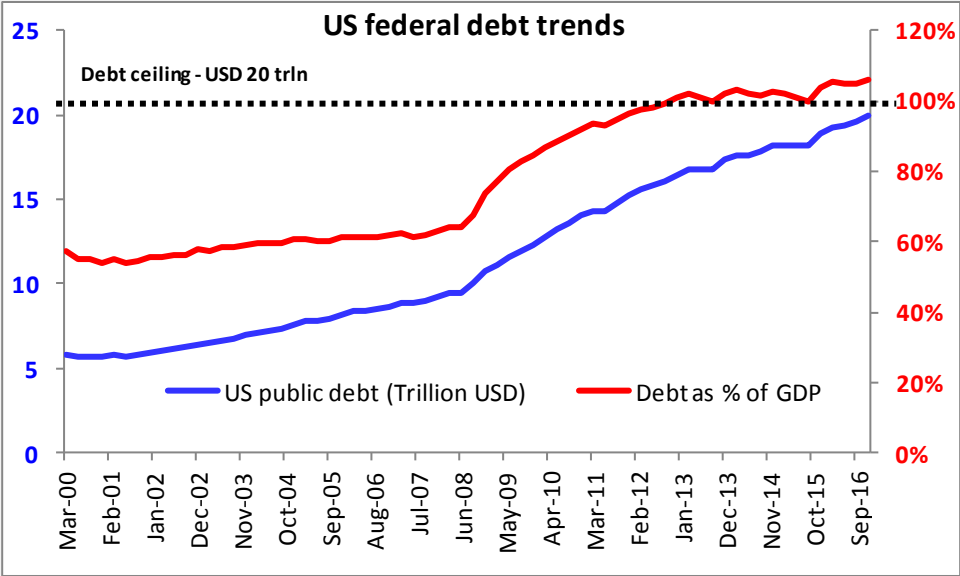
Source: CME, current fed funds rate is 50 - 75



Suspension on debt ceiling to be lifted but Trump is likely to get the ceiling raised

TransGraph

- The ceiling on the US federal debt was suspended back in November 2015 through March 15th this year.
- When the suspension is lifted on March 15th, the debt ceiling will be put at just above USD 20 billion which shall provide about six months time for the US president to increase the limit if he were to enact the promised spending plans.
- However, with republicans being in control in both the houses of congress, Senate and house of representatives, Trump is likely to get the bill to increase the ceiling get passed in time to avert any standoff.

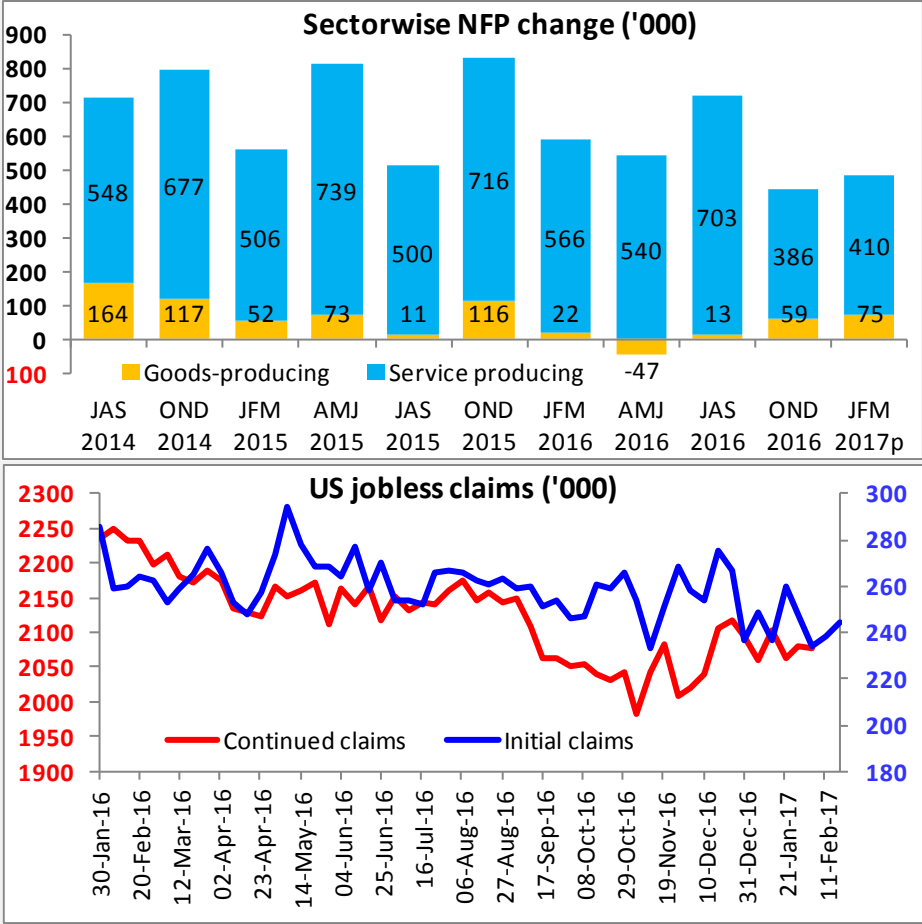


Compositions of US Congress as on March 1 st , 2017			
House	Total	Democrats	Republicans
Senate	100	46 (46%)	52 (52%)
Representatives	435 (5 Vacant)	193 (44.9%)	237 (55.1%)

Jobless claims in US increasing as job growth seen plateauing

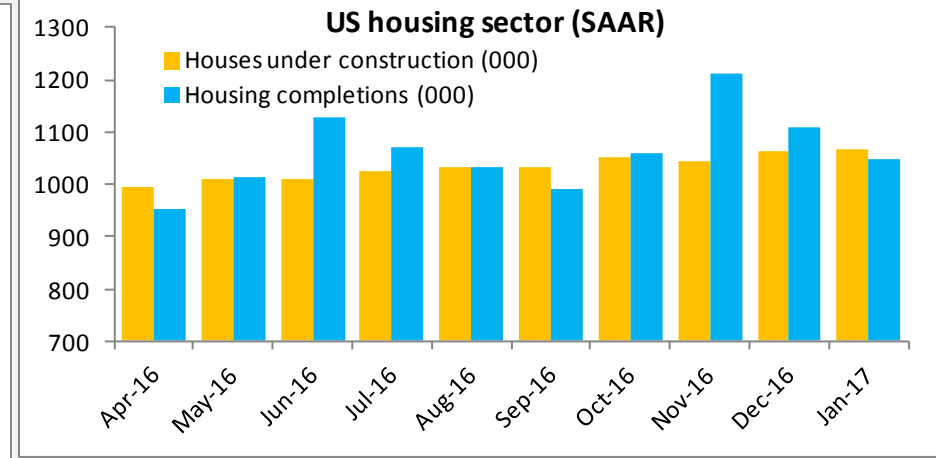
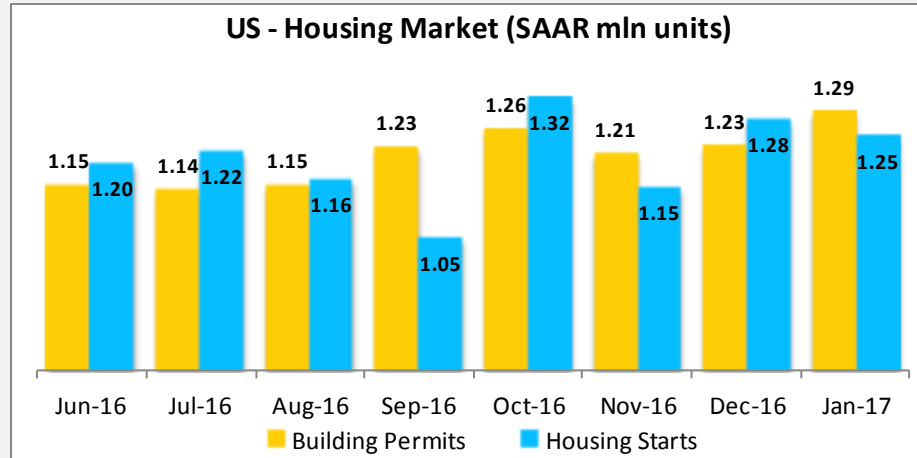
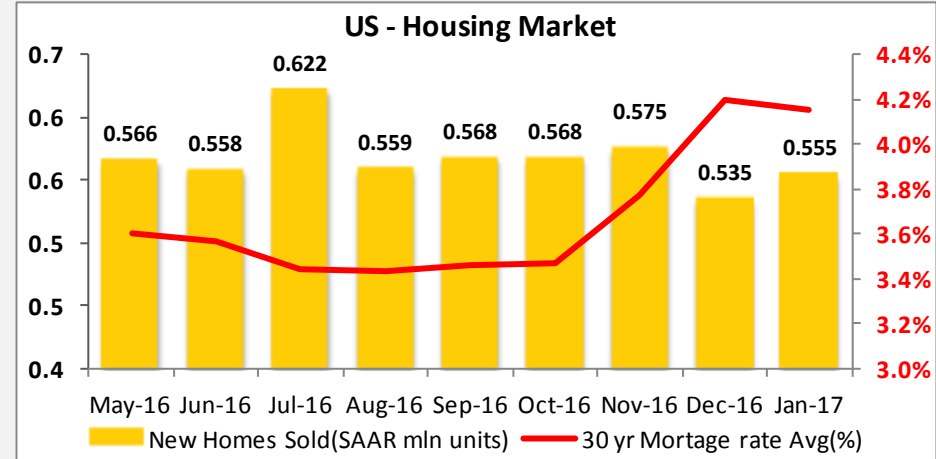
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- NFP growth has plateaued in US in the last few months
- Jobs in manufacturing and construction sectors is at critical levels
- US close to full employment, further dip in jobs growth and resulting increase in jobless claims to dampen the economic sentiments



Rise in mortgage rates to hamper housing demand

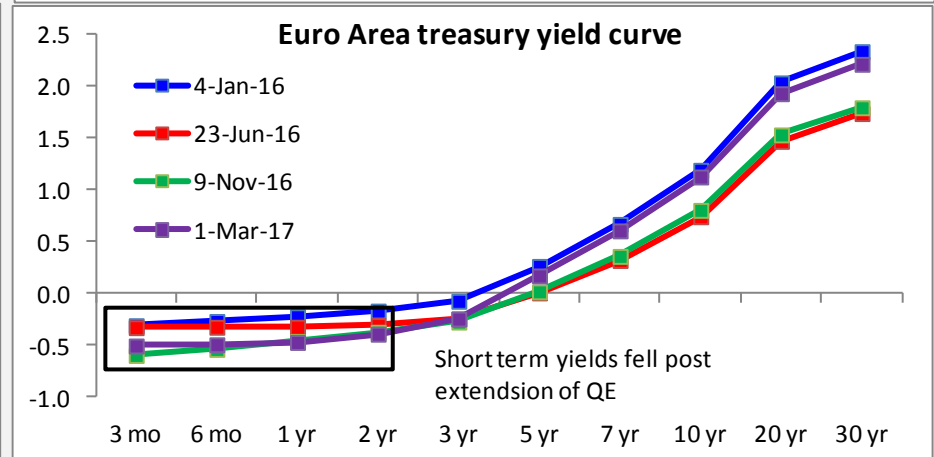
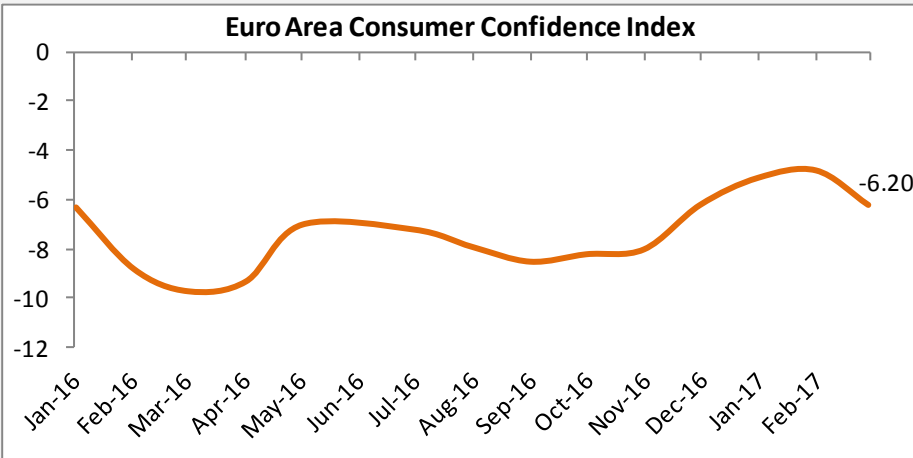
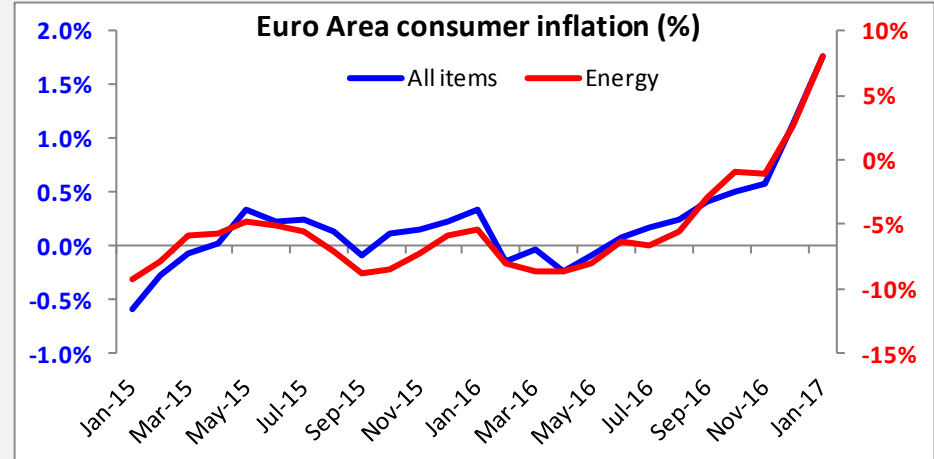
- With FED raising rates, mortgage rates jumped in the last few months and are expected to increase further in the coming months
- Rise in rates shall hamper housing demand and can be witnessed in the decline in housing completions rate



Surge in inflation leading to rise in long term Euro yields but short term yields remain lower due to QE

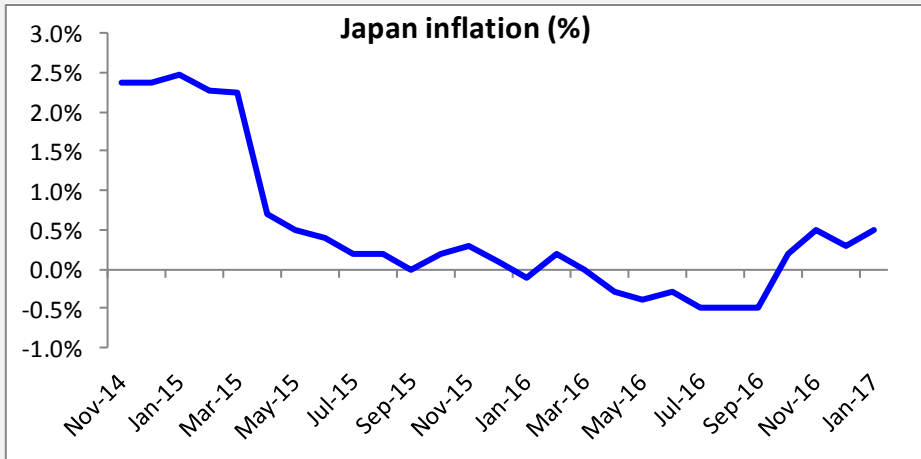
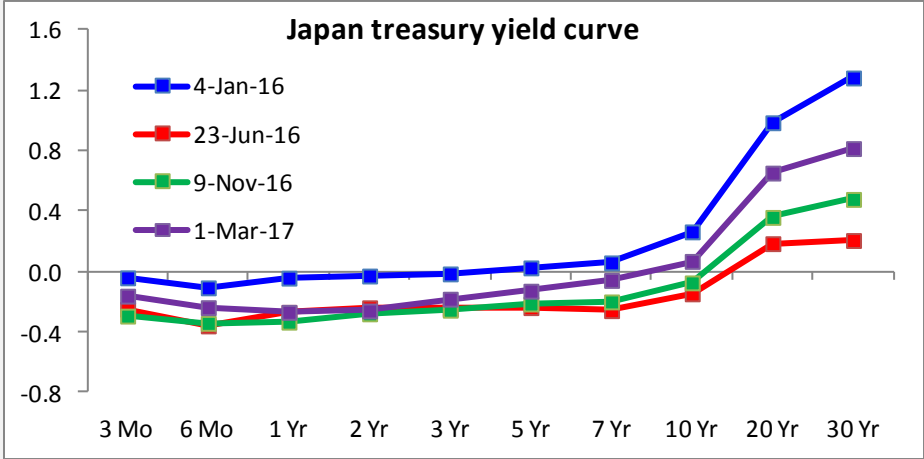
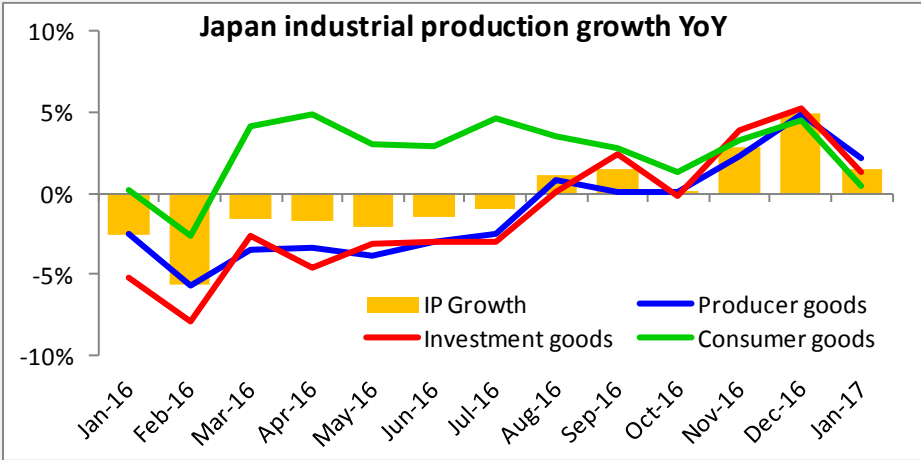
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- Recent surge in crude prices and low base effect led to sharp increase in inflation in the recent months
- Although inflation remains just around ECB's target levels, sharp surge may induce slight change in stance regarding the long term monetary guidance which can be seen in the rise in long term yields



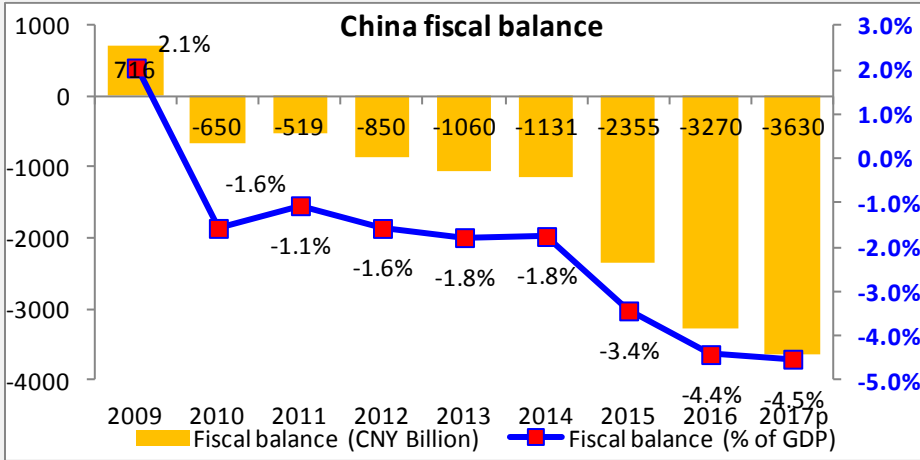
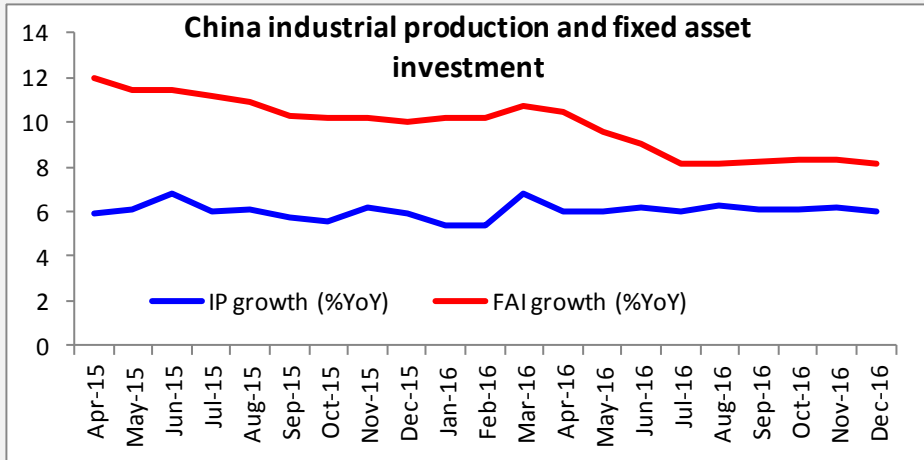
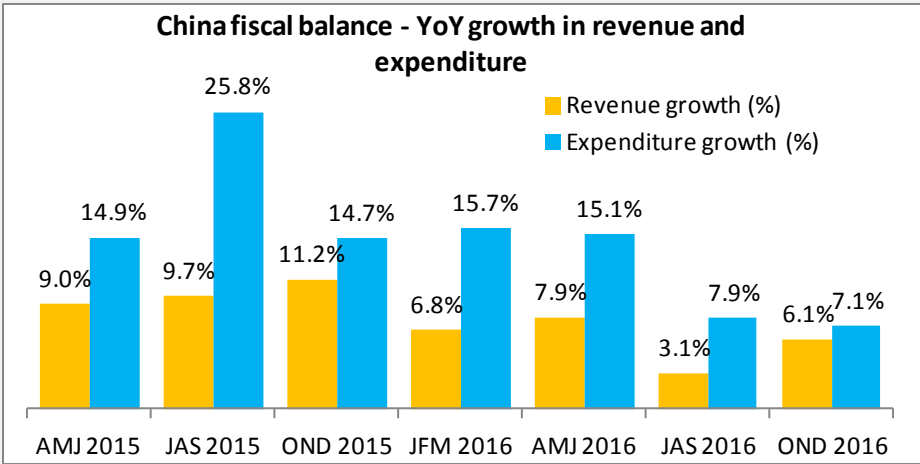
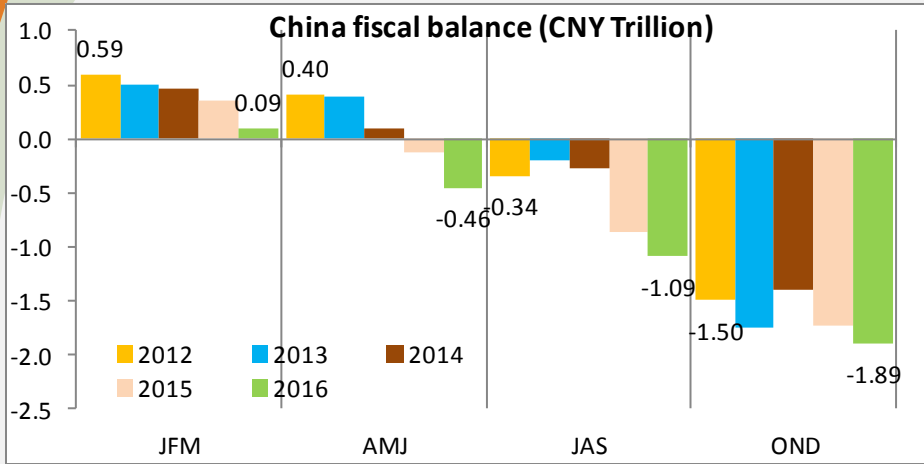
Significant rise in yields may bring back treasury demand

- Long term yields in US rose to more than one year highs
- Japan and Euro Area yields, however, are lower compared to Jan 2016 due to the respective central banks QE and QQE programs

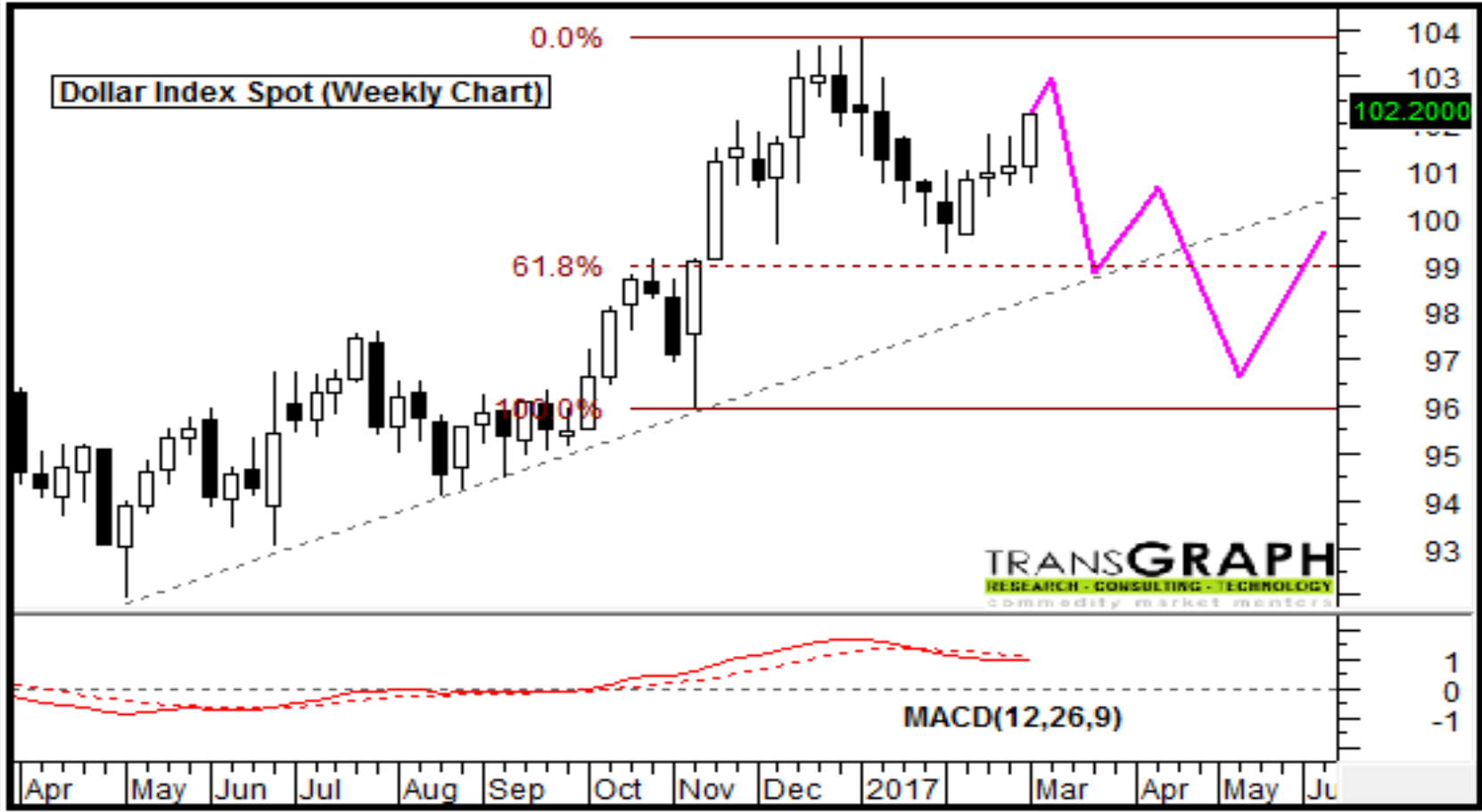


China – Continued to fiscal support and monetary tightening to continue

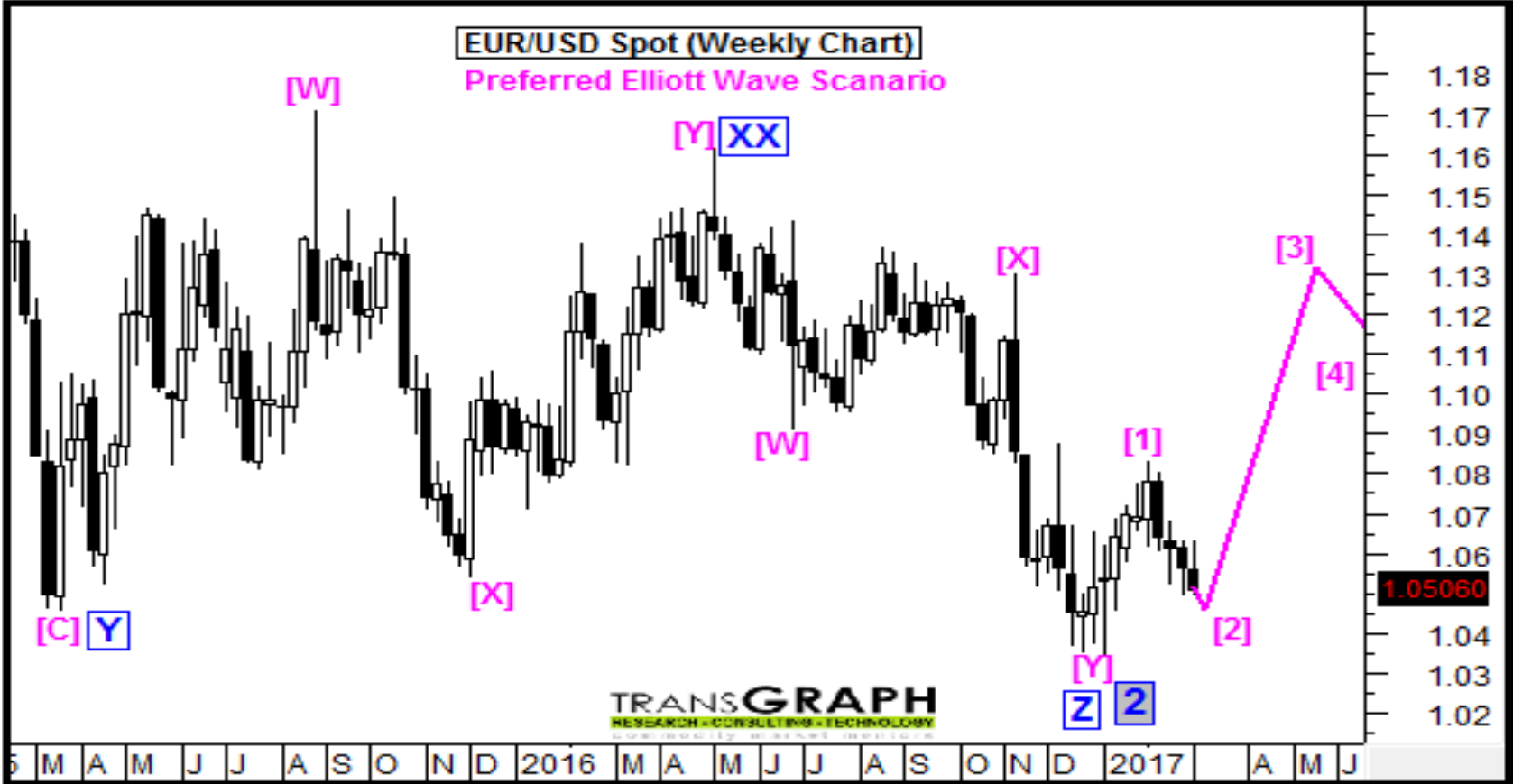
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Dollar Index Outlook



EURUSD outlook



Indian economy



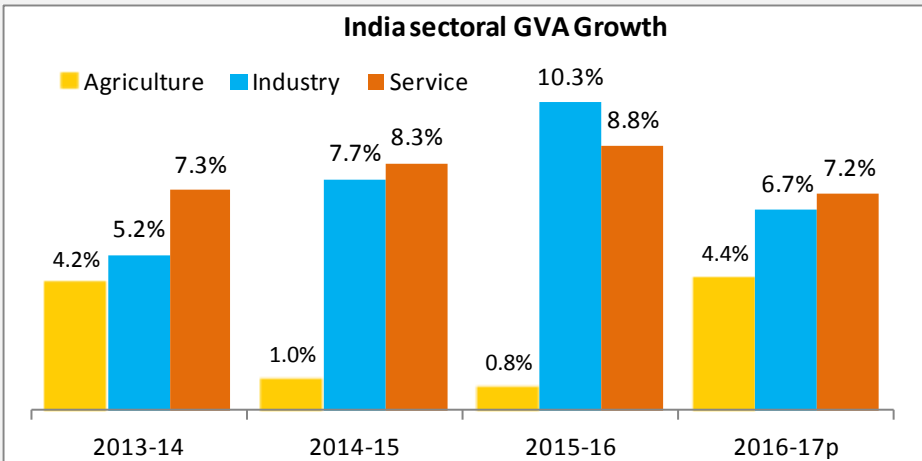
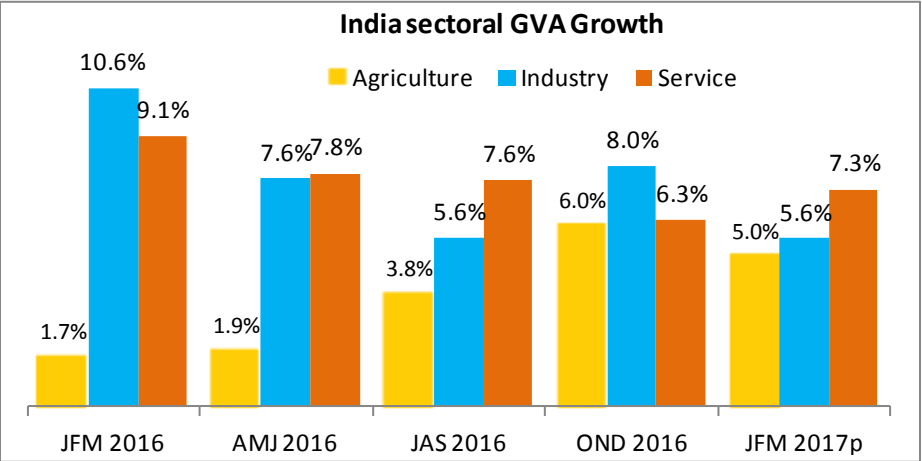
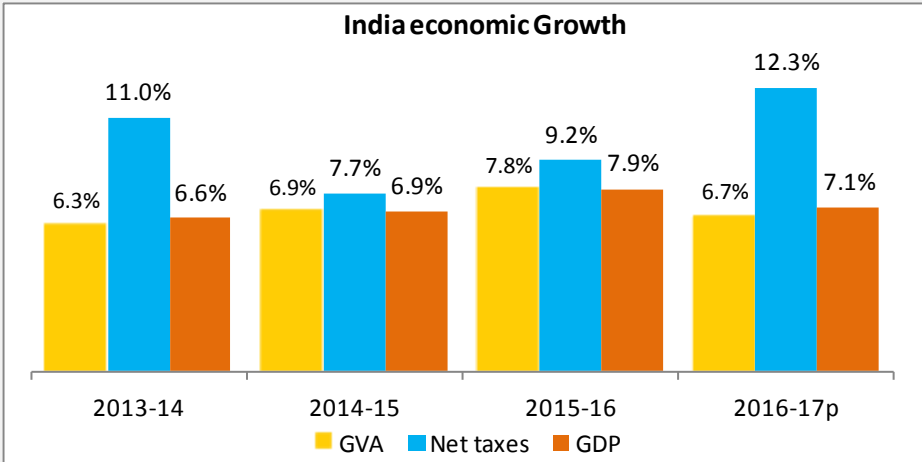
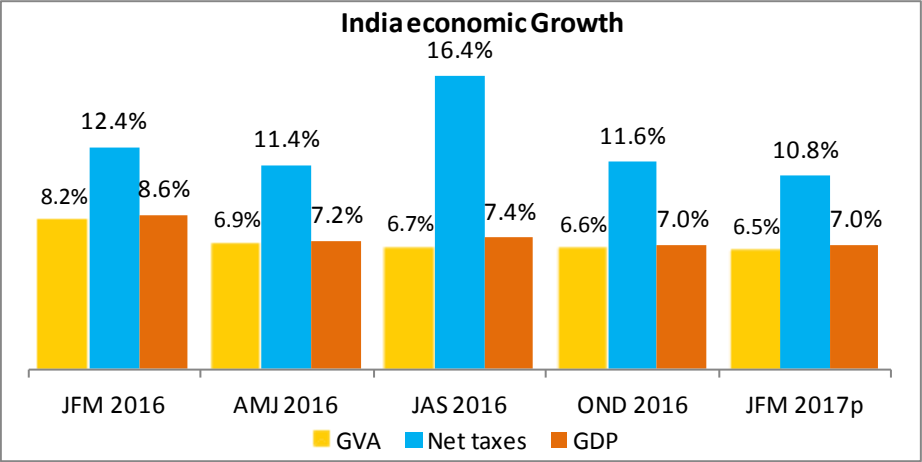
Upbeat GDP during OND shrugging off demonetization impact

TransGraph

Sector	OND'16	JFM'17 P	FY'17 P	Growth YoY		
				OND'16	JFM'17	FY'17
Agri, forestry & fishing	5.42	4.48	16.87	6.0%	5.0%	4.4%
Mining & quarrying	0.90	0.97	3.49	7.5%	-0.7%	1.3%
Manufacturing	4.76	5.36	20.08	8.3%	6.8%	7.7%
Electricity, gas, water supply & other utilities	0.59	0.60	2.39	6.8%	6.4%	6.6%
Construction	2.18	2.31	8.80	2.7%	4.8%	3.1%
Trade, hotels, transport, communication & broadcasting	5.15	6.02	21.34	7.2%	7.0%	7.3%
Financial, real estate & professional services	5.23	5.53	24.44	3.1%	5.9%	6.5%
Public admin, defense & other services	3.79	3.54	14.28	11.9%	11.7%	11.2%
GVA	28.02	28.83	111.68	6.6%	6.5%	6.7%
Net taxes	2.26	3.54	9.97	11.6%	10.8%	12.3%
GDP	30.28	32.36	121.65	7.0%	7.0%	7.1%

Source: MOSPI, Values at basic prices, 2011 – 12 prices, All units in lakh crore unless mentioned otherwise

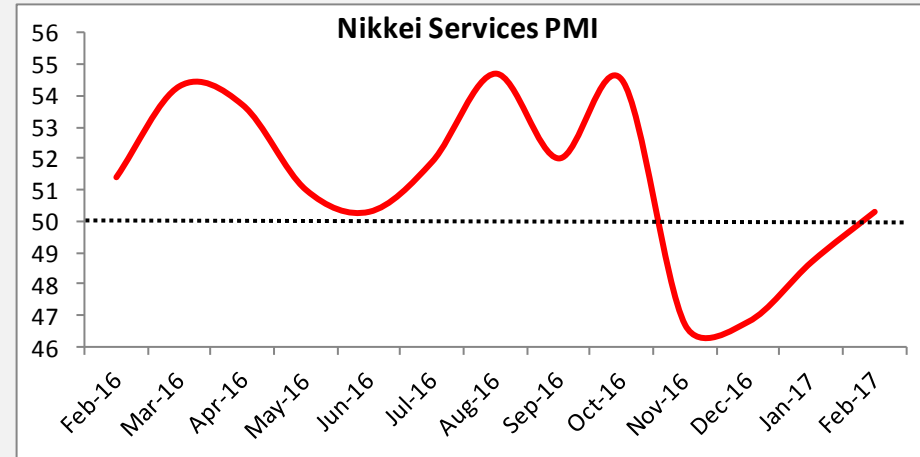
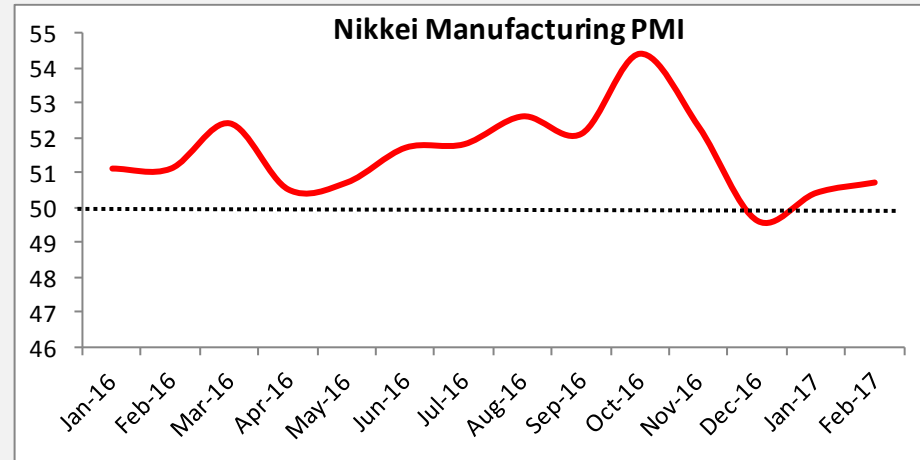
Impact of demonetization on Indian economy seem limited



Revival in PMI readings to support growth sentiments

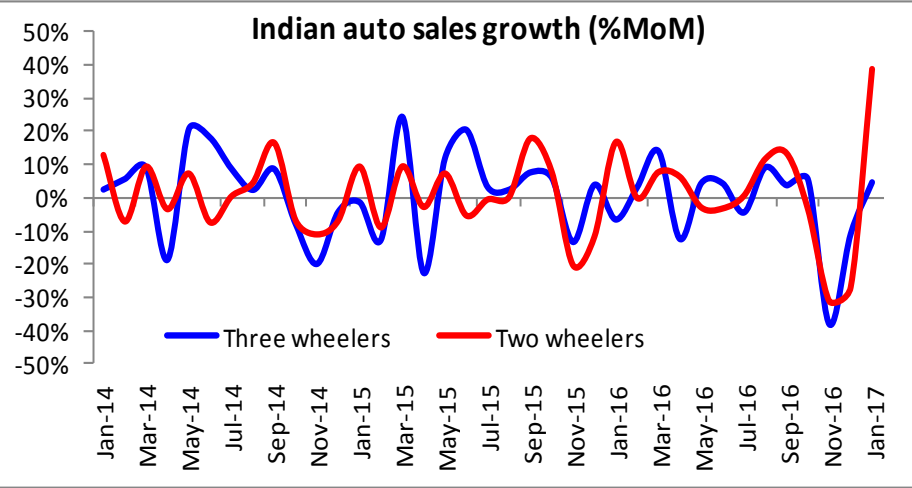
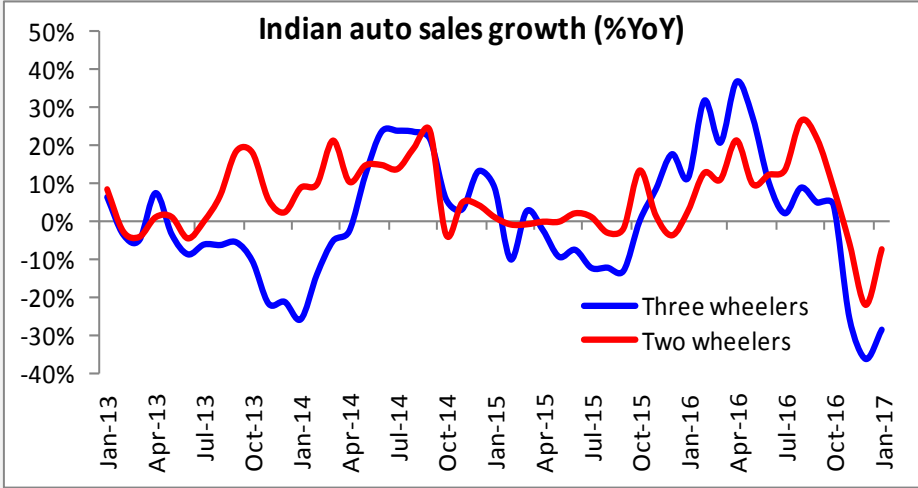
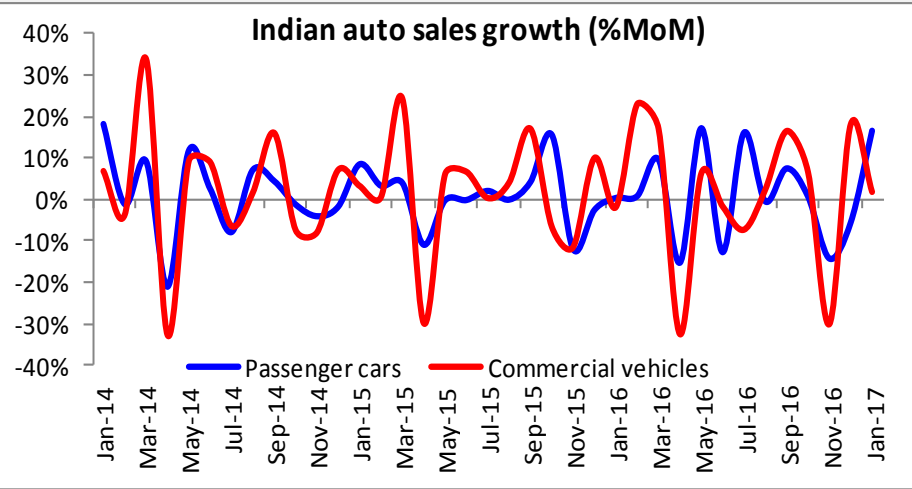
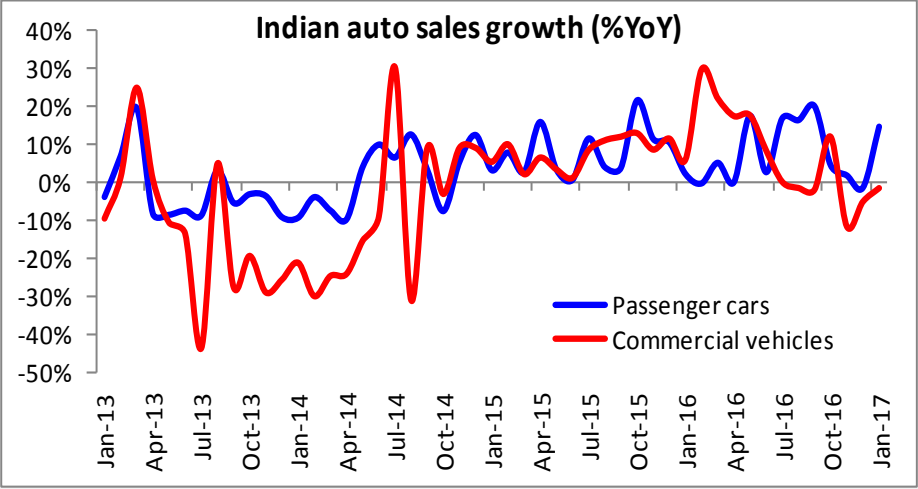
TransGraph

- Manufacturing activity seen expanding after contracting in December with cash crunch easing
- Even services sector which has remained in contraction for three consecutive months undermining the negative sentiments post demonetization has expanded in February with the cash-driven sectors like financial services, hotels, restaurants, renting and business activities witnessed normal business activities



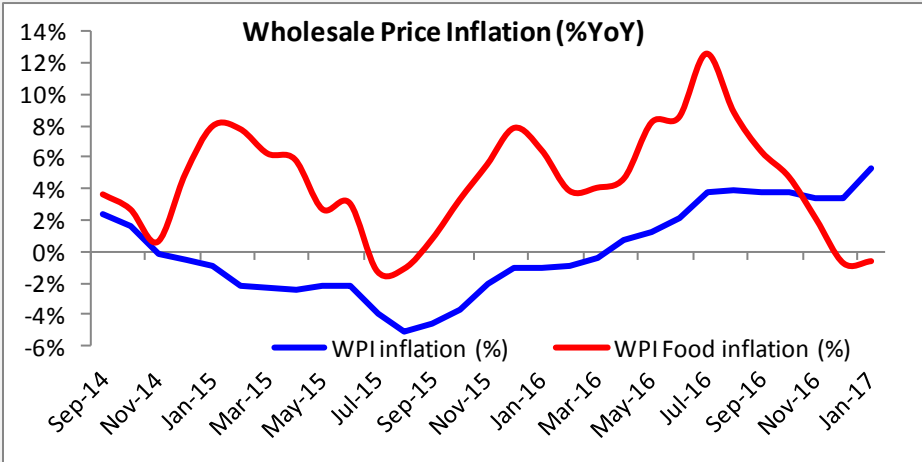
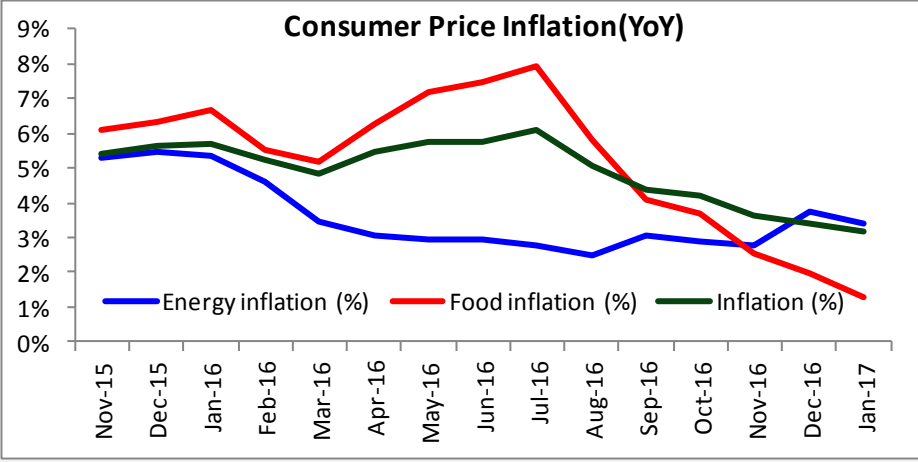
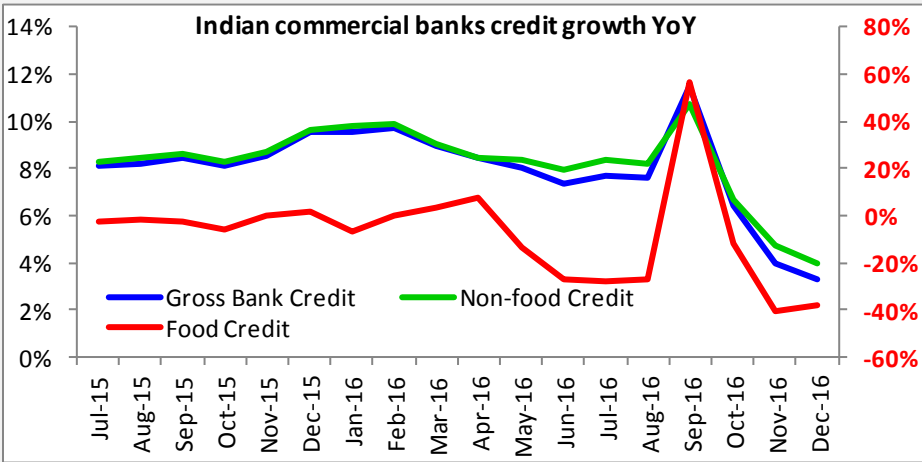
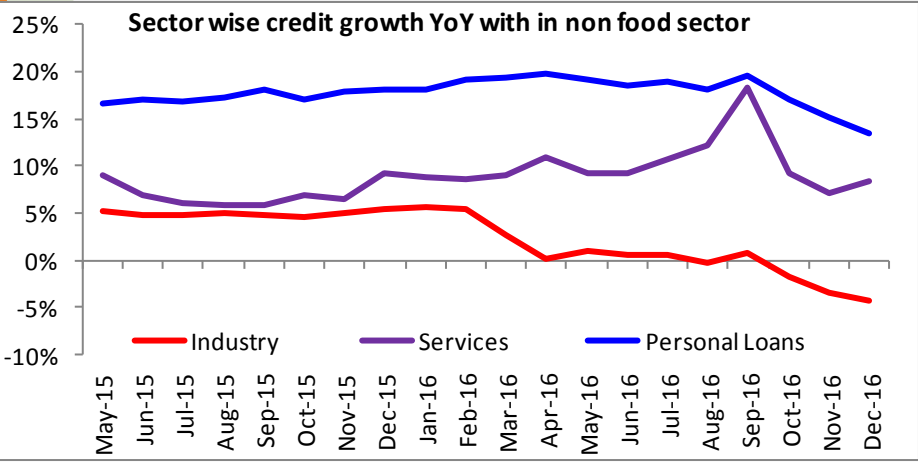
Passenger car sales unaffected but commercial vehicles, 2W and 3W affected significantly by cash crunch in Nov-Dec'16 – Indicating dampening of Rural demand

TransGraph



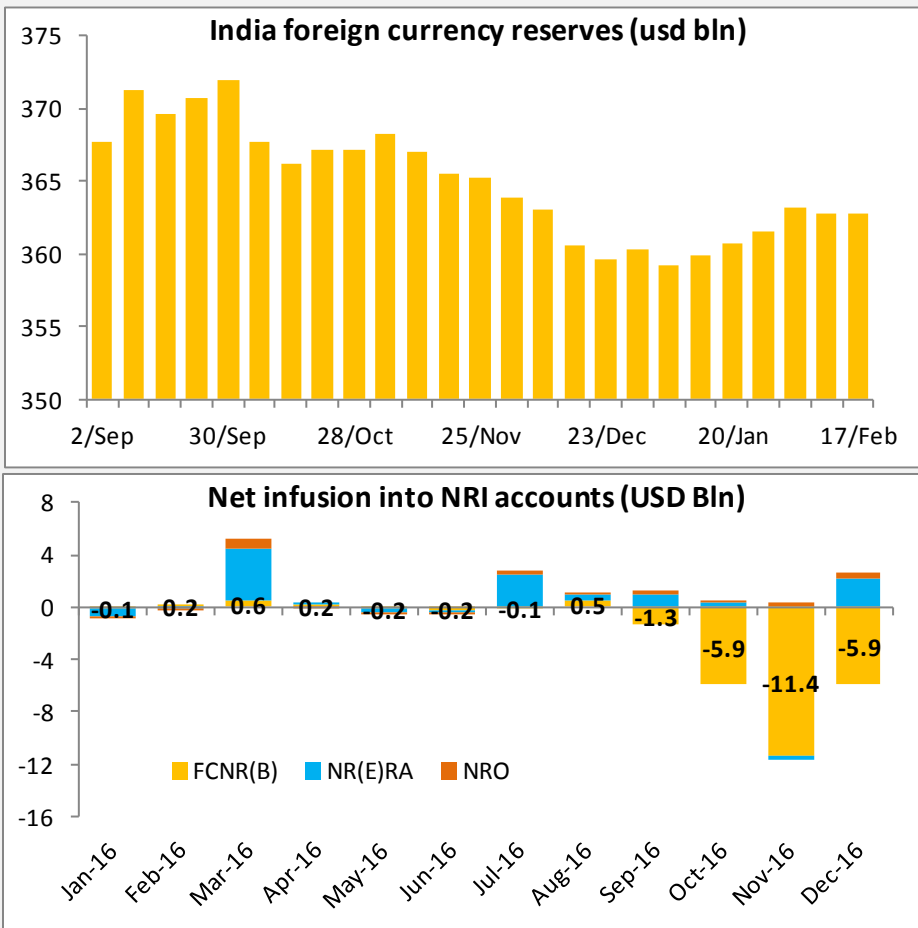
With inflation expected to remain under target levels, further rate cut is likely; Industry credit is severely constrained

TransGraph

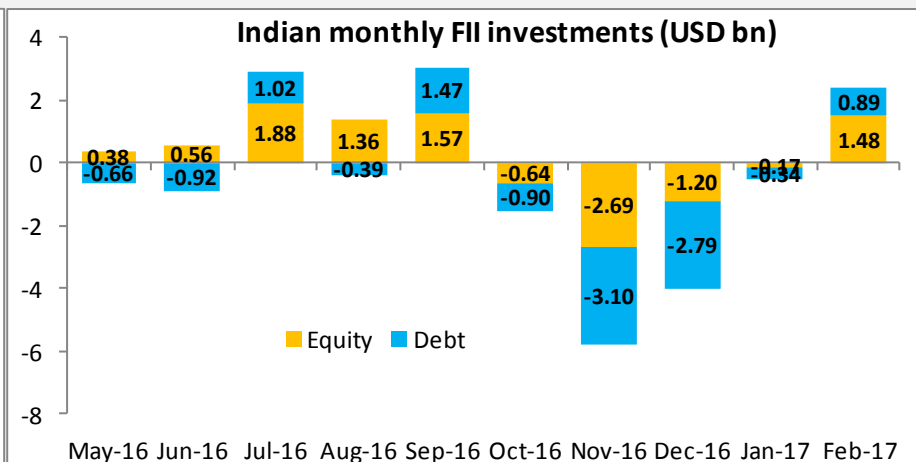
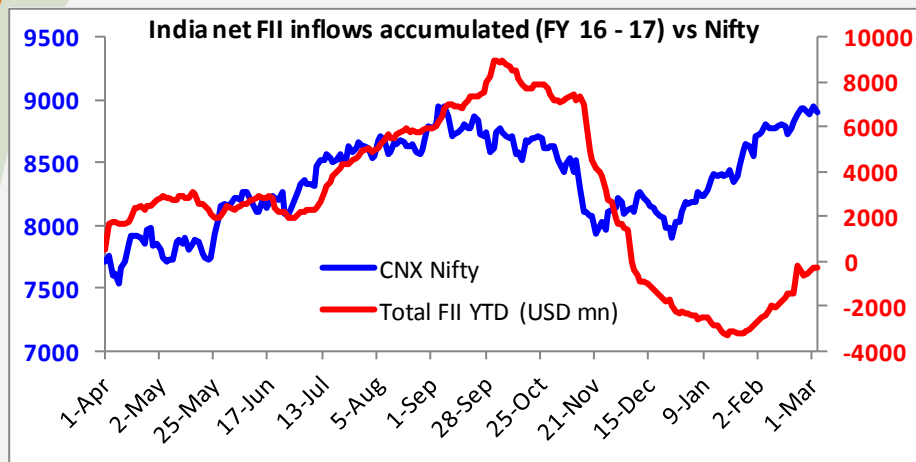


Forex reserves hold good despite FCNR outflows and negative impact of demonetization

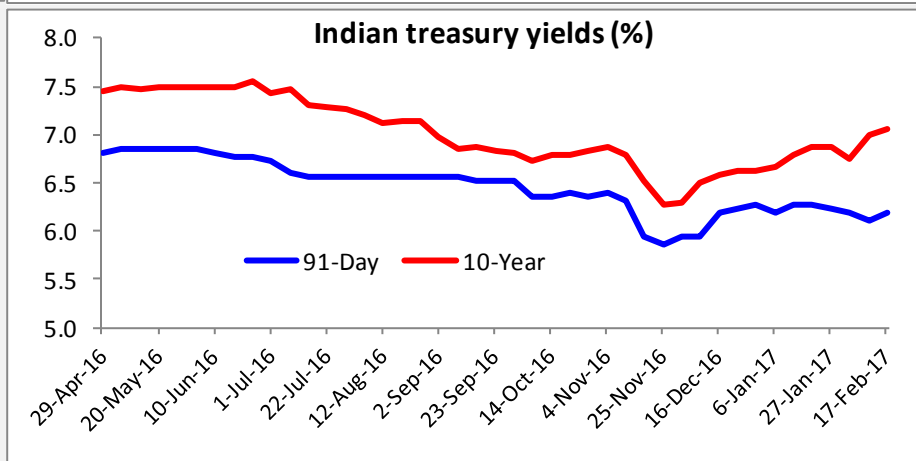
- USD 25 billion FCNR outflows were seen during September – December period as the three year maturity period for the deposits attracted in same period 2013 ended
- As RBI covered most of the exposure through the redemptions remained largely unimpeded on the currency outflows during that period
- Overall, foreign currency reserves have depleted by only USD 8 billion during that period. Overall, forex reserves hold good that should give RBI an edge in handling the future volatility



Revival in domestic sentiments while FII sentiments remain subdued



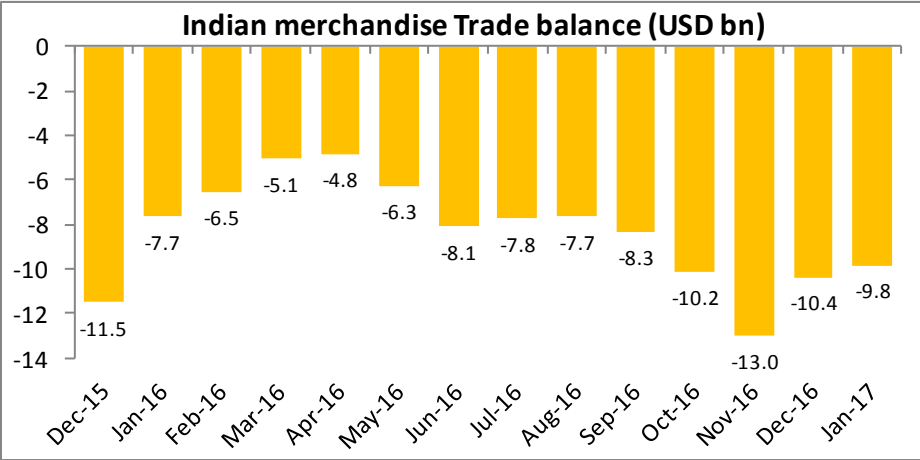
- During the recent weeks, domestic investments seen picking up that led to reversal in equities but FII demand seen subdued
- Any further revival in FII sentiments, supported by budget boost and the rise in yields, bringing back demand into debt markets, may add further to the strength in Indian markets and support Rupee



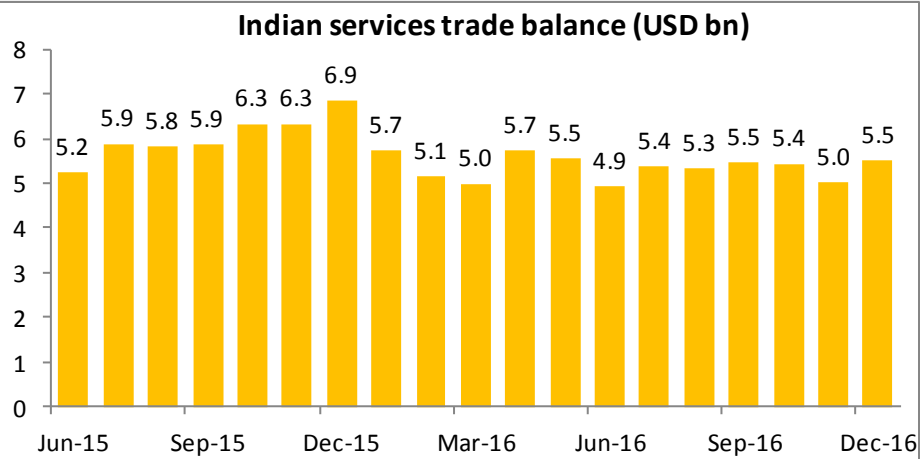
Merchandise deficit widening and decline in services surplus to weigh on current account

TransGraph

Merchandise trade balance (USD bn)			
Period	Imports	Exports	Trade balance
Apr'13 – Jan'14	376.4	257.6	-118.8
Apr'14 – Jan'15	383.9	264.5	-119.4
Apr'15 – Jan'16	325.3	218.2	-107.1
Apr'16 – Jan'17	307.3	220.9	-86.4
YoY growth (%)	-5.5%	+1.2%	



Services trade balance (USD bn)			
Period	Payments	Receipts	Trade balance
Apr – Dec 2013	58.93	112.79	53.85
Apr – Dec 2014	62.38	117.97	55.59
Apr – Dec 2015	63.78	117.34	53.56
Apr – Dec 2016	71.56	119.87	48.32
YoY growth (%)	+12.2%	+2.2%	



Sharp rise in FDI during JAS keeping the long term prospects bright

TransGraph

India Balance of Payments (USD Bn)						
Item	JAS 2015	OND 2015	JFM 2015	AMJ 2016	JAS 2016	OND 2016p
Current Account						
Merchandise trade balance	-37.17	-33.98	-24.75	-23.83	-25.64	-32.00
Invisibles	28.61	26.85	24.42	23.53	22.19	28.00
Total Current Account	-8.56	-7.12	-0.34	-0.30	-3.45	-4.00
CAD as % of GDP	-2.0%	-1.6%	-0.1%	-0.1%	-0.8%	-1.2%
Capital Account						
FII	-3.37	0.55	-1.54	2.10	6.05	-10.00
FDI	6.52	10.70	8.80	4.09	17.20	14.00
Others*	4.97	-0.34	-3.80	0.91	-10.54	-6.00
Total Capital Account	8.12	10.92	3.45	7.10	12.71	-2.00
Balance of Payments	-0.86	4.06	3.27	6.97	8.51	-5.00

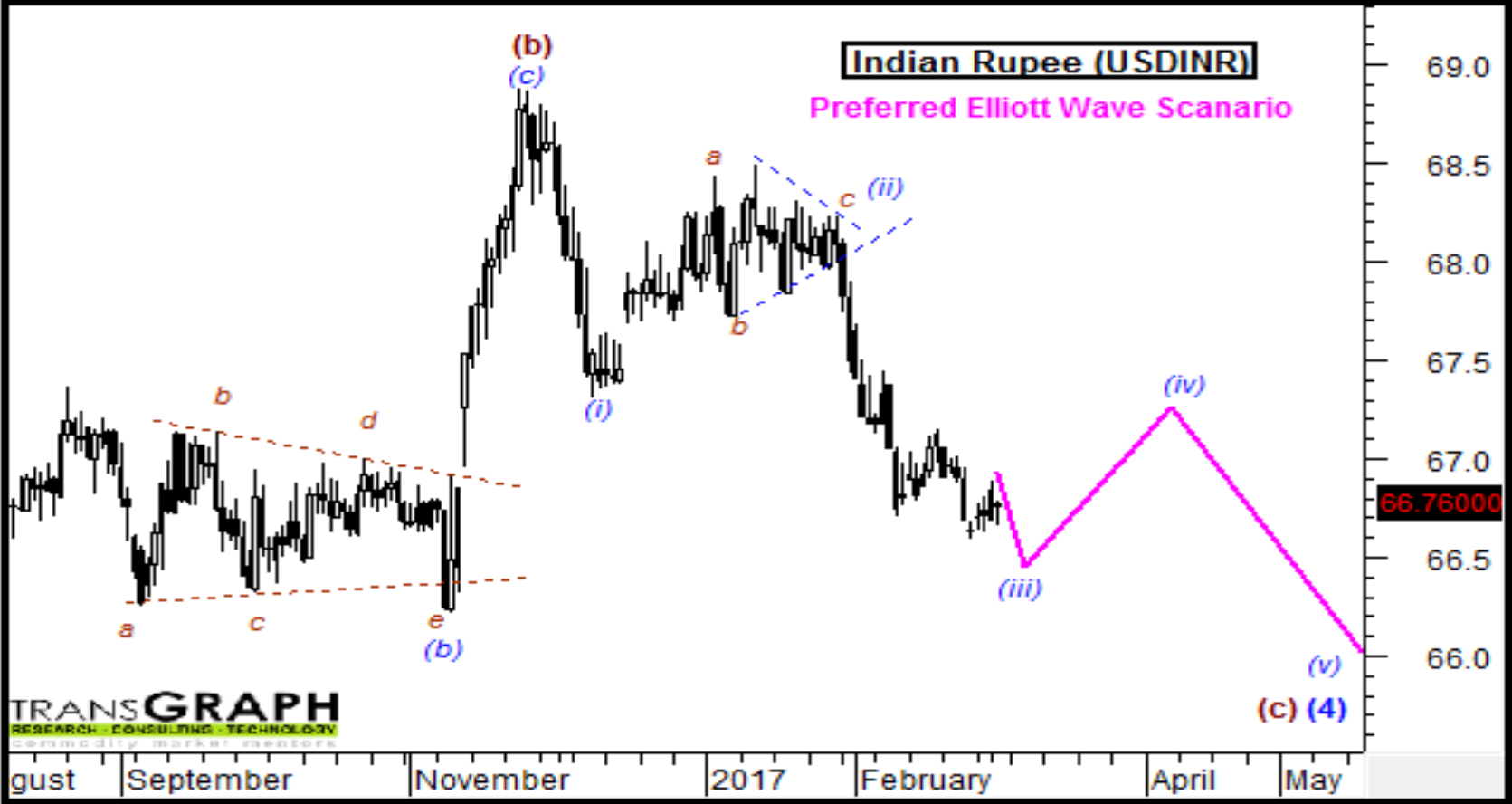
*Note: Others include net commercial borrowings, short term loans, banking capital and other capitals

Indian fiscal deficit; current status: Fiscal deficit on the higher side as government increased spending to remonetize the economy after noteban

TransGraph

	2016 – 17 BE	2016 – 17 RE	Actual for Apr'16 – Jan'17	YTD 2016 – 17 w.r.t BE	YTD 2016 – 17 w.r.t RE
Tax Revenue	10.54	10.89	8.16	77.4%	75.0%
Non-Tax Revenue	3.23	3.35	1.93	59.8%	57.7%
Non – debt Capital Receipts	0.67	0.57	0.44	65.6%	77.9%
Total Receipts	14.44	14.80	10.53	72.9%	71.2%
Non-Plan Expenditure	14.28	NA	11.74	82.2%	
Plan Expenditure	5.50	NA	4.43	80.6%	
Total Expenditure	19.78	20.14	16.18	81.8%	80.3%
Fiscal Deficit	5.34	5.34	5.64	105.7%	105.6%
Source: CGA , INR Lakh Crore, BE – First Budget Estimate, RE – Revised Budget Estimate					

USDINR outlook



Price Outlook Summary

Currency Pair	Last Closing on Feb 28, 2017	Price range	
		Mar 2017	Apr 2017
EUR-USD	1.0575	1.045 – 1.08	1.075 – 1.10
USD-INR	66.70	66.20 – 67.50	67.50 – 66.00



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