Currency Weekly

KARVY STOCKBROKING LIMITED

A Comprehensive Report

August 13, 2011

Global economic review

Economic performance:

Last week saw only and only one thing which was common among all asset classes, and this being the volatility. The past week wqs marred with very high volatility with swings of more than 5-7% in a single trading session. In the US markets we saw the Dow Jones close down 175.59 points, or 1.5%, for the week, which included an unprecedented four sessions of 400-point-plus swings in a row, including two massive losses. Other markets were also not behind as both the European and the Asian markets followed suit and finished on a lower note for the week. In the European region there were fresh fears of the French banks being downgraded and how they are heavily exposed to the Greek debt. On the currencies front the Yen gained by more than 2% on safe haven buying whereas the Swiss franc was the biggest looser after the Swiss bank intervened to control the franc's unexpected gain. Gold hit a record peak this week as investors sought shelter from slumping equities amid unfounded rumours of a France credit rating downgrade and worries over Societe Generale's Greek debt exposure.

CROSS	LAST	1 week ago	% Change
USDINR	44.36	44.52	-0.37
EUROINR	63.93	63.01	1.46
GBPINR	72.29	71.82	0.66
JPY (100) Futures	56.48	56.26	0.39
MYR	14.91	14.81	0.67
SGD	36.70	36.51	0.52
DOLLAR INDEX	74.20	75.13	-1.23

CROSS	LAST	1 week ago	% Change
EURUSD	1.44	1.42	1.43
GBPUSD	1.63	1.61	1.02
USDJPY	78.54	79.13	-0.75
USDCAD	0.95	0.95	-0.55
USDCHF	0.82	0.82	0.49
USDSEK	6.33	6.49	-2.42

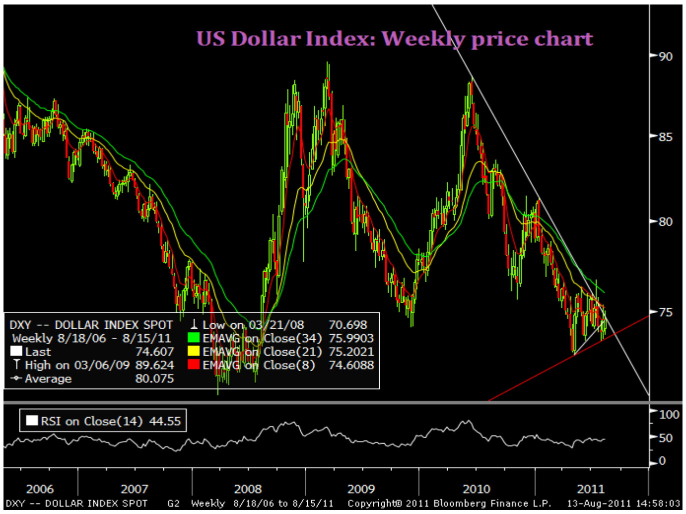
Major events:

- Gold Hits all time high on safe haven buying
- The Yen gained by more than 2% on safe haven buying, Swiss Franc slumped more than 5%
- Major Global Equity markets ended in deep red

Dollar Index

Currency	S2	S1	Close	R1	R2	Recommendation
Dollar Index	73.613	74.037	74.59	75.560	76.213	Buy above 75.10 target: 76.00 then 77.00 with stop loss below 73.80

TECHNICAL SNAPSHOT:



The USD Index and Indian rupee price charts are looking almost similar but slight complications are seen in USD index, however, looks slightly positive. The week gone by has ended at 74.566 levels and giving a marginal green signal that it has closed above the trend line and likely to move higher. Nevertheless, conjunction moving averages may have a restriction point near 75.06 and 75.43 l9vels. Only on break of the same may see the index moving until 76.00 and then straight to 79.00. The level 79.00 can be derived by adjoining trend line to the third point. However, we need to be cautious as if market fails to breach the immediate resistance then a downward impact could be noticed towards 73.80 and then 73.00 levels. The RSI-14 is looking slightly supportive for the coming week and that may push DXY to move higher. Looking at the above analysis we recommend taking long position only on break of previous week high i.e. at 75.06 levels.

USD/INR

Currency	Contract	S2	S1	Close	R1	R2	Recommendation
USDINR MCX-SX	Aug-11	44.6967	45.0308	45.3650	44.6708	44.6867	BUY 45.15-45.20 TP 45.45-60 SL 44.96
USDINR NSE	Aug-11	44.7475	45.0575	45.3675	45.6175	45.8675	BUY 45.15-45.20 TP 45.45-60 SL 44.96

The Week Ahead:

- Rupee to remain negative to range bound for the coming week
- Monthly inflation to impact rupee positively
- Crude Oil Movement to impact rupee's move in coming week

Fundamental Review

The rupee continued its loss for the second consecutive week. We saw the rupee lose more than one percent in the week gone by as dollar demand by domestic oil marketing companies and importers weighed on the rupee's sentiment. The loss in the domestic equities was another major reason for the rupee's weakness. The global turmoil showed its full toll as all the major assets apart from gold ended in deep red. The Nifty touched one year low and ended the week with loss of more than 2.73% the nifty finally ended at 5073. The outflow of funds from the domestic markets was one of the major contributors to the fall in the rupee and the Nifty. The FII's sold more than 6705 Cr worth of equities for the month of Aug according to data available with SEBI. The Rupee ended the week with a loss of 1.10 percent to close at 45.3650

The one-month onshore forward premium was at 6.80 points from 18.60, while the three-month was at 29.25 points from 58.75 and the one-year was at 129 points versus 235.25. One-month offshore non-deliverable forward contracts were quoted at 45.43, weaker than the onshore spot rate. In the currency futures market , the most traded near-month dollar-rupee contracts on the National Stock Exchange and the MCX-SX were both at 45.3650, while those on the United Stock Exchange was at 45.3625. The total volume was at $12.55 billion.

MCX-SX

Contract	Open	High	Low	Close	% Change	Volume	% Change	Open Interest	% Change
Aug-11	44.9600	45.5575	44.9600	45.3650	1.10%	29059689	19.86%	4511449	-18.93%
Sep-11	45.1500	45.7325	45.1375	45.4550	0.87%	2095678	149.06%	1372075	55.52%
Oct-11	45.3700	45.8800	44.4675	45.5800	0.74%	332110	56.29%	648068	21.52%

NSE

Contract	Open	High	Low	Close	% Change	Volume	% Change	Open Interest	% Change
Aug-11	44.9975	45.5575	44.9975	45.3675	1.10%	26680199	12.42%	1395876	-16.79%
Sep-11	45.2000	45.7350	45.1950	45.4600	0.89%	2744506	127.53%	434965	-2.20%
Oct-11	45.3425	45.9100	45.3200	45.5900	0.76%	413356	74.05%	169506	0.86%

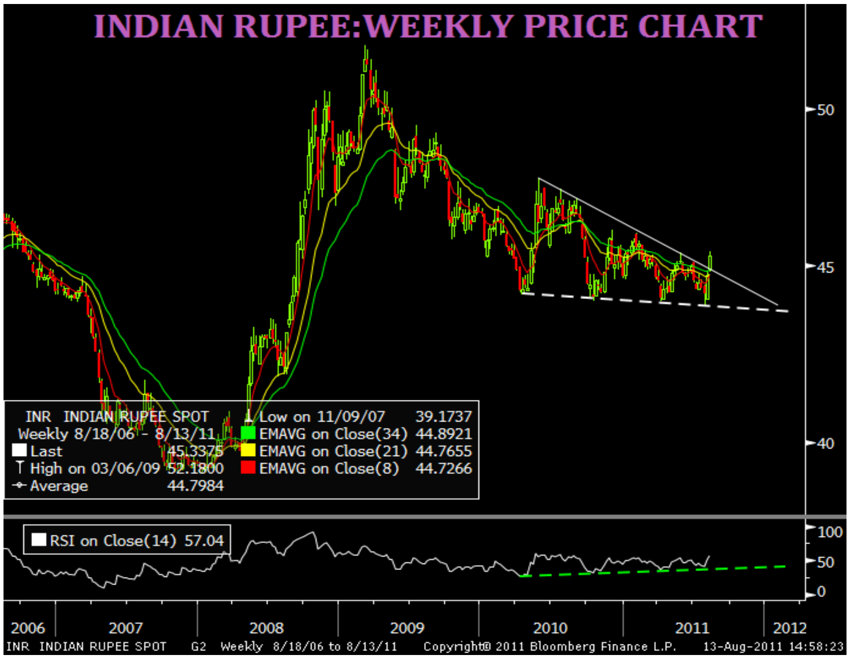
Outlook

In the past week we saw the rupee end with loss of nearly 1% on the back of a broad base sell off in the commodities and equity space. The domestic equity markets lost more than 2.5 % in the last week. The IIP was released on Friday and came in at 8.3% much higher than an expectation of 5.8%, but this wasn't able to lift the mood for both the domestic equities and rupee. Going forward we have a shortened week for trading with Monday and Friday being domestic holidays. On Tuesday the monthly inflation (WPI) would be released and it's expected to decline which might limit the loss in rupee and domestic equities as fears about another round of rate hike would be cooled. On the global economic front from the US the major data is expected to come in the form of the Housing starts and Industrial production which are expected to rise and could help the dollar strengthen. But it also has to be kept in mind that the US economy is slowing as prevalent in the form of leading indicators which are expected to decline. From the Euro zone the major data is in the form of GDP (QoQ) which is expected to decline substacialy, bringing out further fears about the European debt crisis and the ability of the Eu to overcome it. So overall, for the coming week the rupee can remain slightly positive in the beginning of the week on better IIP and a slowing inflation but the weakness in the Euro could lead it to give up it gains to the latter part of the week.

No Major Economic data for week ahead

TECHNICAL SNAPSHOT

The week gone by has been highly bullish for Indian rupee (numerically/depreciated) and settled at 45.39, off high 45.45 levels. This has been second consecutive bullish week for Indian rupee and expecting another such move to take place. However, before we conclude saying that bullishness is intact it is important to look at the daily chart. The daily chart looks slightly vulnerable as market seems highly overbought or overstretched which require a healthy correction. Applying GANN angle on Indian rupee also suggests market needs to take correction and the probable supports could be seen at 45.13/45.15 (pivotal point, support zone driven by swing high). Therefore, if market sustains above these levels may see prices again turning higher having an immediate resistance at 45.45 and breach of which can push it until 45.55/45.60 levels. The daily RSI is treading near 0.57 indicating bullishness to continue with considering the previous move.



Recommendation: BUY in the range of 45.15-45.20 target: 45.45 then 45.60 with stop loss below 44.96

EUR/USD

Currency	Contract	S2	S1	Close	R1	R2	Recommendation
EURUSD	SPOT	1.4040	1.4170	1.4251	1.4390	1.4470	Sell 1.4320-40 TP 1.4150-1.4080 SL1.4400
EURINR – MCX-SX	Aug-11	63.3817	64.0308	64.6800	65.1733	65.6667	Sell 64.90-65.10 TP 63.80-63.50 SL 65.50
EURINR – NSE	Aug-11	63.8600	64.27	64.6800	65.0575	65.1183	Sell 64.90-65.10 TP 63.80-63.50 SL 65.50

The Week Ahead:

- Euro to remain range bound with a weaker tone
- Spain and Italy Bond issue to weigh on the Euro
- Fresh fears about French bank to weigh on sentiment

Fundamental Review

The Euro ended the week on a lower note by 0.26% amidst concerns of Spain and Italy being the next targets for a debt default. The economic data from Europe didn't suffice and failed to support the euro as the Industrial production in the euro area fell 0.7 percent in June after a 0.2 percent increase in May, data showed Greece's economy shrank 6.9 percent in the second quarter from a year earlier, a fifth straight decline. French economic growth stalled in the second quarter from the previous three months, when it expanded 0.9 percent. The weaker tone in the Euro zone has forced the euro to end on a second weekly decline. The euro lost by 0.26 percent to $1.4251, from $1.4288 on a weekly basis.

MCX-SX

Contract	Open	High	Low	Close	% Change	Volume	% Change	Open Interest	% Change
Aug-11	63.8750	65.0175	63.8750	64.6800	1.82%	1351478	-12.63%	226842	20.10%
Sep-11	64.1000	65.0900	64.0325	64.7775	1.58%	80388	-7.24%	81210	62.81%

NSE

Contract	Open	High	Low	Close	% Change	Volume	% Change	Open Interest	% Change
Aug-11	64.5000	65.0250	64.2375	64.6800	1.77%	823470	-1.60%	70382	42.30%
Sep-11	64.6925	65.0600	64.2100	64.7225	1.44%	63165	19.09%	14351	61.37%

Outlook

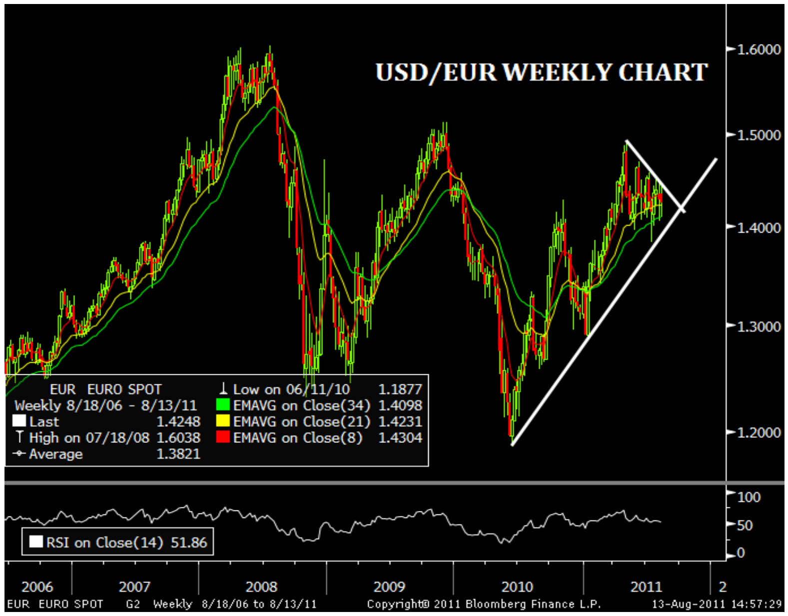
The Euro completed a weekly loss as French banks and their over exposure in Greek debt spooked the market. Going forward for the next week the major focus would be on the economic releases mainly in the form of GDP (QoQ) which however is expected to decline substacialy according to a Bloomberg survey. The Euro zone as well its biggest economy Germany is expected to grow at much slower pace. From the US we could see the data come in a mixed. Also Financial markets' growing concern about the state of European banks exposes a reality that the political theater in the U.S. had obscured: The euro area's debt troubles are probably the single largest threat to the global economy. So going forward we expect the Euro to remain under some pressure.

Economic data for week ahead

Date Time	Region	Event		Survey	Prior
08/16/2011 11:30	GE	GDP s.a. (QOQ)	2Q P	0.50%	1.50%
08/16/2011 14:30	EC	Euro-Zone GDP s.a. (QoQ)	2Q A	0.30%	0.80%
08/16/2011 14:30	EC	Euro-Zone Trade Balance sa	JUN	0.0B	-0.6B
08/17/2011 13:30	EC	ECB Euro-Zone Current Account SA	JUN	- -	-5.2B
08/17/2011 14:30	EC	Euro-Zone CPI (MoM)	JUL	-0.60%	0.00%

Technical analysis:

EUR/USD continued to engage in choppy sideway trading in familiar range last week and outlook remained unchanged. Consolidation from 1.4537 is still in progress and could extend further. On the downside, below 1.4054 will bring another fall to test 1.3837 support. On the upside, a break of 1.4401 will trigger rally attempt to test 1.4537 resistance. But again, break of 1.4537 resistance is needed to confirm resumption of rebound from 1.3837, or more consolidative trading would be seen.



Recommendation:

Sell at 1.4320-40 TP 1.4150-1.4080 SL1.4400

Sell at 64.90-65.10 TP 63.80-63.50 SL 65.50

GBP/USD

Currency	Contract	S2	S1	Close	R1	R2	Recommendation
GBPINR MCX-SX	Aug-11	72.4492	73.1458	73.8425	74.4283	75.0142	Sell 74.05-35 TP 73.45-73.20 SL 74.60
GBPINR NSE	Aug-11	72.4458	73.1417	73.8375	74.4342	75.0308	Sell 74.05-35 TP 73.45-73.20 SL 74.60
GBPUSD	SPOT	1.6030	1.6164	1.6276	1.6406	1.6540	Sell at 1.6330-50 TP 1.6210-6180 SL 1.6410

Fundamental Review

The Great Britain pound ended negative against the US dollar in the past week as weaker economic data spared fears of an economic slowdown. The riots in London also added pressure on the sterling. The sterling rose in the latter part of the week after UK chancellor refused demands of the opposition for more deficient cuts. But the pound gave away the gains and ended the week on a negative note. The pound lost by 0.70 percent on a weekly basis to give a close at 1.6276.

MCX-SX

Contract	Open	High	Low	Close	% Change	Volume	% Change	Open Interest	% Change
Aug-11	72.6000	72.8800	72.2125	72.2925	-0.52%	174180	335.96%	74026	130.23%
Sep-11	73.9375	73.6625	72.5300	72.6100	0.50%	4569	-34.04%	5377	105.31%

NSE

Contract	Open	High	Low	Close	% Change	Volume	% Change	Open Interest	% Change
Aug-11	72.6050	72.8800	72.2125	72.2975	-0.50%	134665	315.43%	12723	71.15%
Sep-11	72.9500	73.1650	72.5350	72.6200	-0.43%	6164	620.09%	1686	103.38%
Oct-11	73.4500	73.4500	72.9000	72.9400	-0.42%	471	395.79%	291	385.00%

Economic data for week ahead

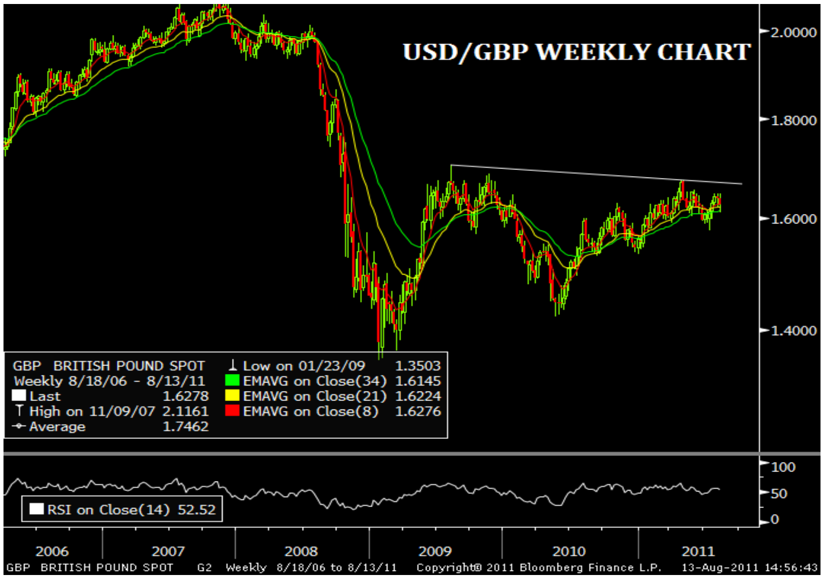
Date Time	Region	Event		Survey	Prior
08/16/2011 14:00	UK	CPI (MoM)	JUL	-0.10%	-0.10%

Outlook

The pound lost again the USD in the past week ending lower by 0.70% on a weekly basis on concerns of a slowing economy. For the coming week Consumer prices in the U.K. are projected to increase at an annualized pace of 4.3% in July, and the faster rate of inflation could spark a bullish reaction in the British Pound as the Bank of England faces increased pressures to lift the benchmark interest rate off of the record-low. This could have a mixed impact on the pound for the coming week. So for the coming week we can expect the pound to trade higher and then giving up gains to the later part of the week.

Technical analysis

GBP/USD's consolidation from 1.6474 continued last week with a dip to 1.6110 before recovering. Initial bias is neutral this week. As noted before, while another fall cannot be ruled out yet, we'd expect strong support inside 1.6004/6193 support zone, probably at 61.8% retracement from 1.5780 to 1.6474 at 1.6045, to contain downside and bring another rise. We're favoring the case that correction from 1.6746 has finished with three waves down to 1.5780 already. Above 1.6336 minor resistance will flip bias back to the upside first. Break of 1.6474 will resume the rise from 1.5780 to 1.6546 first. Break will affirm this bullish case and should send GBP/USD through 1.6746 resistance next. However, break of 1.6004 will dampen this view and turn focus back to 1.5780 instead.



Recommendation:

Sell at 74.05-35 TP 73.45-73.20 SL 74.60 Sell at 1.6330-50 TP 1.6210-6180 SL 1.6410

USD/JPY

Currency	Contract	S2	S1	Close	R1	R2	Recommendation
JPYINR MCX-SX	Aug-11	56.4300	57.815	59.2000	59.9475	60.695	Sell at 59.50-65 TP 58.50-57.90 SL 60
JPYINR – NSE	Aug-11	56.9975	58.095	59.1925	59.81	60.4275	Sell at 59.50-65 TP 58.50-57.90 SL 60
USD/JPY	SPOT	74.723	75.76	76.81	77.827	80.823	Buy at 76.40-30 TP 77.80-79 SL 75.50

Fundamental Review

The yen advanced to record highs against the greenback in the beginning of the week as the dollar came under pressure on concerns of a slowing economy. The gains come on the back of haven flows accelerated by concerns over sovereign debt downgrades and the threat of defaults in Europe. The Yen closed at 76.81 with a weekly gain of 2.06 percent

MCX-SX

Contract	Open	High	Low	Close	% Change	Volume	% Change	Open Interest	% Change
Aug-11	57.1775	57.9850	57.1775	57.8800	1.22%	35424	-93.29%	261093	26.77%
Sep-11	57.8000	58.1025	57.8000	58.0250	1.15%	9825	-83.04%	39521	159.61%

NSE

Contract	Open	High	Low	Close	% Change	Volume	% Change	Open Interest	% Change
Aug-11	57.6150	57.9800	57.6150	57.8800	1.27%	44222	-90.08%	33236	-41.11%
Sep-11	57.7900	58.0900	57.7900	58.0175	1.16%	16666	-79.74%	16405	34.90%
Oct-11	58.0250	58.2025	58.0000	58.1450	1.12%	474	-92.02%	2.352624495	235.26%

Economic data for week ahead

Date Time	Region	Event		Survey	Prior
08/15/2011 05:20	JN	Nominal GDP (QoQ)	2Q P	-1.40%	-1.30%
08/15/2011 05:20	JN	GDP Annualized	2Q P	-2.50%	-3.50%
08/15/2011 05:20	JN	Gross Domestic Product (QoQ)	2Q P	-0.60%	-0.90%
08/18/2011 05:20	JN	Merchnds Trade Balance Total	JUL	¥69.3B	¥70.7B

Outlook

Japan's 2Q GDP report highlights the greatest event risk for the Yen, but the heightening risk for a currency intervention could take center stage as the exchange rate hovers around the record-low (76.28). Economic activity in the world's third-largest economy is expected to slow 0.6% in the second-quarter and the ongoing slump in Japan may sap demands for the low-yielding currency as the region struggles recovery from the devastating earthquake earlier this year. In light of the recent developments, Japan's Cabinet Office lowered its growth projection and sees GDP expanding 0.5% for the fiscal-year beginning April 1 versus an initial forecast for a 1.5% expansion reported back in January. At the same time, the government pledged to closely monitor the foreign exchange market as the marked appreciation in the local currency undermines the economic recovery. So going forward we can expect the Yen to weaken as BOJ looks to intervene to save the country's exports

Technical analysis

USD/JPY dropped to as low as 76.30 last week but lost momentum ahead of 76.28 support and turned sideway. Nevertheless, further fall is still expected with 77.32 minor resistance intact. Break of 76.28 will confirm resumption of the whole decline from 85.51 and should target 100% projection of 81.46 to 76.28 from 80.23 at 75.05 next. On the upside, above 77.32 minor resistance will bring recovery. But we'll stay cautiously bearish as long as 80.23 resistance holds.

Recommendation: Sell at 59.50-65 TP 58.50-57.90 SL 60

Buy at 76.40-30 TP 77.80-79 SL 75.50

Major economic events for the week

Date Time	Region	Event		Survey	Prior
08/15/2011 05:20	JN	Nominal GDP (QoQ)	2Q P	-1.40%	-1.30%
08/15/2011 05:20	JN	GDP Annualized	2Q P	-2.50%	-3.50%
08/15/2011 05:20	JN	Gross Domestic Product (QoQ)	2Q P	-0.60%	-0.90%
08/15/2011 18:00	US	Empire Manufacturing	AUG	0	-3.76
08/15/2011 18:30	US	Net Long-term TIC Flows	JUN	$32.6B	$23.6B
08/15/2011 18:30	US	Total Net TIC Flows	JUN	- -	-$67.5B
08/15/2011 19:30	US	NAHB Housing Market Index	AUG	15	15
08/16/2011 11:30	GE	GDP s.a. (QOQ)	2Q P	0.50%	1.50%
08/16/2011 14:00	UK	CPI (MoM)	JUL	-0.10%	-0.10%
08/16/2011 14:30	EC	Euro-Zone GDP s.a. (QoQ)	2Q A	0.30%	0.80%
08/16/2011 14:30	EC	Euro-Zone Trade Balance sa	JUN	0.0B	-0.6B
08/16/2011 18:00	US	Import Price Index (MoM)	JUL	-0.10%	-0.50%
08/16/2011 18:00	US	Housing Starts	JUL	600K	629K
08/16/2011 18:00	US	Building Permits	JUL	605K	624K
08/16/2011 18:45	US	Industrial Production	JUL	0.50%	0.20%
08/16/2011 18:45	US	Capacity Utilization	JUL	77.00%	76.70%
08/17/2011 13:30	EC	ECB Euro-Zone Current Account SA	JUN	- -	-5.2B
08/17/2011 14:30	EC	Euro-Zone CPI (MoM)	JUL	-0.60%	0.00%
08/17/2011 18:00	US	Producer Price Index (MoM)	JUL	0.10%	-0.40%
08/18/2011 05:20	JN	Merchnds Trade Balance Total	JUL	¥69.3B	¥70.7B
08/18/2011 18:00	US	Consumer Price Index (MoM)	JUL	0.20%	-0.20%
08/18/2011 18:00	US	Initial Jobless Claims	13-Aug	400K	- -

08/18/2011 18:00	US	Continuing Claims	6-Aug	3700K	- -
08/18/2011 19:30	US	Leading Indicators	JUL	0.20%	0.30%
08/18/2011 19:30	US	Philadelphia Fed.	AUG	3.5	3.2
08/18/2011 19:30	US	Existing Home Sales	JUL	4.90M	4.77M