Monthly Currency Derivatives

US$INR likely to face hurdle near 65.20 levels in near term…

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Positional Recommendations

US$INR Strategy

Sell US$INR

Sell US$INR November future at 65.10 – 65.20, Target: 64.40, Stop loss: 65.75

Rationale:

The rupee recovered some of its losses in the previous couple of months, which had come on the back of fears of slipping fiscal discipline and on account of some pullback in US$. However strong foreign inflows following a sharp surge in domestic equities as well as rising yields differentials have supported the rupee at lower levels. Also, the recent thumbs up to India rankings for ease of doing business has further supported rupee appreciation. We expect the upcoming assembly polls as well as clarity on the central government's bank recapitalisation plans to determine the rupee trend. Hence, we advise utilising the near term rise in US$INR to initiate shorts as we expect the rupee to remain in a broad range.

JPYINR Strategy

Sell JPYINR

Sell JPYINR November future at 57.20 – 57.30, Target : 55.40 and stop loss : 58.30

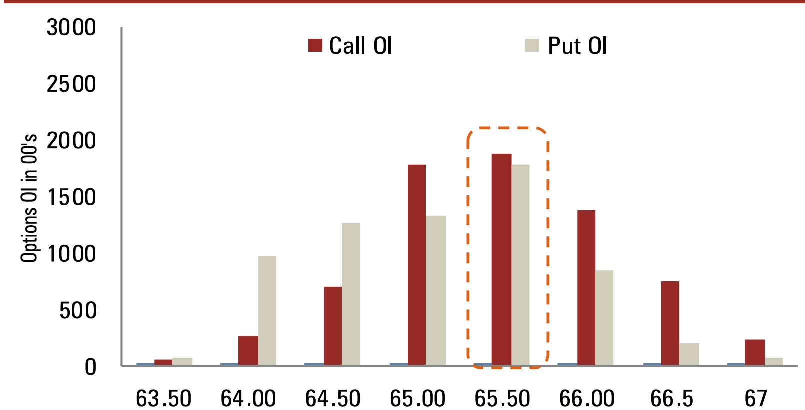
Rationale:

Japanese Yen has been trading in a broad range of 108-115 since almost nine months, on the back of divergent monetary policy and safe haven demand over North Korea geo-political risks. Japanese prime minister Shinzo Abe has been nominated for leading the country into his third term. This may see signs continuity of "Abenomics" and may see BoJ extending current loose monetary policy, fiscal stimulus and reforms. Subsiding geopolitical risks would see waning safe-haven demand for Japanese Yen. CFTC data shows a rise in JPY short positions. Hence, we suggest selling JPYINR as we expect rupee to trade relatively strong vs. Japanese Yen.

US$ extends gains over steady hike prospects, long liquidation in Euro, British Pound..

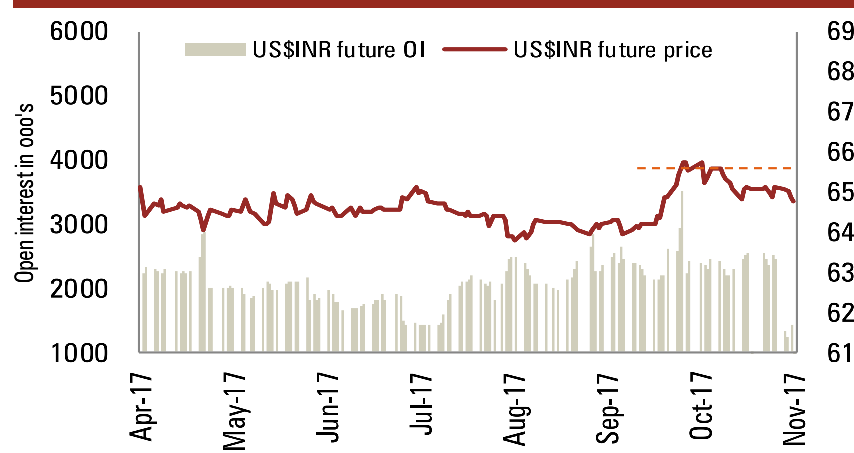
- **US$ posts positive close in September:** The US$ index extended its gains for a second consecutive month in October ending up ~1.6%. US Benchmark 10-year yields rose to almost 2.47% before settling at 2.38%. US September non-farm payrolls were sharply lower, contracting by 33000 vs. 156000 gains in August. Unemployment rate fell to 4.2% from 4.4%. However, wages registered decent growth at 2.9% YoY, highest since June 2009. Fed in its November Monetary policy meeting kept benchmark interest rates unchanged as widely expected. It kept December rate hike alive as it reiterated about US economic growth amid a solid recovery in US employment, overlooking faltering inflation growth as of now.
- **Rupee reverses losses:** The rupee ended positive in October ending at 64.75, registering gain of 0.82%. Receding fears over fiscal slippage along with positive inflows in domestic debt and equities aided rupee gains. Domestic benchmark 10-year bond yields rose sharply as the RBI raised concerns on inflation growth in the backdrop of fiscal worries. Yield tested six-months highs and were in the range of 6.63 -6.89%
- **Futures and options activity:** In the options segment, 65.50 has the highest Call and Put Open interest. We expect the pair to face a hurdle near 65.20 levels and suggest initiating shorts for target of 64.50 and stop loss at 65.75.

US$INR November series Options build up



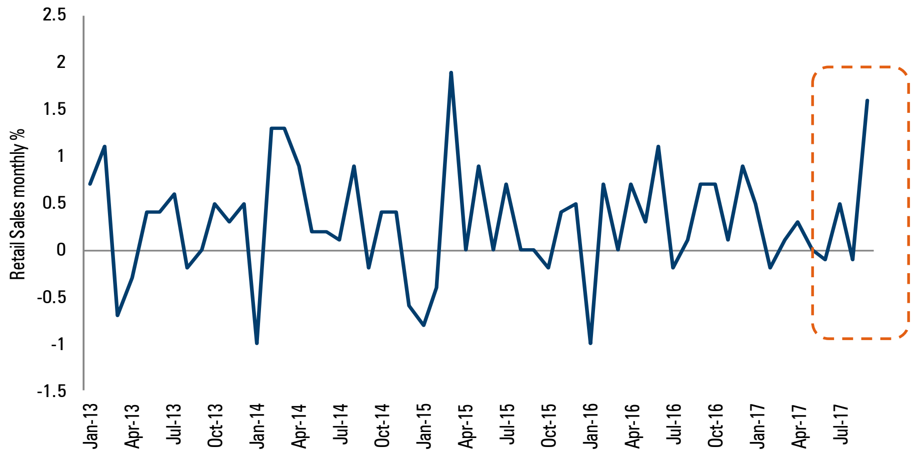
Source: Bloomberg, ICICIdirect.com Research

US$INR to meet supply pressure near 65.20 levels

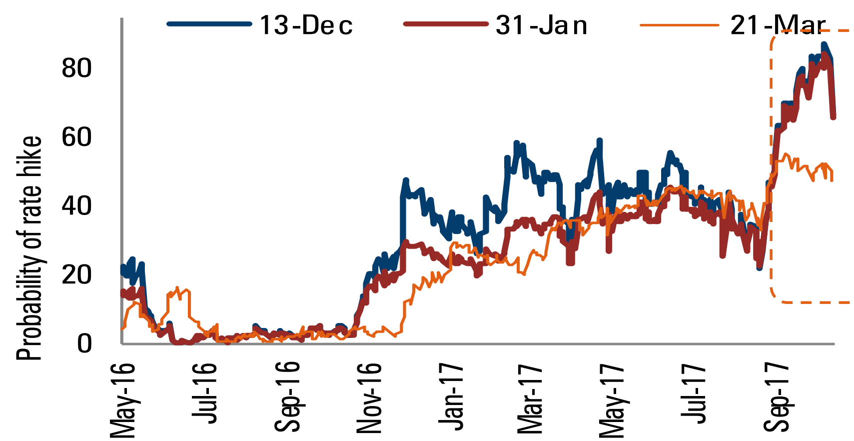


US$ stays defensive against major currencies post US President's new Fed chair pick while rate hike remains alive …

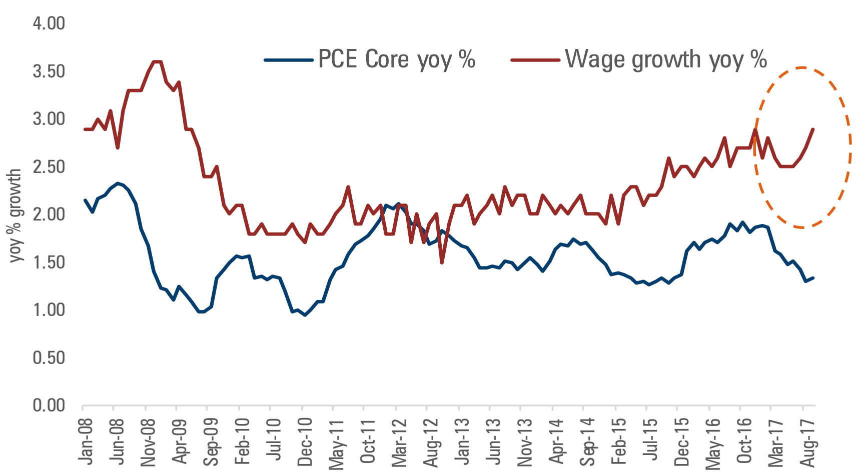
US retail sales growth jump sharply, supporting rate hike prospects



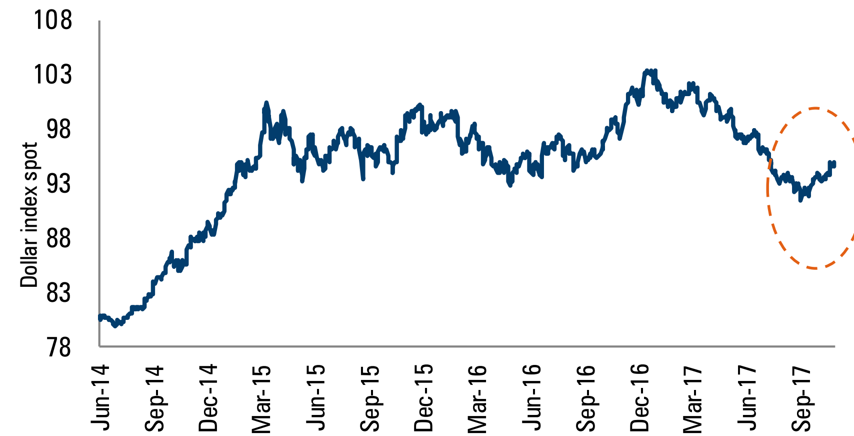
December US interest rate hike expectations remain intact near 60%



US wage growth rises sharply but inflation growth continues to falter



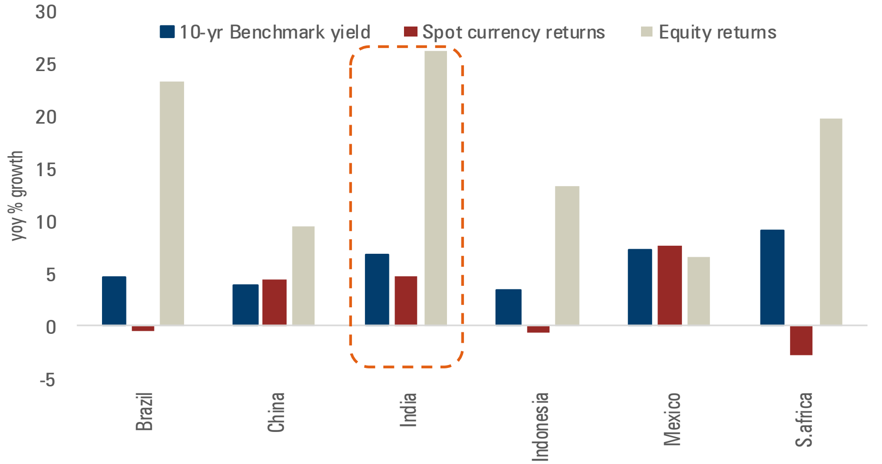
US$ index posts gain for second consecutive month



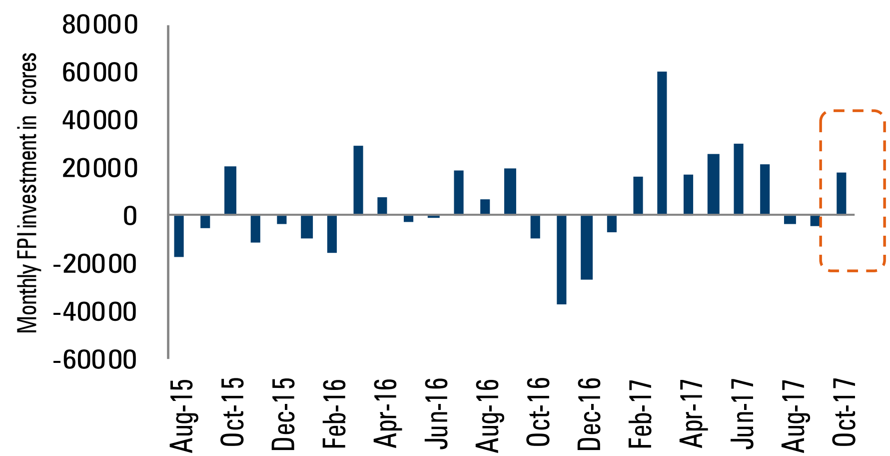
Source: Bloomberg, CICIdirect.com Research

Domestic macro data stays mixed, likely to create hurdle for runaway rupee appreciation...

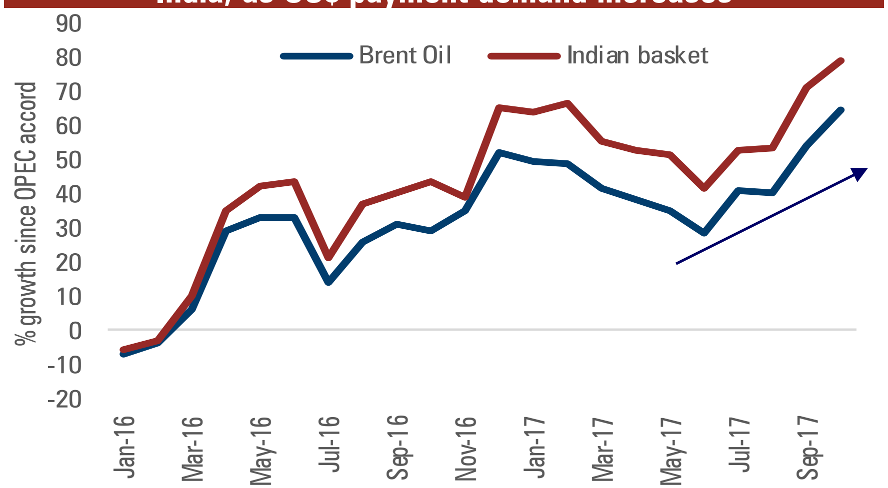
Higher equity returns, relatively higher yields, stable currency to keep domestic assets in demand



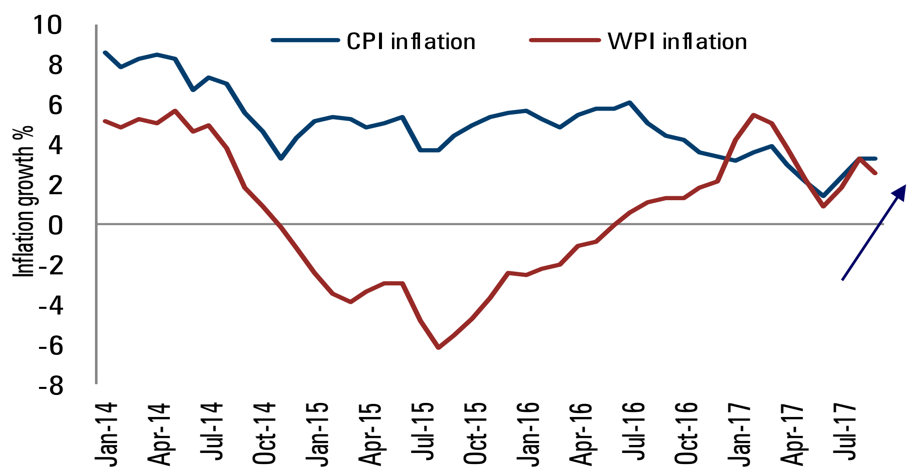
Foreign portfolio investments (FPI flows) turn positive in October after two consecutive months of outflows



Rising crude oil prices negative for oil importing nation like India, as US$ payment demand increases



Uptick in inflation growth coupled with higher commodity prices a near term concern

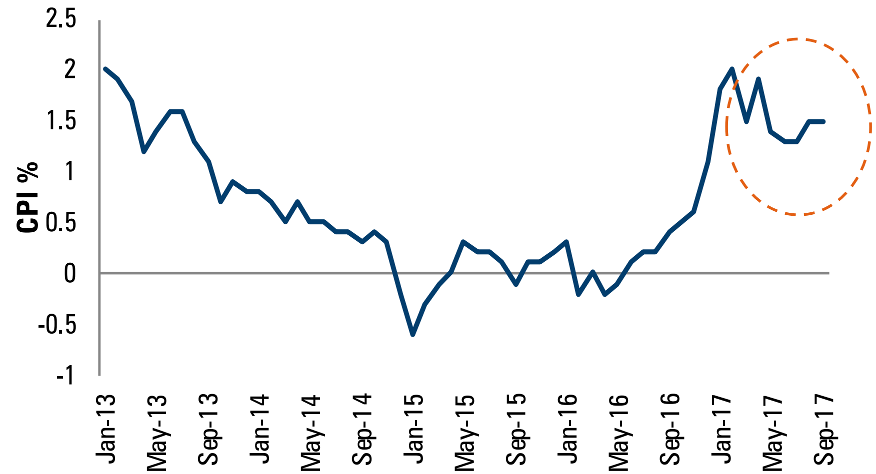


Source: Bloomberg, ICICIdirect.com Research

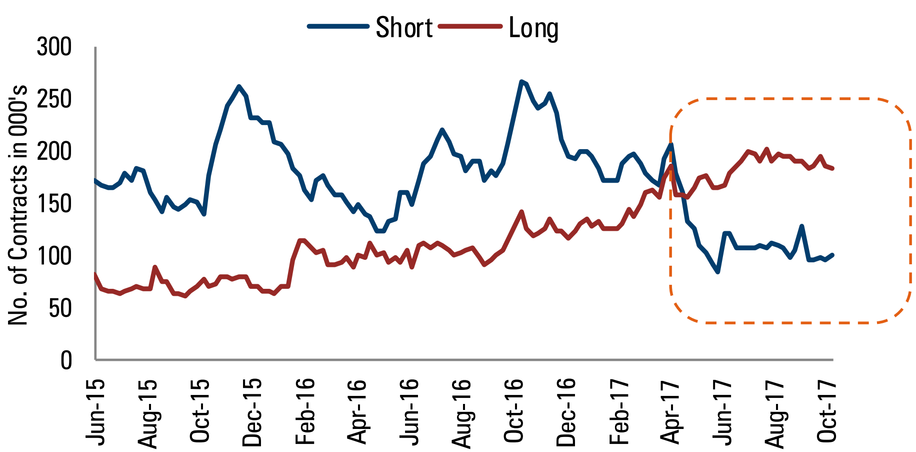
Euro-US$ approaching crucial supports near 1.15-level, over ECB's decision to extend bond buying till September 2018…

- Euro-US$ witnessed profit booking from the hurdle near 1.21. Euro fell for a second consecutive month, registering a loss of 1.4%
- ECB extended its bond buying programme till September 2018, albeit at a lower pace of €30 billion per month. It termed current adjustment as "recalibration" and to continue with QE until inflation target is achieved. Market participants viewed this as a dovish stance and utilised the opportunity to liquidate longs in Euro
- We expect Euro to find support near 1.15 and consolidate. Later, it could rise till 1.18 in the near term

Euro Area HICP inflation growth remains steady at 1.5% for second consecutive month



CFTC data shows mild fall in Euro short positions



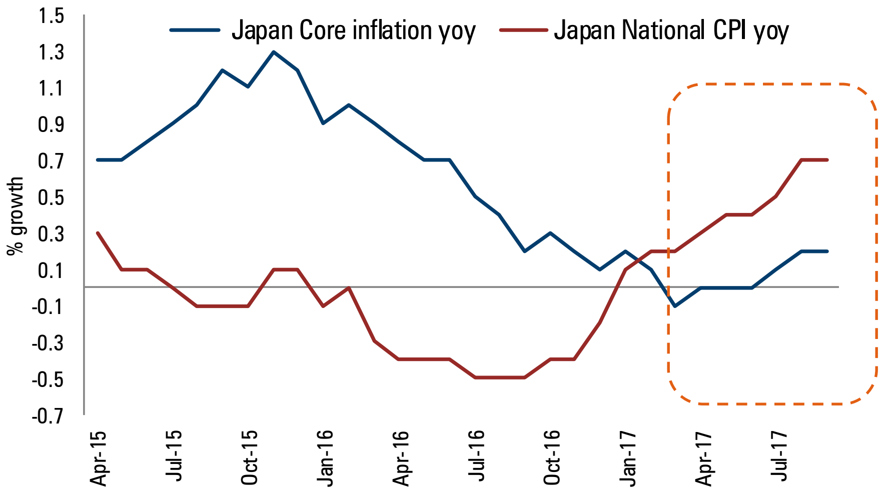
Euro-US$ pair may test supports around 1.15 level in near term

Source: Bloomberg, ICICIdirect.com Research

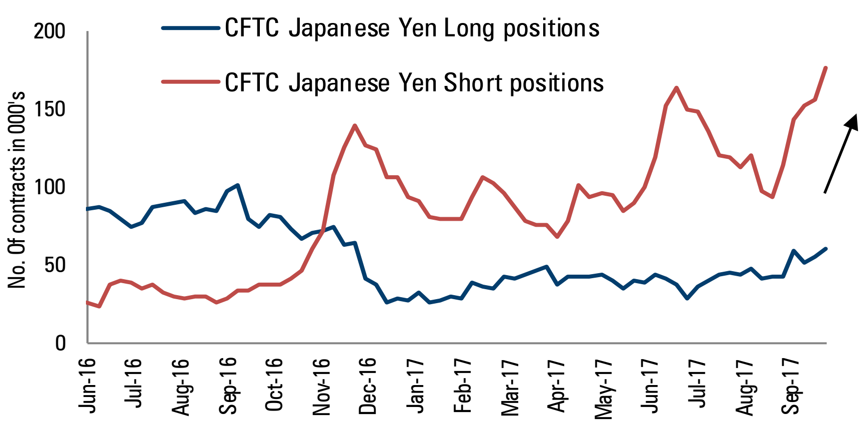
JPY may remain weak vs. US$ as re-election of Prime minister Shinzo Abe seen as continuance of easy monetary policy

- The Japanese Yen continued its consolidation in October. JPY traded in a very narrow range of 114.45-111.65 due to waning safe haven demand over North Korea geopolitical risks and a soft US$
- CFTC data shows a sharp rise in Yen short positions. Net short Yen positions are 41% of total OI. Lower inflation growth would see BoJ continuing with accommodative monetary policy
- We expect Japanese Yen to continue to trade weak due to divergent monetary policy as well as waning safe haven demand. We expect US$JPY to rise till 118 level with 112 remaining a near term support

Japan inflation growth remains steady in September



CFTC data shows rising short positions in Japanese Yen v/s US$



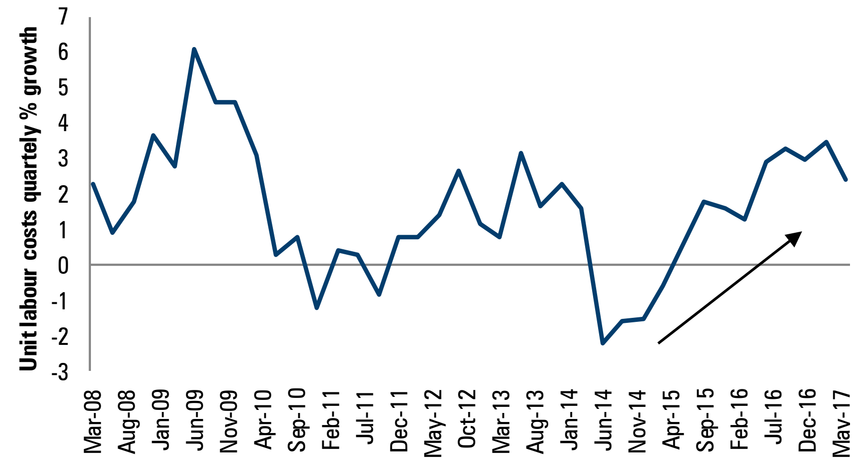
US$JPY may further rise till 1.18 on rising monetary divergence

Source: Bloomberg, ICICIdirect.com Research

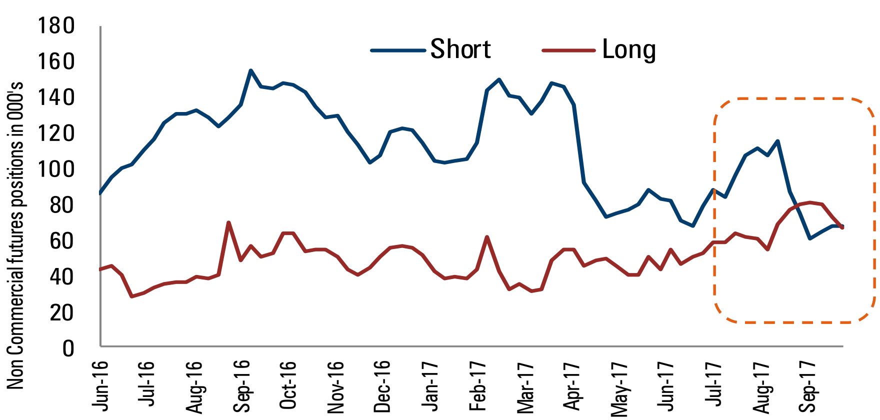
British Pound slides as BoE signals further rate hikes post increasing interest rate by 25 bps in a decade….

- GBPUS$ traded in a narrow range of 1.30-1.34 during October. Brexit negotiations have weighed on pound gains. BoE raised interest rates by 25-bps, a first rate hike in 10 years. However, it doused expectations of faster subsequent rate hikes
- UK labour costs rise following uptick seen in inflation growth.
- CFTC data shows equilibrium between net longs and net shorts positions inferring indecisiveness in near term positioning
- GBPUS$ has support placed near 1.305 levels while pair could test 1.34 on higher side as Dovish BoE has capped runaway Pound appreciation in near term

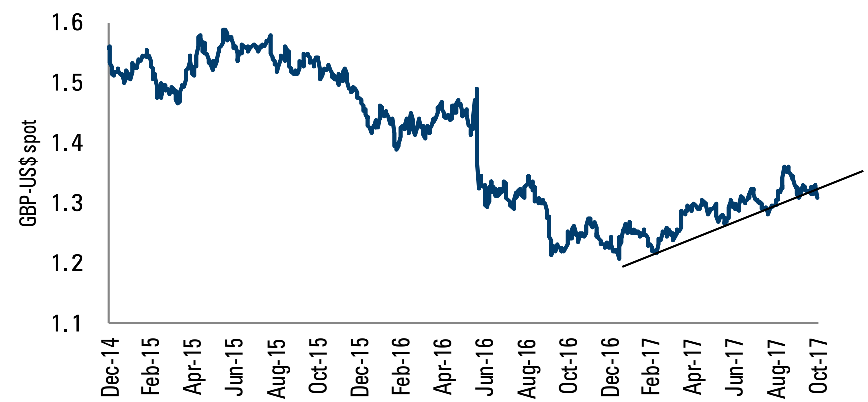
UK labor costs show sustained rise increasing case for BoE to raise rates



CFTC data shows indecisive positions between longs and shorts as net positions almost equal



GBPUS$ has supports paced near 1.305 level



Source: Bloomberg, ICICIdirect.com Research

Global Snapshot

	Current price	October close	September close	% change
Nifty	10441.50	10335.30	9788.60	5.59
DJIA	23516.26	23377.24	22405.09	4.34
S & P	2579.85	2575.26	2519.36	2.22
CAC	5510.50	5503.29	5329.81	3.25
DAX	13440.93	13229.57	12704.65	4.13
FTSE	7555.32	7493.08	7372.76	1.63
NIKKEI	22539.12	22011.61	20356.28	8.13
NYMEX Crude	54.76	54.38	51.67	5.24
BRENT Crude	60.75	61.37	57.54	6.66
GOLD	1276.37	1271.45	1279.75	-0.65
G-Sec 10 yr yield	6.86	6.86	6.66	2.99
G-Sec 2 yr yield	6.35	6.35	6.28	1.16
US 10 yr yield	2.35	2.38	2.33	1.96
Dollar Index	94.67	94.55	93.08	1.59
Euro	1.17	1.16	1.18	-1.42
GBP	1.31	1.33	1.34	-0.86
JPY	114.00	113.64	112.51	1.00
INR	64.58	64.75	65.28	-0.82

Source: Bloomberg, ICICIdirect.com Research

Forthcoming Events…

India:
- 01 November : PMI manufacturing
- 03 November ; Nikkei India PMI Services, Composite PMI
- 10 November : Exports, Imports, Trade balance
- 30 November : Fiscal deficit, GDP

- **US:**
- 01 November : PMI Manufacturing, FOMC interest rate decision
- 03 November : October Employment data
- 11 November : University of Michigan inflation expectation
- 14 November : PPI
- 15 November : CPI, Retail Sales
- 29 November : GDP data

Euro zone:
- 02 November : Eurozone manufacturing PMI, GDP 2Q
- 06 November : Composite and Services PMI
- 07 November : Retail Sales
- 16 November : CPI data
- 23 November ; ECB Monetary policy meeting account

China :
- 01 November : Caixin Manufacturing PMI
- 08 November : Imports, Exports and Trade balance
- 09 November : CPI, PPI
- 14 November : Retail sales

Japan:
- 01 November : Nikkei Manufacturing PMI
- 06 November : Composite and services PMI
- 13 November : PPI
- 20 November : Imports, Exports
- 29 November : Retail sales

- **UK:**
- 01 November : Manufacturing PMI
- 02 November : BoE Monetary policy meeting
- 09 November : Industrial Production, Manufacturing production
- 14 November ; Retail Sales, CPI
- 28 November : GDP

Portfolio allocation in Derivatives Products…

Trading Portfolio allocation

- It is recommended to spread out the trading corpus in a proportionate manner between the various derivatives research products.
- Please avoid allocating the entire trading corpus to a single stock or a single product segment.
- Within each product segment it is advisable to allocate equal amount to each recommendation.
- For example: The ‘Daily Derivatives’ product carries 2 intraday recommendations. It is advisable to allocate equal amount to each recommendation

	Allocation			Return Objective		
Products	Product wise allocation	Max allocation per stock	Number of Calls	Frontline Stocks	Mid-cap stocks	Duration
Daily Derivatives	5%	2-3%	2 Stocks	1%	2-3%	Intraday
Weekly Derivatives	10%	3-5%	2 Stocks	3-5%	5-7%	1 Week
Monthly Derivatives	15%	3-5%	4-7 Stocks	7-10%	10-15%	1 Month
Global Derivatives	5%	2-3%	4-5 stocks	-	-	1 Month
Quant Picks	15%	2-3%	6-8 stocks	7-10%	10-15%	3 Months
Alpha Trader	10%	2-3%	2-3 strategy	5%	-	1-2 Month
Volatility Insights	10%	2-3%	3-4 Strategy	8-10%	10-15%	1-2 Month
Arbitrage Opportunity	5%	2-3%	2-3 Stocks	> 2.5%	>2.5%	Event Based
Short term Futures	5%	2-3%	8-12 Stocks	1-3%	2-5%	1-2 days
Positional Index Strategy	5%	3-4%	2-4 Index calls	-	-	1-14 days
Stock option strategy	5%	3-4%	2-8 Stocks	-	3-5%	1-2 days
Daily Currency Future	5%	3-4%	3-5 Calls	-	-	1-2 days
Monthly Currency Futures	5%	3-4%	2-3 Calls	-	-	1 Month

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