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FX Tech Flash

INR: Turn to Shine

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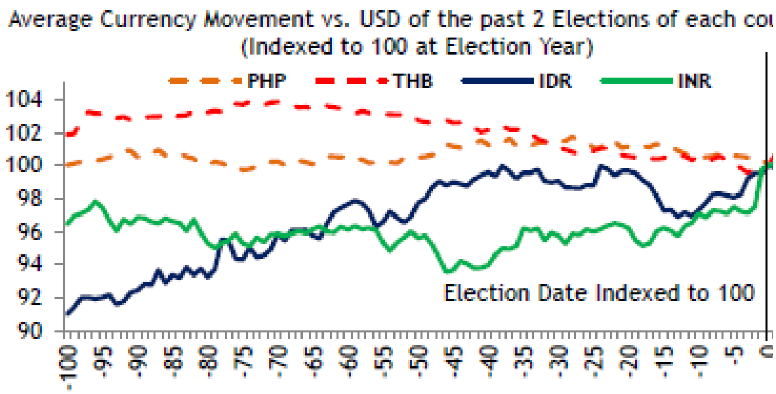
The Outperformer

The INR has been an outperformer since the start of Mar, buoyed by the inflow of equities as the Pakistan-India Kashmir conflict (that was triggered by the 14 Feb Pulwama attack) faded. Since 20 Feb (post confrontation), foreign investors have purchased U$3.8bn worth of equities, offsetting the U$466mn of outflow from the debt markets seen over the same period of time. The equity-related inflow had also pushed the USDINR below the 70-figure and the currency pair was last seen around 69.55 as we write. Also underpinning the recent INR move in the past few days is the bid by ArcelorMittal to take over Essar Steel India Limited with the settlement proposal of INR543.89bn to Essar Steel creditors. The National Company Law Tribunal had approved the resolution plan last Fri.

While part of the rupee rally in past few weeks was due to the fact that the Kashmir military confrontation did not broaden into wider conflicts elsewhere, we concur with our India Equity Analyst Jigar Shah in his report here that there were some bets that the incumbent Modi could win the upcoming election that would take place in seven phases over 6 weeks with results announced on 23 May.

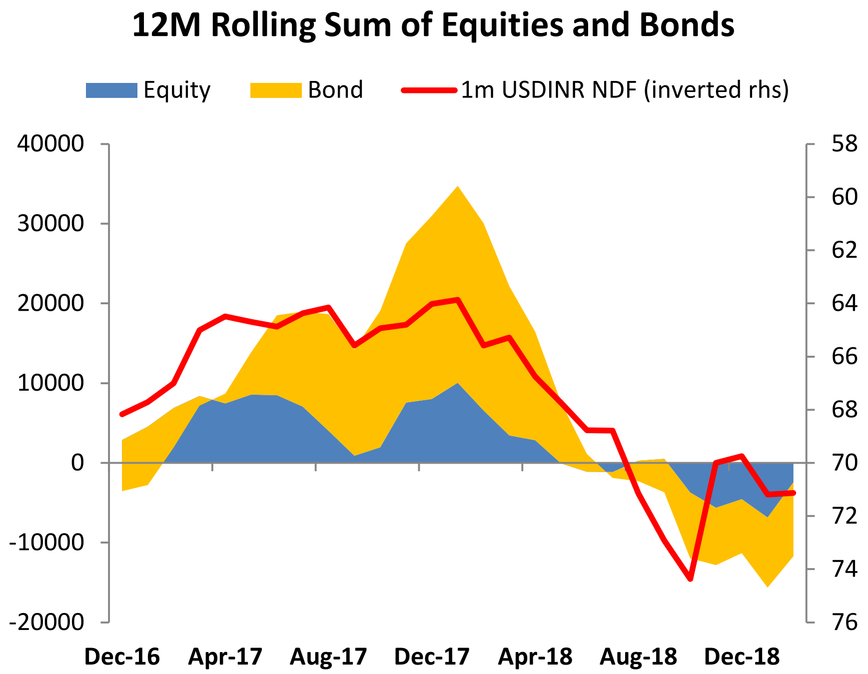
With the 2019 General Election likely the key event to move INR in the next few weeks, we anticipate more gains for the currency. However, recent gains have been rather sharp and with some election euphoria already built in, we might see some retracements as opportunities for better bargains. We hold our view for USDINR to head towards 67 by the end of this month as INR historically strengthens around 50days ahead of the election as stated here and here.

IDR, INR Typically Appreciate In the Lead Up to GE while THB Deprec



Source: Bloomberg, Maybank FX Research & Strategy

Chart: Inflows Have Improved In Recent Weeks

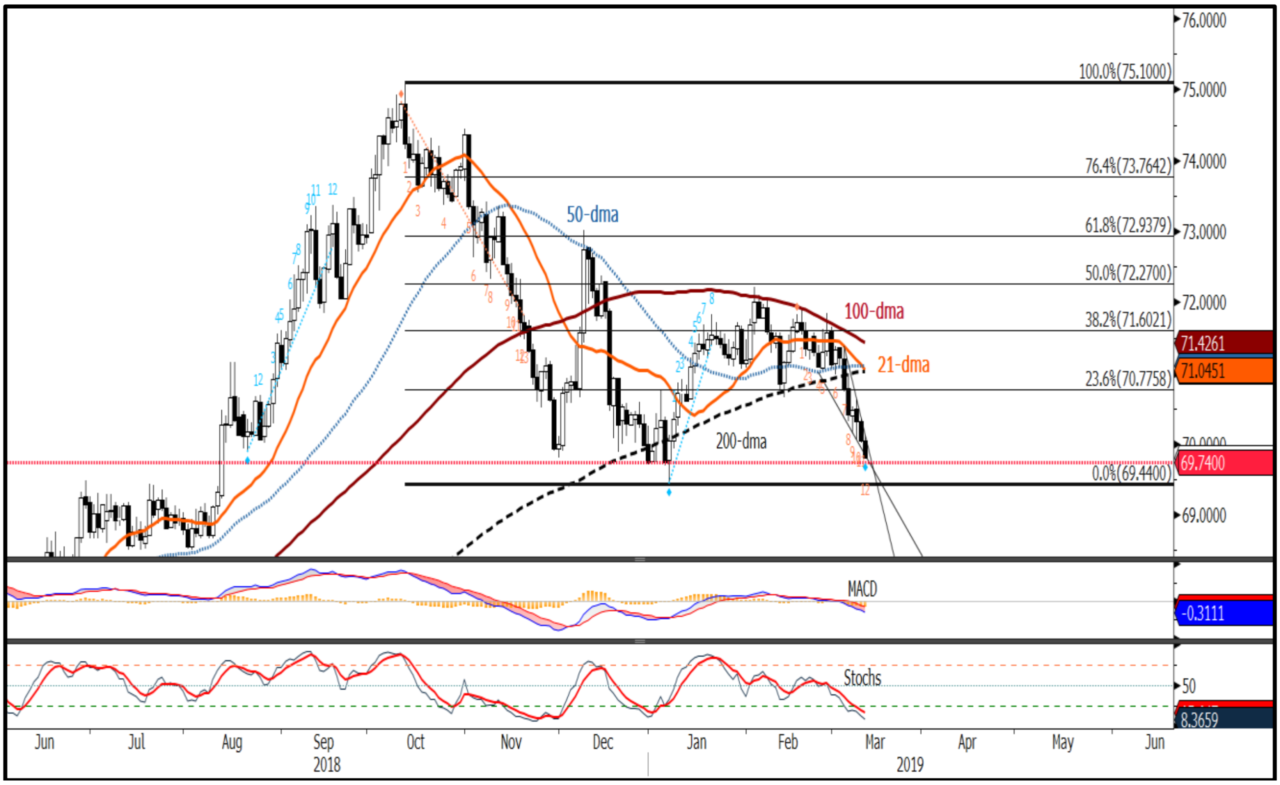


Our India equity analyst Jigar detailed three poll scenarios with the *first being a Modi-led BJP win but in a coalition unlike the majority win in 2017. The second possibility is a Congress-led coalition in the event Congress secures more than 120 seats. The third possibility (a more unlikely one) is a non-Congress and non-BJP led coalition which may not survive the full term.*

We had been leaning towards the first scenario as our base case. We anticipate Modi to weld the recent conflict with Pakistan in his favour, as written here. The lack of a united opposition and BJP's superior poll campaign and last-mile presence as pointed out by our colleague also reinforce our view that INR is poised for strength into the election period.

A check on the daily chart of the 1m USDINR NDF suggests that the pair could be overstretched in the near-term. We anticipate support for further moves lower to come in at around 69.75 (historical support level). Recent price moves have also formed a falling wedge which normally precedes a bullish reversal. Rebounds to meet resistance around 70.62. That said, the bearish trend is still clearly intact, especially on the weekly chart. Next support is seen around 69.24.

Chart (Daily) - 1m USDINR NDF - Bearish Trend intact but Caution for Near-term Rebound Risk



Source: *Maybank FX Research & Strategy*

Chart (Weekly) - 1m USDINR NDF - Bearish Trend intact

Source: Bloomberg, Maybank FX Research & Strategy

INRPHP (Daily) – Double Bottom Play Out, Next Resistance seen around 0.77

INRPHP rebounded in the past few sessions on a double bottom formation that was formed around 0.7250.The move higher could meet next resistance at around 0.77 (50% Fibonacci retracement of the Feb-Nov drop) before the next at 0.78. Support is seen at 0.7446.

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