Macro | FX Research and Strategy

Global

FX Flash

INR - Playing "Catch Down"

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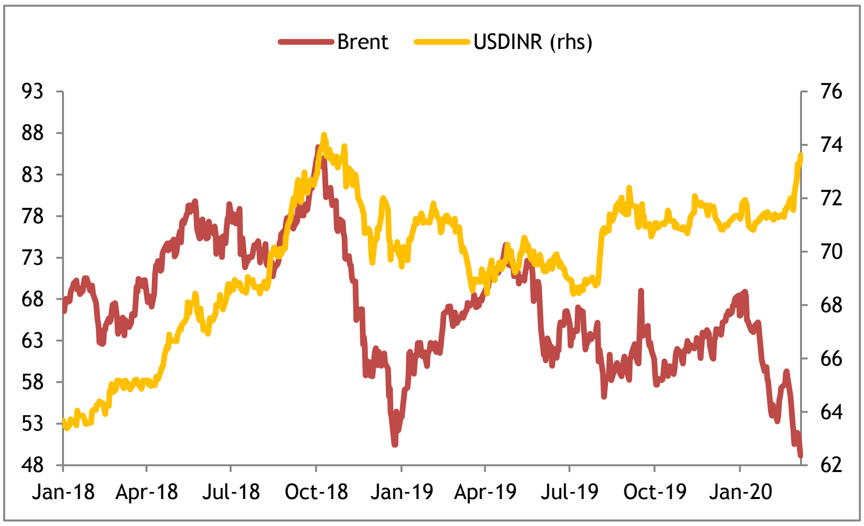
USDINR Gaps Up To 2018 High

USDINR gapped up this morning on news that RBI has seized control of YES Bank. The central bank pledged to come up with a rescue plan within 30 days given the "serious deterioration in financial position" of the bank and its poor governance practice. The State Bank of India has been appointed to lead a consortium that will inject new capital into YES Bank. With the bank placed under moratorium, the central bank will draft a plan for the "reconstruction or amalgamation" of the bank and imposed a cap of INR 50,000 on cash withdrawal from the bank over the next month. Governor Das assured that the bailout would be done well before the end of the moratorium and depositors' interest would be protected. Nonetheless, the seizure of the bank raises concerns of a systemic impact on the financial sector and drove USDINR to a high of 74.09 (not seen since 2018) this morning before tapering off to levels around 73.80 amid reminders by Governor Das that India's foreign exchange reserves are "robust".

Bonds Rally and We Watch NFP

While equities and the rupee bore the brunt of the news, bonds rallied. 10y yield slipped to levels around 6.18% vs. its Thu close of 6.24%. Apart from safe haven bids and rate cut bets (Governor Das had assured that RBI will be proactive with regards to the COVID-19 threat), rates are likely also taking cue from regional and global trends. UST 10y yield have already lost 10bps within Asia morning, last seen around 0.81% ahead of the widely watched Feb NFP tonight. While many caution that risk could still be skewed to the downside as a stronger number could be taken as outdated given the recent development on the COVID-19 situation in the US, there is also a sense that market players are a tad too aggressively positioned for a 50bps cut on the 18th of Mar. A stronger-than-expected NFP release tonight may be able to trigger unwinding of excessive short USD position, which could add pressure on the INR.

Brent Weakness Cannot be Counted on to Support the INR



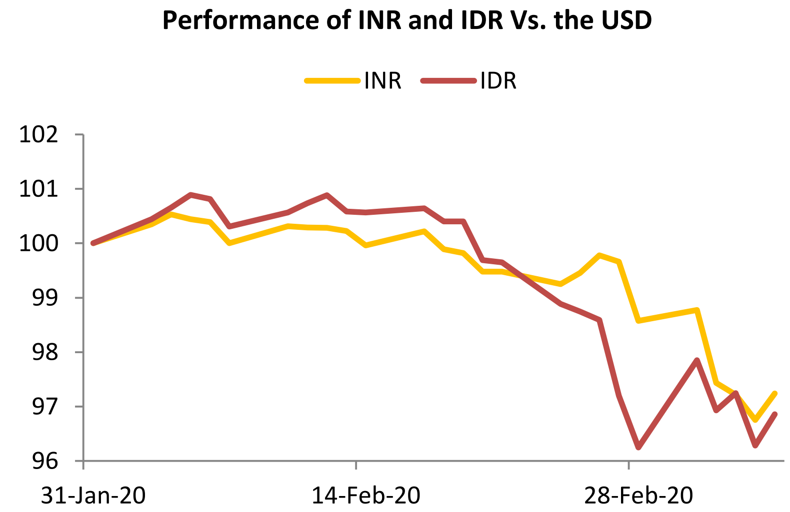
Source: Bloomberg, Maybank FX Research & Strategy

SEE PAGE 6 FOR IMPORTANT DISCLOSURES

INR Had Been Resilient to COVID Effects

Before the recent surge, 1M USDINR NDF had been stuck in a range that has held since 2H of 2019. The slump in the Brent prices did not lend much support to the INR as subdued global growth prospect in light of the COVID-19 outbreaks have weakened risk appetite for EM currencies. That said, the INR was still one of more resilient currencies in Feb, down only -1.15% vs. the USD in contrast to fellow higher yielder IDR which weakened 4.0% between 3-28 Feb. This is perhaps explained in our recent piece titled Distilling the COVID-19 Effect. We found that India do not rank high in terms of vulnerability to contagion concerns as well as growth concerns emanating from tourism flows, supply chain disruptions and exposure to Chinese demand. However, India’s struggle with NPLs and the concomitant vulnerability of its financial sector was brought into the limelight once again with the moratorium imposed on YES bank, triggering a “catch down” of the INR towards the underperformer IDR.

<u>INR has caught up with the IDR in terms of Weakness</u>



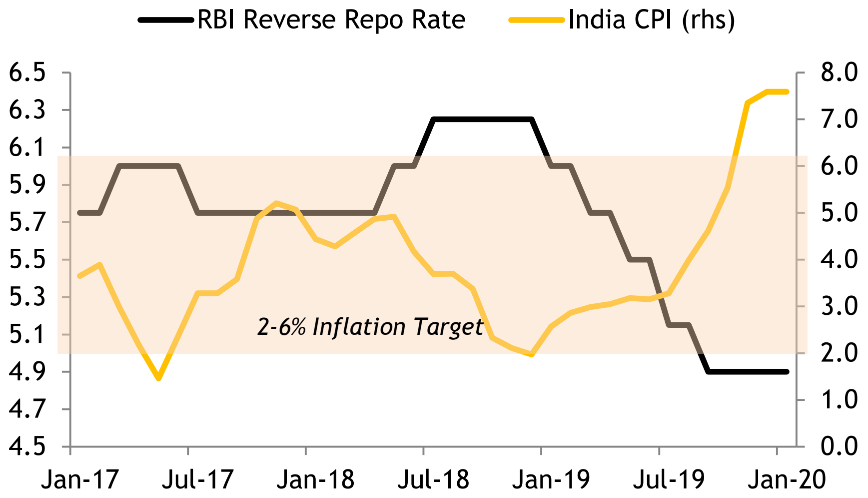
Source: Maybank FX Research & Strategy

Key Resistance for 1M USDINR NDF is at 75.10

Source: Maybank FX Research & Strategy

Based on the 1M USDINR NDF chart in the previous page, price is approaching a key resistance at 75.10 which marks the record high made in 2018. The fear here is a loss of depositors' confidence and domino /systemic impact on the financial system and RBI has to come up with a plan fast. According to CNBC, RBI will release a resolution plan today. In the meantime, RBI may intervene to keep INR from spiralling downwards. A clearance of the 75.10 by the 1M USDINR NDF would lift this pair towards the next resistance at 75.30 before the next at 77.00. Support at 73.00 before 72.0 (21-dma). Failure to clear the 75.10 could mean a probable double top. A retracement is not difficult to imagine in a weak USD environment and a swift rescue plan for YES bank that could also keep depositors' confidence intact. Key data ahead apart from the US NFP release tonight includes inflation indicators – India's Feb CPI due on 12th Mar and Feb WPI on 16th Mar as India faces second order COVID effects from a slowing global growth. Easing price pressure could provide the much needed room for RBI to cut policy rates on 3rd Apr as CPI has risen out of RBI's target band of 2-6% due to food inflation.

<u>**CPI needs to Ease for RBI to ease rates Further**</u>



Source: Bloomberg, RBI

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