

The Rupee & the Global Storm

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Reuters News

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OVERVIEW: 2016 Looking Tough For Rupee

- Rupee: Record low likely
- Plenty of global uncertainties
- India: Where is the Growth?

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1. Global Uncertainties – Fed rate hikes?

- Reuters Poll: 2 more rate hikes this year
 - 1 in April-June, 1 towards end of year
 - 75 pct of at least 1 rate hike this year
 - Down from 3 rate cut expectations in January
- Markets: No move til mid-2017
 - Only 1/3 chance of rate hike this year

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2. Global Uncertainties – Slowdown in China?

- Econ data point to slowdown?
- Yuan weakens, volatility high
- Shanghai shares down 18 pct YTD
- Government to the rescue?

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3. Global Uncertainties – Oil prices

- Uncertain global demand
- Disagreement on how to cut production?

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3. Global Uncertainties – Oil prices



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India: Where is the Growth

- Where is GST?
- Where is the growth?
- Where are the earnings?
- Where are the RBI rate cuts?

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- Modi & Rajan: Dynamic Duo?



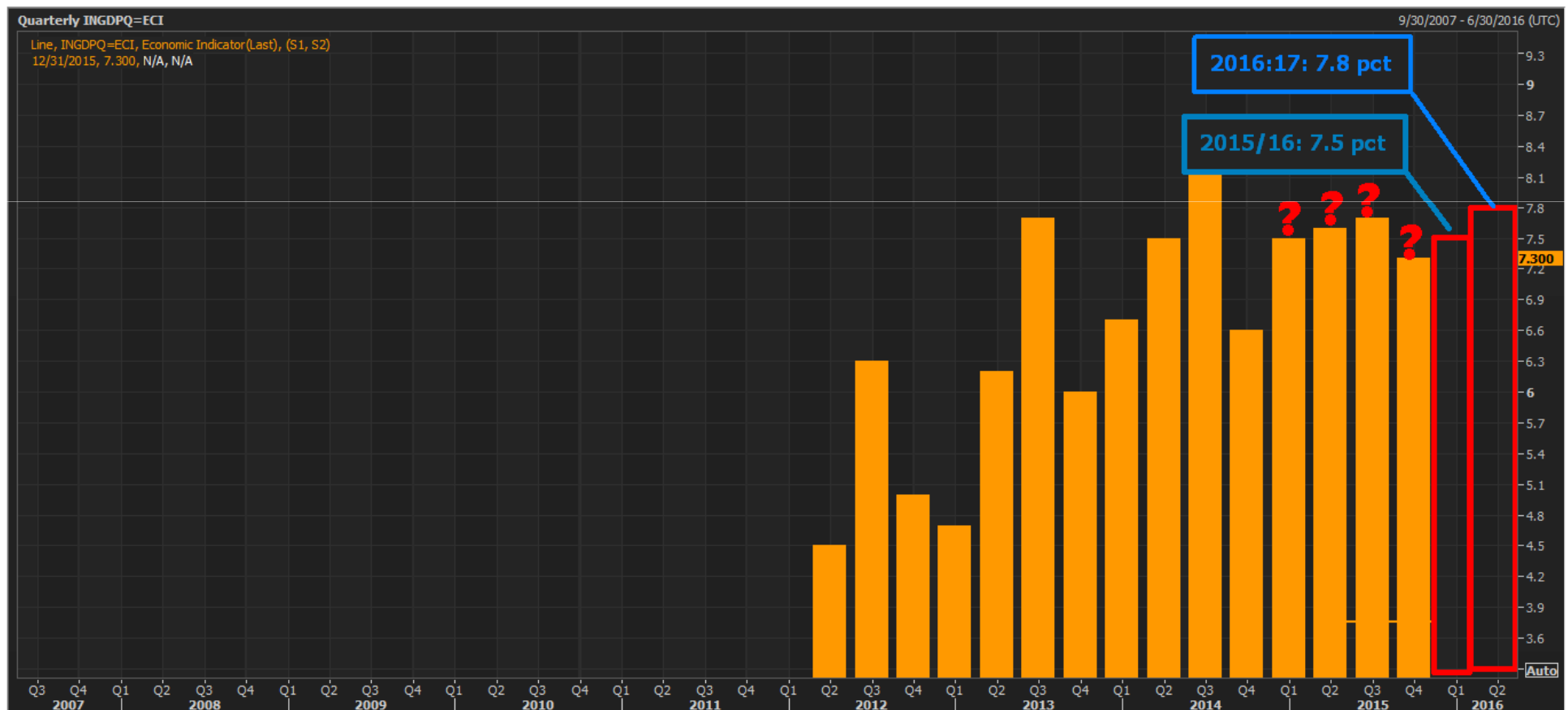
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Conventional Wisdom

	Today	vs	2013
CAD	-1.3 pct		-4.8 pct
Import Cover	9-10 mths		6-7 mths
Inflation	< 6 pct		10-12 pct

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- Where is the Growth?



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- Revenue growth keeps falling

Oct – Dec 2014: +1.19 pct

Jan – March 2015: -7.95 pct

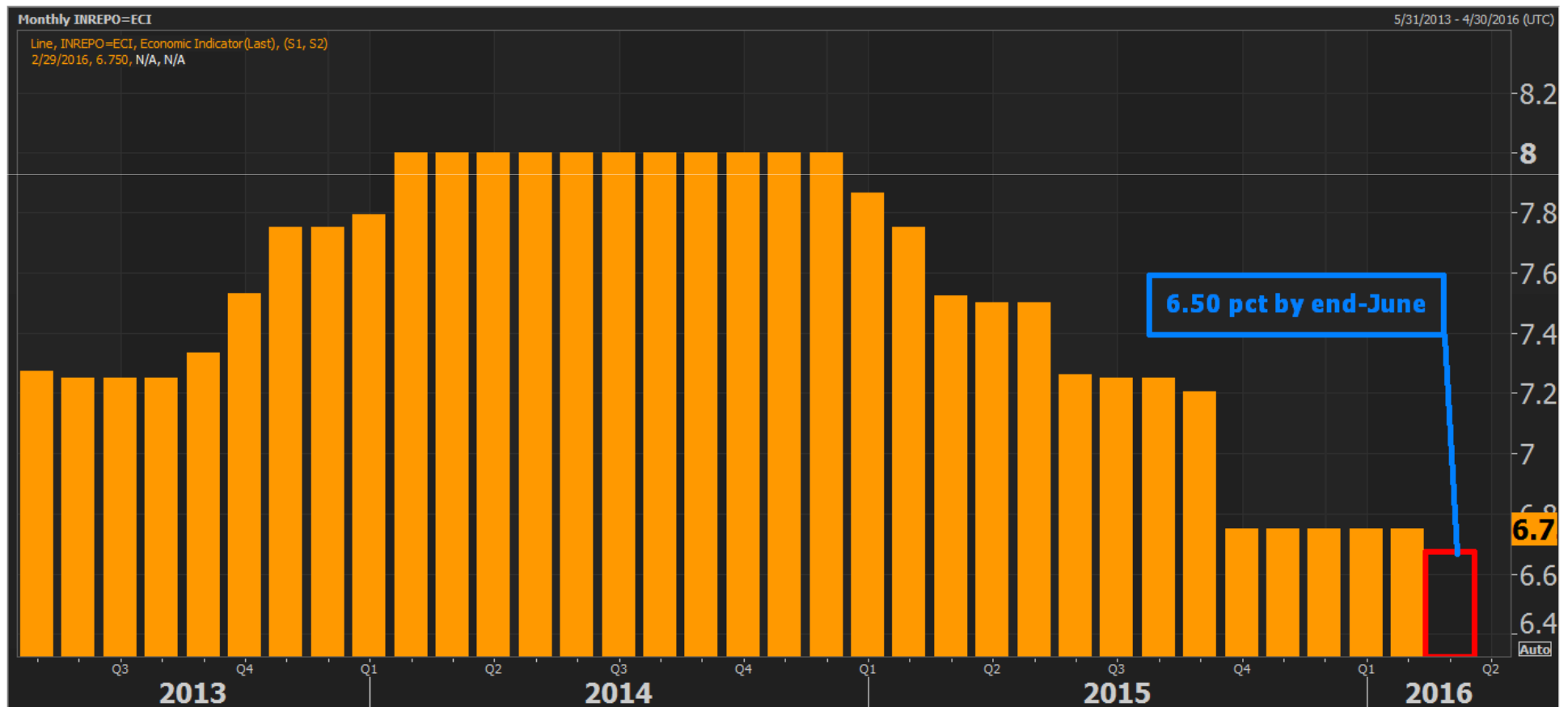
April – June 2015: -2.75 pct

July – Sept 2015: -5.66 pct

Oct – Dec 2015: -4.14 pct

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Only 1 more RBI rate cut this year



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Reasons for RBI Caution

- Inflation Target
- Govt Needs to Do More
- Global Economy

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2016/17 BUDGET

G.S.T.

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- Rupee, 2nd worst performer in Asia YTD



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Reuters Poll

Now:	68.60
1 Month:	67.80
6 Months:	68.00
12 Months:	68.00

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But markets think otherwise:

1-Month NDF: 68.94

6-Month NDF: 70.72

12-Month: NDF: 72.74

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- Foreign investors start to sell
- 4 consecutive monthly sales in shares
- \$2.5 bln net sales YTD vs \$19.4 bln in 2014 & 2015
- 2nd biggest outflows in Asia after S. Korea
- Sold \$280 mln in bonds YTD vs \$35.1 bln in 2014 & 2015

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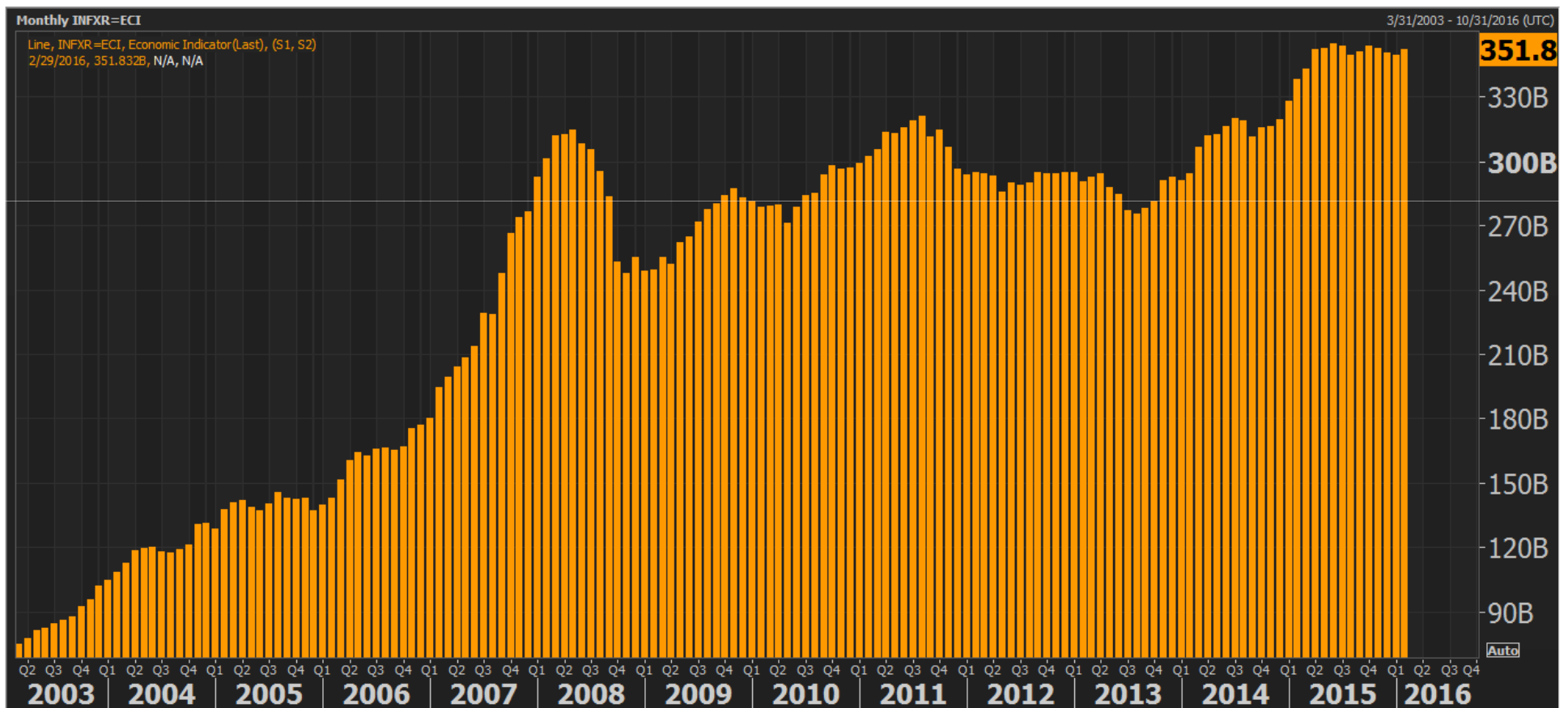
- How will RBI react?

“Sustained devaluation is neither feasible nor a good strategy.”

RBI Governor Raghuram Rajan

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- Intervene for volatility; gradual depreciation



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Fraught with Risk

Asian FX Performance YTD (vs USD)

S. Korean won: -5.1 pct

Indian rupee: -3.5 pct

Philippines Peso: -1.3 pct

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