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**RECAP 2013 AND KEY EVENTS TO WATCH FOR 2014 -**

The USD-INR spot exchange rate specifies how much one currency, the USD, is currently worth in terms of the other, the INR.

2013 would be remembered in the history of USD-INR pair as it was the year when US dollar witnessed a remarkable rally against the Indian Rupee. From 1973 until 2014, the USD-INR averaged 32.25 reaching an all time high of 69.80 in August of 2013 and a record low of 7.19 in March of 1973. A bubble of QE3 reduction by U.S. Fed and rapidly bullish trend in to the Global crude prices amid Syria tension supported the ''Bull Run''.

On domestic front, the government of India has failed to provide a valid response after the parliament approved Rs 1.35 trillion plan to provide cheap grains to the poor and Indian investor adopted it negatively with the concern about current account deficit (CAD), high inflation and fiscal burden.

In second half of the year, USD-INR saw a drastic correction about 12.53% from the peak of 69.80 to low of 61.05 after the RBI came with slew of measures in order to support the domestic currency that started from the July 15 policy, some among them which are increase in short-term rates by hiking marginal standing facility (MSF), a special window for the oil Companies to sell dollar and opened of a special concessional window for swapping foreign currency non-resident (banks), or FCNR (B), and increasing overseas borrowing limit of 50% were the stronger steps that supported the Indian rupee. The government has also raised import taxes on gold and silver in an attempt to narrow the burgeoning current account deficit.

**Monthly Chart Analysis**


Year 2013 was almost historic for USD-INR as the year witnessed one of its kind corrections in Indian Rupee against the dollar. On yearly basis, spot USD-INR showed an abrupt rally from 54.98 to historical high of 68.80 in 2013, before closing at 61.80 with Y-o-Y gain of 12.40%. On monthly basis USD-INR future corrected 1.15% and closed at 62.15 levels. However, the pair tested 62.60 levels which was also the target of last month buy call initiated at 61.10 levels.

**Fibonacci Projection/Extension**: From last four months USD-INR was found consolidating in the range of 63.80-61.00 zone and is yet to retrace up to 60.80-60.50 levels (61.8% retracement) which will act as support zone in January 14.

**Candle stick:** Yearly price action showed sharp rally till 69.80 (Future) levels and then corrected over 50% touching 61.05 levels forming an indecisive candle stick which is signaling for continued volatility but with upward bias in 2014. While on the monthly chart, a hammer candle stick was formed which is indicating further bullishness in the pair**.**

**Outlook for Year 2014:** USD-INR is expected to consolidate in 63.60-60.80 range in first quarter of 2014. After which a bullish rally may be seen, but only if it sustains above 63.80 levels then it will touch 64.75-66.65 levels. Below 60.80 levels support is at 57.57-56.30 zone.

**Outlook for Jan 2014** – In the medium term, USD-INR is expected to remain a consolidation zone unless it breaks the resistance of 63.50 or support of 61.70 level. Below 61.70 levels support is seen at 61.05, it is to be noted that this level of 61.05 was tested three times in October and also in the second week of December 13, which coincides with median line of ref. regression.

## Trading Strategy for January 14:

- Buy USD-INR around 62.40-62.30 with a target of 63.15-63.50, only above then 63.80-64.15 with a stop loss of 61.70.
- Sell USD-INR if it stays below 61.60, with a target of 61.05-60.80 while maintaining a strict stop loss at 62.25.

**Domestic Major Events/ Economic Indicators of 2014:**

**Inflation:** In 2014**,** inflation will be the first important factor for the INR, as rapidly rising food prices i.e. onion, coriander, fuel prices on the back of higher prices in global crude oil continued pushing the inflation rate higher, in the last month it stood at 7.52%, further growth of the data will be bullish for the USD-INR.

**Crude Oil**: At the end of the Nov 2013, Iran agreed to curtail its nuclear activities and in exchange for which there was easing of certain sanctions on Iran in oil export, auto parts, gold and precious metals for six months. In middle of the 2014, global oil prices will be the second factor for the INR, as a deal of Iran nuclear deal will expire in May-June 2014.

**Monetary policy by the Reserve Bank of India (RBI):** India's monetary policy will be the third important factor to drive the INR trend, as RBI Governor Raghuram Rajan may fights to support the Rupee amid new government election volatility and continue pressure from the Global and inflationary pressure.

**Current account deficit:** India's CAD narrowed to $5.2 billion from a $21 billion deficit or contracted sharply to 1.25% of GDP in the September quarter from 4.9% in the preceding quarter and 5%. Hence, this will be the fourth factor which would reflect the USD-INR trend. A contracting deficit will provide further bearish move in the USD-INR.

**Budget session:** Like every year, the March to April period will play an important role in the movement of USD-INR owing to the Railway and Union Budget. Any positive announcement could lead correction in the pair. While a scheme that will offer to increase subsidies burden may bring bullish trend for USD-INR. Hopes for more outdoors for the FIIs are likely to boost the local market.

**General Elections 2014:** Last but the most powerful event that would have a major impact on the said pair - THE ELECTION FOR THE NEW GOVERNMENT OF INDIA. Probability of the election to held around May 2014 which could be the "turning point" for the INR. A strong defect amongst BJP (Bhartiya Janta Party) and Congress will be the change the direction of INR. The unhappy citizens of the country are waiting for change in the system or governing party.

**Global Major Events/ Economic Indicators of 2014:**

**U.S. Bond Tapering:** A reduction of bond purchasing from the Month of January 2014, will be the key factor for the dollar. In Dec 2013 Fed decided to buy $75 billion a month in government bonds, down from $85 billion a month since October 2012, this may cause an outflow from the emerging market that will be bullish for the USD-INR. Further cut of bond purchase in 2014 may reflect to the structural reform in China and Japan and other countries.

**U.S. Debt ceiling:** In February 2014, once again U.S debt ceiling will take place in the market which will be second factor to watch. In the month of November 2013, Obama and opposition Republican agreed to end fiscal impasses, and agreed to temporarily raise debt ceiling to Feb 2014 after the US government entered a partial shutdown for the first time in 17 years. Any defeat among the U.S. leaders about debt ceiling may bring volatility for the USD-INR.

**China:** Chinese monetary policy and inflation factors will reflect the USD-INR, as well as other currencies such as the Australian dollar and commodity prices in areas such as base metals. There is increasing anticipation of the risk that if China fails to introduce significant policy changes it is very likely that will trigger a financial crisis to negatively influence China's economy and the global economy.

**European Factors:** European Bank decision about the interest rate will be another factor to watch. In the 2013, ECB reduces the rate by 0.75% to 0.25% as the euro area is suffering from recession. The recovery is weak, uneven and fragile, according to a statement by ECB President Draghi. Anti-European party's elections during the middle of 2014 may reflect the USD-INR.

**Greece Factors:** Third bailout by Greece and Portugal will be another key factor to keep an eye on in 2014. Italy and Germany still need stable governments which may reflect in the Slovenian banks' stress tests which will be published before year end.

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