

Equity Outflows, Monetary Easing & INR

- Foreign portfolio investors have been dumping Indian stocks month-to-date, weighing on the high-yielding INR
- While the cautious stance of RBI Governor Das on future rate cuts could dent market sentiment in the near term, India's benign inflation outlook does provide scope for the central bank to lower its policy rate again in August to spur economic growth
- USD/INR is expected to stay above the 68.2 support for now but will likely resume its downward trend in the medium term as accommodative external liquidity will prompt overseas investor to chase the INR-denominated assets for higher returns
- We maintain our short USD/INR position

Asia Overview - Most EM Asian currencies weakened versus the dollar during Tuesday's Asian session. The SGD and JPY fell 0.3% each amid a broadly strengthened dollar.

The CNY and CNH were steady amid the US-China trade optimism, although the dollar advanced across the board on Tuesday. The dollar/yuan is likely to trade in a range of 6.80-6.95 until the US and China make a concrete progress in the trade talks. It was reported that US Trade Representative Robert Lighthizer and a small team will travel to Shanghai next Monday-Wednesday for meetings with Chinese Vice Premier Liu He and his team to resume formal negotiations following their collapse in May. PBoC Governor Yi Gang said in an interview with *Caixin* that the country's current interest rates are at an appropriate level and the central bank will make decisions on interest rates based on domestic considerations. The KRW dipped somewhat. USD/KRW is likely to trade between 1,160 and 1,190 for now, following a broader market tone. BoK Governor Lee Ju-yeol on Tuesday hinted at an additional rate cut, less than a week after the central bank slashed the key rate to spur economic growth. The TWD closed almost flat. The 31.0 mark is now serving as a support for USD/TWD.

The INR edged down Tuesday. India's cumulative monsoon rainfall was 18.8% below the normal as of 23 July. The IDR dropped 0.3%. However, the IDR is expected to rally again in the medium term amid portfolio inflows chasing the high-yielding assets. The MYR declined slightly, but USD/MYR will likely test the 4.10 support in the near term. The PHP slid about 0.2%, with USD/PHP likely to head for 51.5 amid a broad dollar strength. BSP Governor Benjamin Diokno said on Tuesday that further monetary easing depends on how strong the economic growth is. The THB weakened 0.2%. USD/THB is likely to trade between 30.5 and 31.0 at the moment. We remain bullish on the THB in the medium term.

Regional equity indices diverged on Tuesday. China's SHCOMP index rallied 0.45% despite USD 59.0mn of equity outflows, while India's NIFTY50 index slid 0.13%. South Korea's KOSPI index advanced 0.39% with foreign investors purchasing a net USD 154.8mn of Korean shares. In the meantime, Taiwan's TWSE index edged up although global funds reduced their holdings in local main board shares by USD 1.6mn on Tuesday. Malaysia's KLCI index ended 0.02% higher. However, Thailand's SET index and Indonesia's JCI index closed down 0.16% and 0.46% respectively.

India • Foreign portfolio investors (FPIs) have been dumping Indian stocks month-to-date, weighing on the high-yielding INR. They pulled out USD 1.48bn from Indian equity markets in the month so far, largely due to the "super-rich" tax announced in the FY2019-20 Union Budget that was unveiled on 5 July. FPIs had been net investors in the equity segment in the previous five months.

In addition, RBI Governor Shaktikanta Das said in an interview with *Bloomberg* on 20

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USD/INR (Inverted) vs. NIFTY50 Share Index



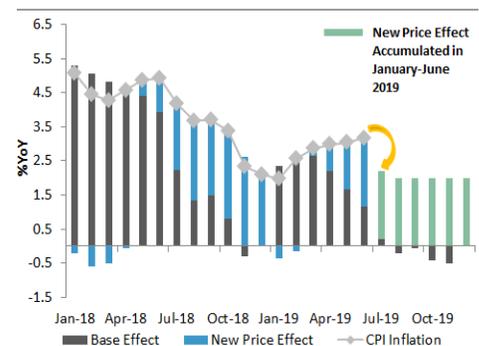
Source: Bloomberg & Scotiabank FICC Strategy

USD/INR vs. India Portfolio Flows



Source: Bloomberg & Scotiabank FICC Strategy

India CPI Inflation



Source: Bloomberg & Scotiabank FICC Strategy

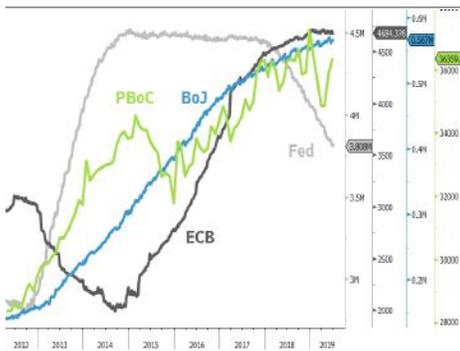
July that future interest rate cuts would depend on incoming data. His remarks have pushed up the Indian government bond yields, sparking bond portfolio outflows and undermining the INR.

While the cautious stance of RBI Governor Das on future rate cuts could dent market sentiment in the near term, India's benign inflation outlook does provide scope for the central bank to lower its policy rate again on 7 August to spur economic growth. Moreover, the IMF on Tuesday further slashed its annual growth forecast for India on weaker domestic demand, expecting the economy to expand 7.0% and 7.2% respectively in 2019 and 2020, a downward revision of 0.3 percentage point for both years from its April projection. Earlier in April, the Fund cut India's growth outlook for 2019 and 2020 by 0.2 percentage point each to 7.3% and 7.5% respectively.

USD/INR is expected to stay above the 68.2 support in the weeks ahead but will likely resume its downward trend in the medium term as accommodative external liquidity arising from major central banks re-expanding their balance sheets later this year will prompt overseas investor to chase the INR-denominated assets for higher returns.

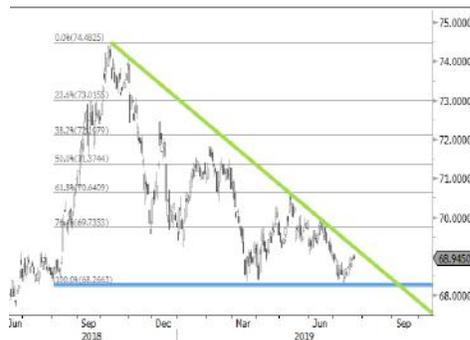
We maintain our short USD/INR position. Technically, the pair is expected to fluctuate gradually lower within the pennant. Meanwhile, the RBI replenishing its foreign currency stockpile will continue slowing the pace of appreciation in the high-yielding currency.

Balance Sheet of Major Central Banks



Source: Bloomberg & Scotiabank FICC Strategy

USD/INR Spot



Source: Bloomberg & Scotiabank FICC Strategy

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
06:45	NZ	TRADE	Trade Balance, NZD	Jun	100mn		264mn	med-high
07:00	AU	PMI	CBA Australia PMI Manufacturing	Jul P			52.0	med
07:00	AU	PMI	CBA Australia PMI Services	Jul P			52.6	med
07:00	AU	PMI	CBA Australia PMI Composite	Jul P			52.5	med
12:00	MY	INFL.	CPI YoY	Jun	1.5%		0.2%	med-high
16:20	TW	MONEY	Money Supply M1B Daily Avg YoY	Jun			7.23%	med
16:20	TW	MONEY	Money Supply M2 Daily Avg YoY	Jun			3.40%	med

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