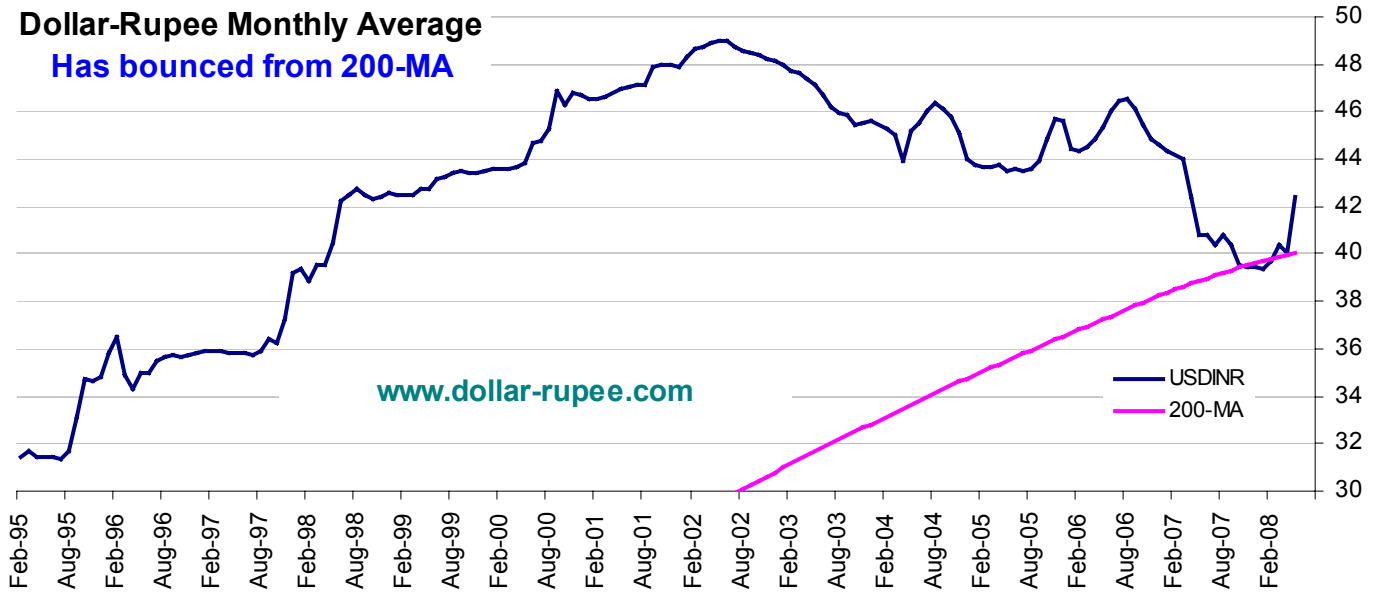


Supplement Report on Rupee

14-May-08
USDINR Spot at 42.44
Sensex 16978

RECAP

In our Special report dated 08-Apr-08, when the Spot was 40.0150, we had set targets of 40.85 and 41.20. Those levels have long been achieved and seem quite distant now. Question is, where do we go from here? **We are now targeting 43.10-40.**



Towards the beginning of the Calendar year, it had looked like the 200-Month Moving Average on the Monthly Dollar-Rupee chart was in danger of breaking to the downside, which would have been a very bearish development for the Dollar. In fact, the Monthly Average had remained below the 200-MA for three months – Nov-07 to Jan-08. But, the RBI was probably aware of this chart and its long-term implications. It was also aware of the fragility and impermanence of capital flows and, in contrast, the permanence of India's growing Trade Deficit. In fact, it was worried about the likelihood of the Current Account also showing a sizeable deficit.

Thus, given the dangers cited above and in keeping with its observed philosophy of guiding exchange rates in line with the Current Account (rather than allowing it to be swayed by the Capital Account), the RBI was steadfastly buying Dollars all through Jan and Feb, earlier this year, just above 39.15-20.

The RBI thus prevented the Dollar from really falling off the cliff of the 200-MA on the chart above. The dynamics of Demand-Supply started kicking in thereafter as global equities tanked. Shorn of the covering provided by the Capital Account, India's Current Account Deficit was exposed for all to see.

To cut a long story short, the Dollar has bounced off the 200-Month Moving Average in a big way. It has also risen past 42.17, the 38.2% retracement of the fall from 47.0375 (Jul-06) to 39.16 (Nov-07). **The next Fibo target (50% retracement) of 43.10 is now the target for the current move in Dollar-Rupee.** That said, dips towards 42.00-41.70 cannot be ruled out before the target is achieved. To prevent the projected rise to 43.10, the RBI will have to sell the Dollars it had earlier bought near 39.30 and push the market down below 41.30. **Whether it will, or not, is the next BIG QUESTION.**