FX VIEW POINT

# INR against CNY

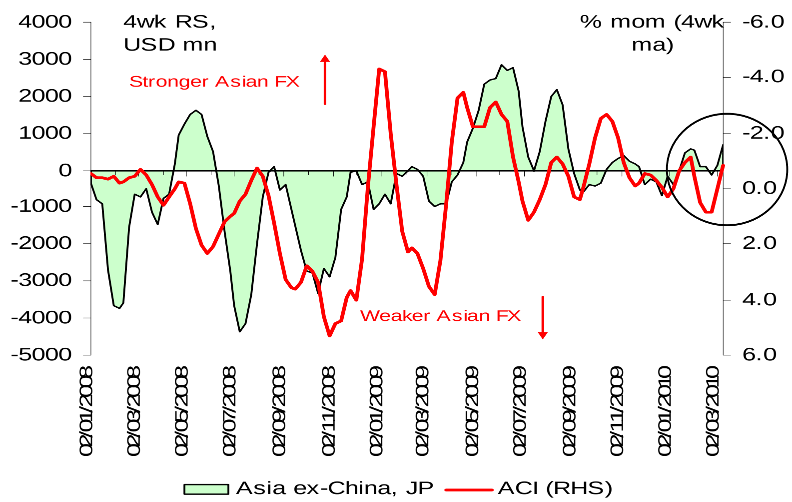
**Thursday, March 18, 2010**

- Given the increasingly strident verbal exchange between US and Chinese officials of late, the expectation that Sino-US trade tensions are likely to remain on the boil in the coming weeks is likely to persist. Note also the proposed Schumer-Stabenow-Graham Currency Exchange Rate Oversight Act of 2010 and that the US Treasury is also scheduled to release its semiannual report on the foreign exchange practices of major trading partners on 15 Apr 10.

- Meanwhile, we think that the INR remains poised to benefit from positive emerging market/Asian sentiment, especially with the RBI also expected to tighten monetary policy at its Apr Monetary Policy Review. Note that in its latest Article 4 consultation with India, the IMF noted that conditions are in place for a gradual tightening of monetary policy. In addition, the IMF stated that ""Given low interest rates in advanced economies and India's high relative growth, capital inflows are likely to be substantial. With the rupee still below its 2008 peak, there would be room for appreciation without concerns about eroding competitiveness".

- Investors looking for this contrasting dynamic between the INR and the CNY to persist in the near term can look to a long 3M USD-CNY, short 3M USD-INR via the NDFs (quoted on Wed in Asia at 6.7910 and 45.61 respectively; spot ref: 45.42, 6.8264)). Note downside risk of this trade are a near term revaluation of the CNY or a sharp reversal of sentiment against the rupee. We place a -1% stop on notional to trigger an exit, with a take profit level at +2%.

**Asian equity fund inflows vs Asian currency index**





Corporate FX &
Structured Products
Tel: 6349-1888 / 1881

Fixed Income &
Structured Products
Tel: 6349-1810

Investments &
Structured Product
Tel: 6349-1886

Interest Rate Derivatives
Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

**Emmanuel Ng**
+65 6530 4073
ngcyemmanuel@ocbc.com

Co.Reg.no.:193200032W