

December 31, 2020

# CURRENCY & COMMODITY OUTLOOK 2021

*Dollar to dwindle further, bullion to retain lustre*



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**Unprecedented stimulus continues**

**Greenback weakens amid ultra generous US Fed**

**Rupee to appreciate slightly**

**Euro extends rally as dollar dwindles**

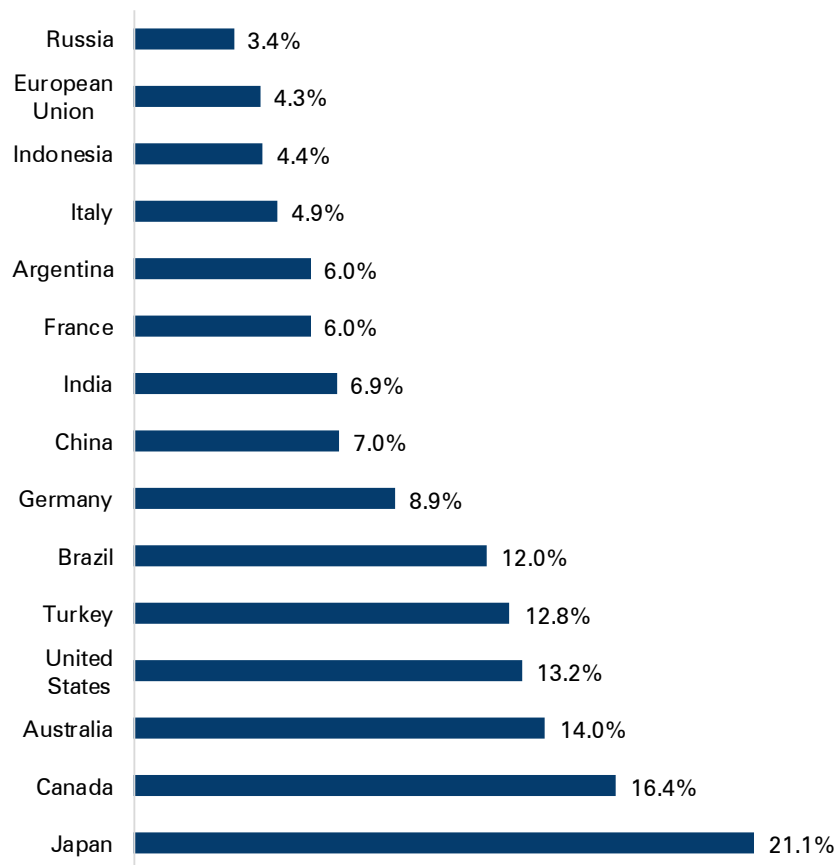
**Gold rush to continue amid safe haven demand**

**Silver shines more after a decade**

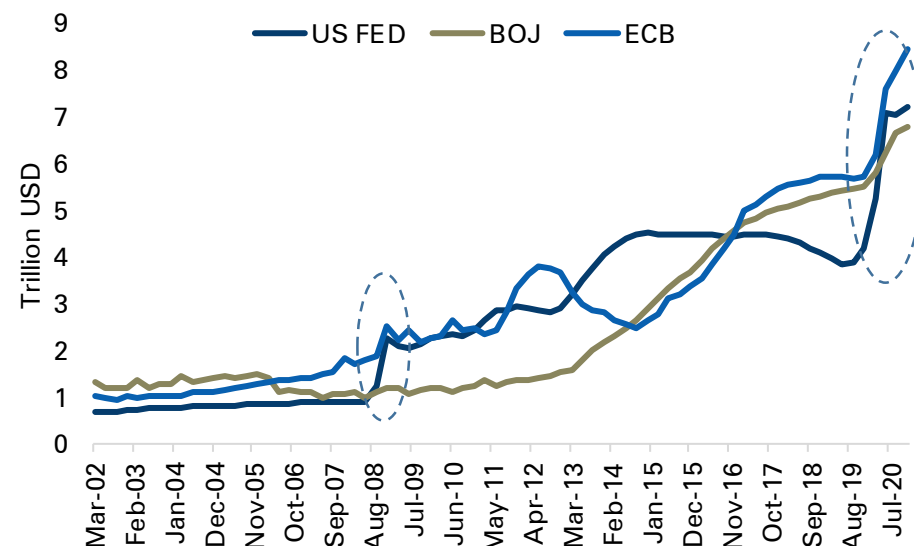
**Copper, crude oil: Nears ceiling**

# Unprecedented stimulus to remain in force

## Total stimulus as percentage of GDP



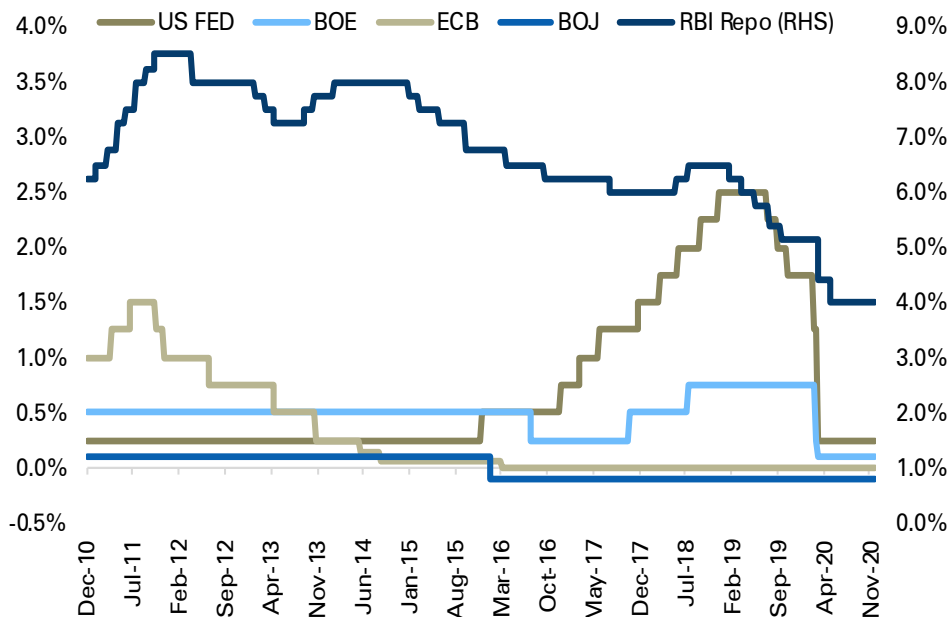
## Quantum of stimulus by major economies



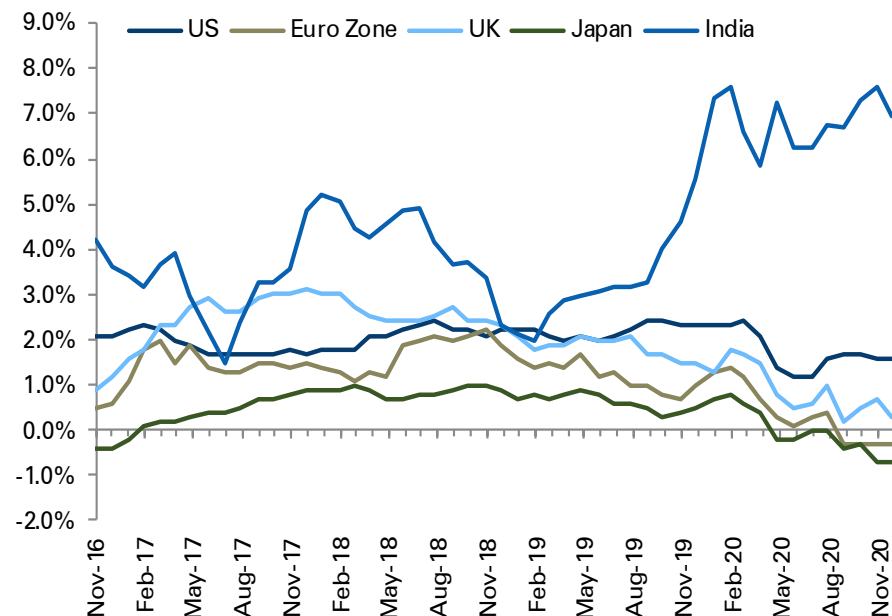
The magnitude of fiscal stimulus for the Covid-19 crisis is huge even compared to the subprime crisis in 2008. All major economies have pledged further liquidity support in future

# 2021: Year of no rate hike..

## Global interest rates to remain low



## Inflation no major concern



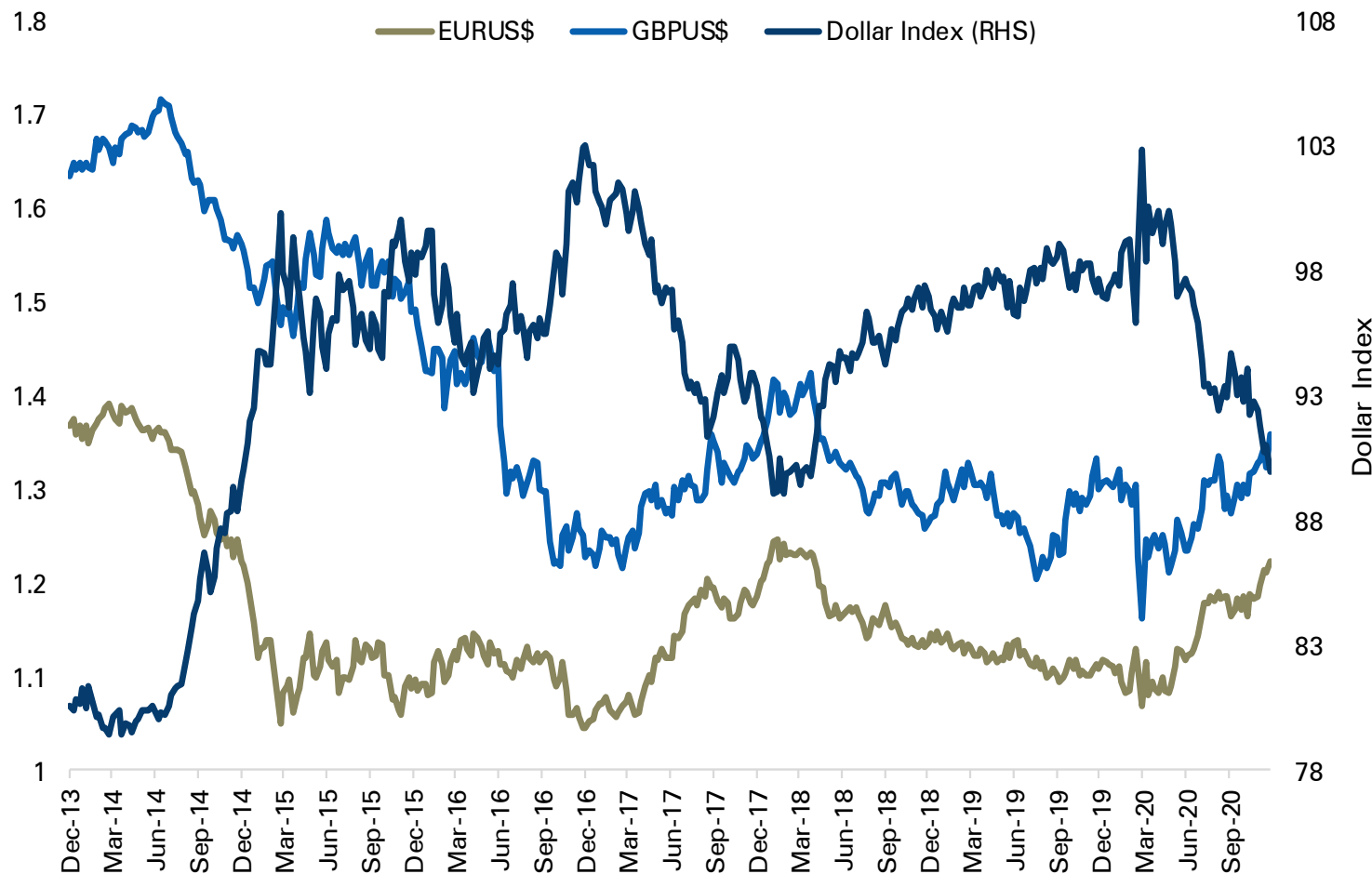
- As the Covid-19 pandemic continues to remain a bigger concern for the global economy, major central banks around the globe have reduced interest rates to near zero to address the situation while emerging economies, including India, have also reduced interest rates to historic lows
- While developed economies are facing deflationary pressure, the monetary easing around the world is expected to continue even in the coming year as the global economy will need more fiscal support to recover. However, higher inflation remains a major concern for India. Still, RBI is not looking at inflation and has clearly mentioned its pro-growth stance. Thus, policy rates in India are also likely to remain unchanged in the foreseeable future

Source : Bloomberg, Reuters, ICICI Direct Research

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# Greenback weakens amid ultra-generous US Fed..

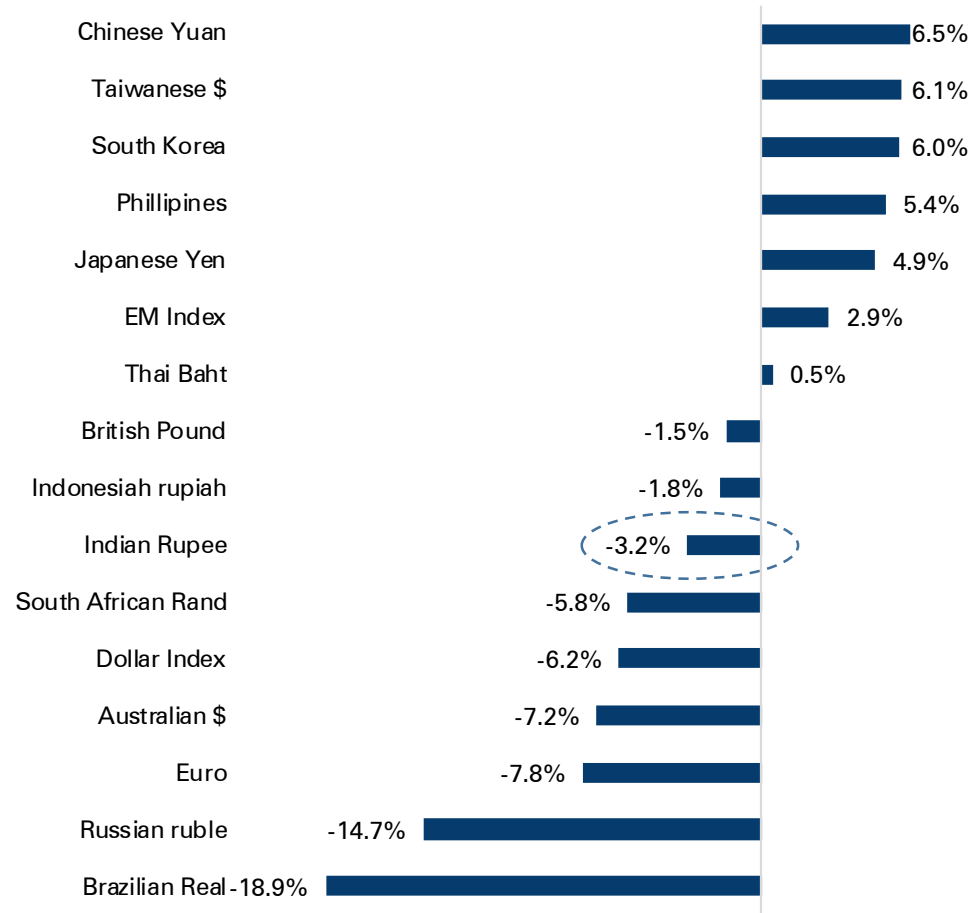
## Dollar declines as US Fed reduces interest rates to near zero



- Dollar fell sharply last year as the US Fed made a U-turn from rate hikes to rate cuts and reduced interest rates to near zero. Also, the Fed has increased target range for inflation above 2%, which will make sure interest rates will remain near zero for the longer term
- In addition to that, a bigger stimulus package in the US after Joe Biden's victory is likely to attract more investments into riskier assets and reduce demand for the safe haven greenback. We expect this bearish trend in the dollar index to continue towards 80 level

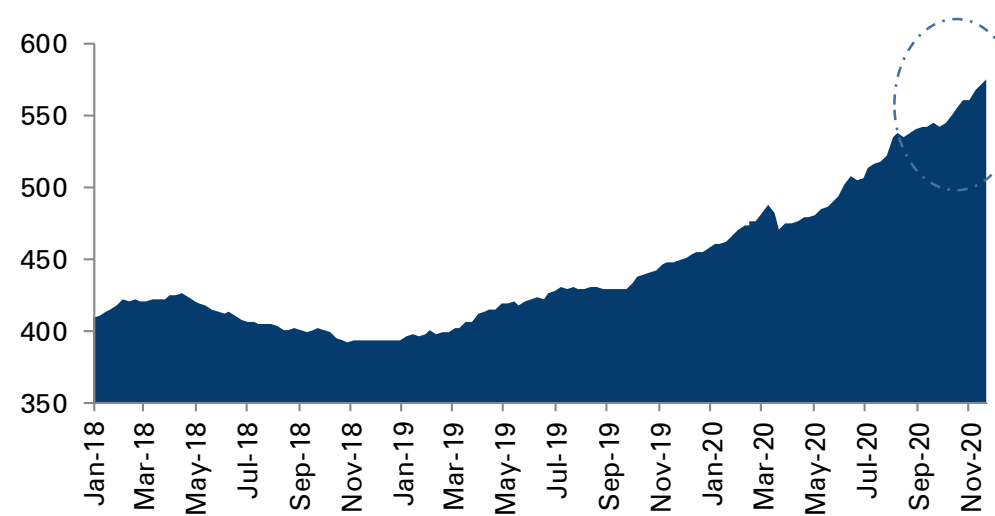
# Rupee remains resilient on rising forex reserves..

## Rupee performance vs. major currencies



Performance of major currencies against US\$ in 2020

## India's forex reserves (billion US\$)

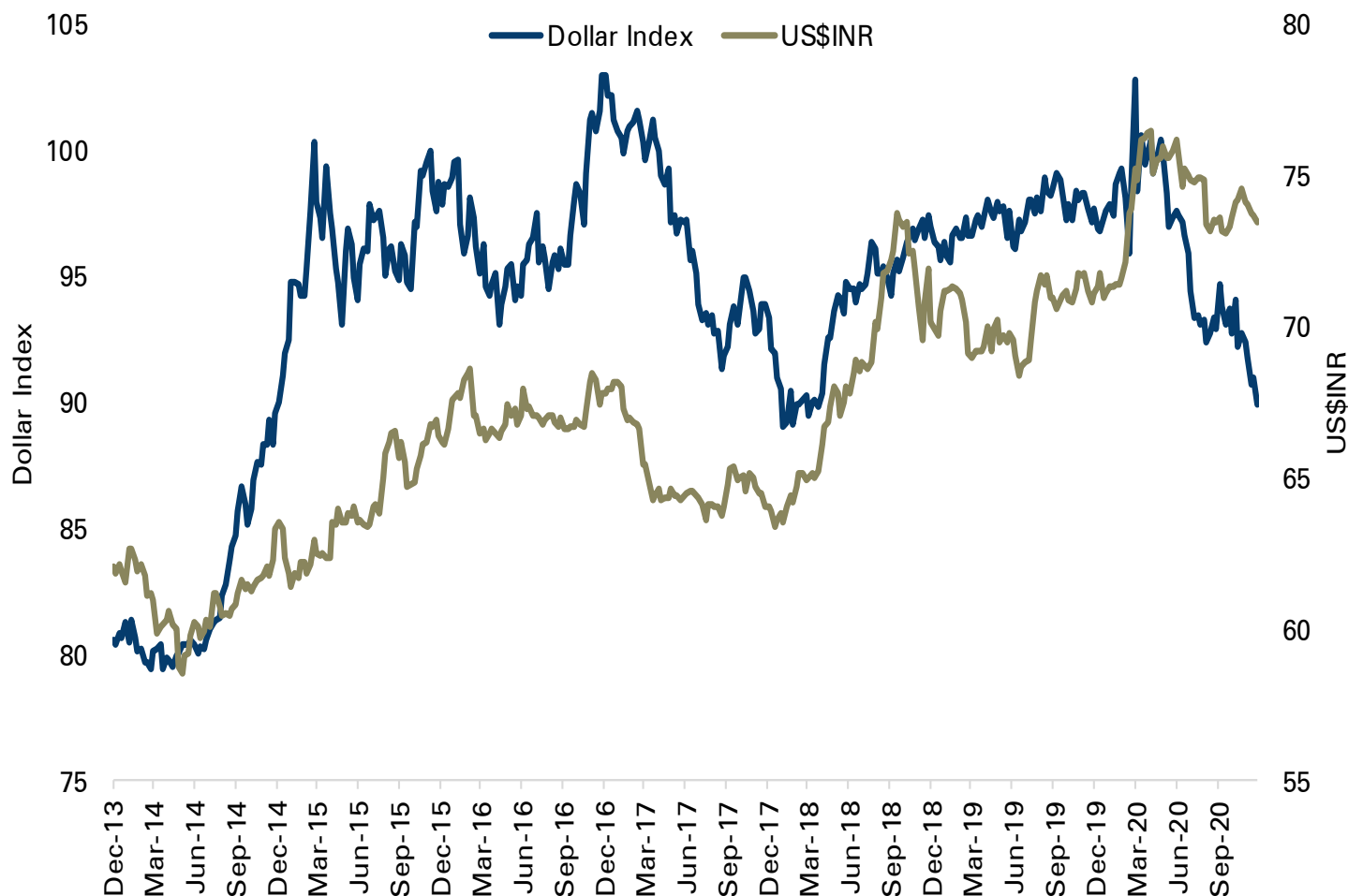


- The rupee remains stable despite dollar weakening, which has affected other EM currencies
- Resilience of the rupee came with RBI's intervention to boost exports and bring more foreign funds as Indian forex reserves continue to climb to record highs
- The rupee's resilience became more prominent considering record FII inflows were seen in Indian equities in the last few months

Source : Bloomberg, Reuters, ICICI Direct Research  
December 31, 2020



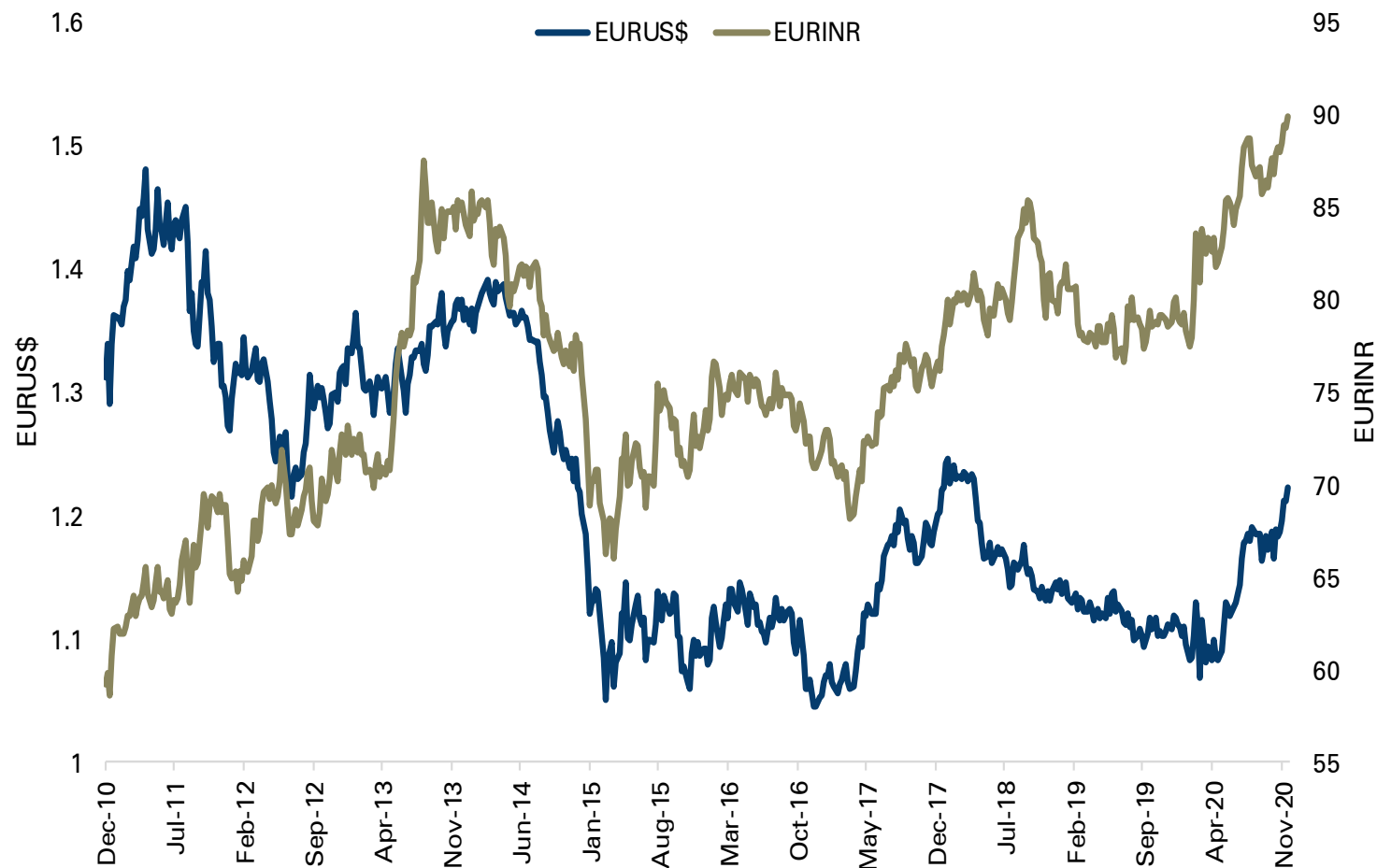
## Dollar remains weak amid unprecedented stimulus



- The dollar index has been tumbling in the last nine months from its 17-year high near 104 level that it saw in March 2020 as unprecedented stimulus in the US and near zero interest rates prompted investments into riskier assets and dented the greenback
- The rupee also appreciated from its all-time low of 77 with some resilience. We expect this appreciation to continue in 2021 also towards 70 level as the dollar index is expected to decline further towards 80 level on announcements of further stimulus measures in the US, which are going to pressure the greenback and support other currencies including the rupee

- EURUS\$ rebounded strongly in 2020 as broad based dollar weakening along with economic rebound in the eurozone prompted some buying in the single currency
- EURINR has been rallying strongly in last more than one year as resilient rupee against US dollar along with stronger demand for the European currency lifted the pair to its all-time high. We expect this trend to continue in 2021 also towards 99 level

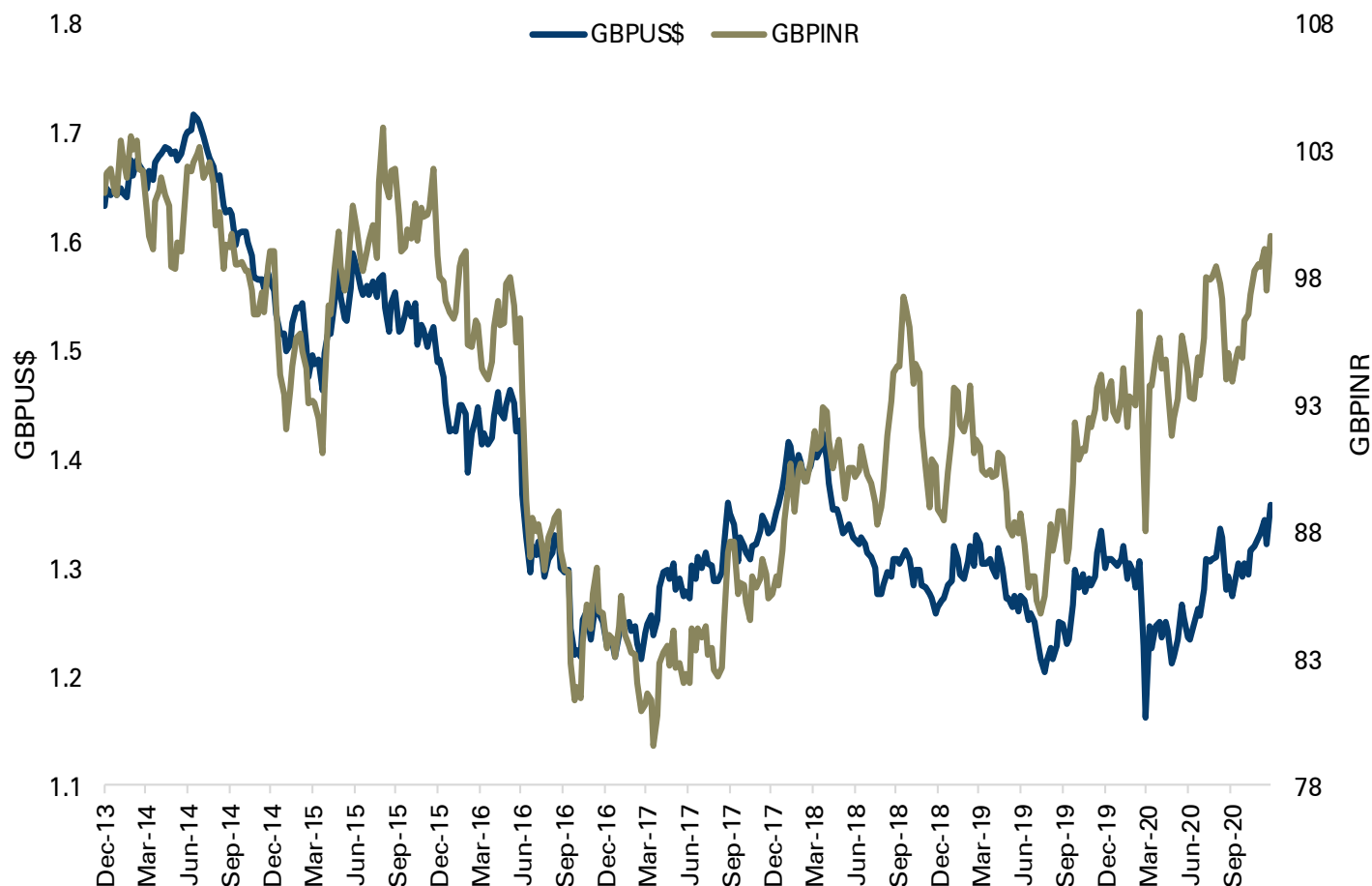
## Euro extends rally as dollar dwindles





# GBPINR: Holds up firm near 95 level...

## Pound regains ground amid broad based dollar weakening



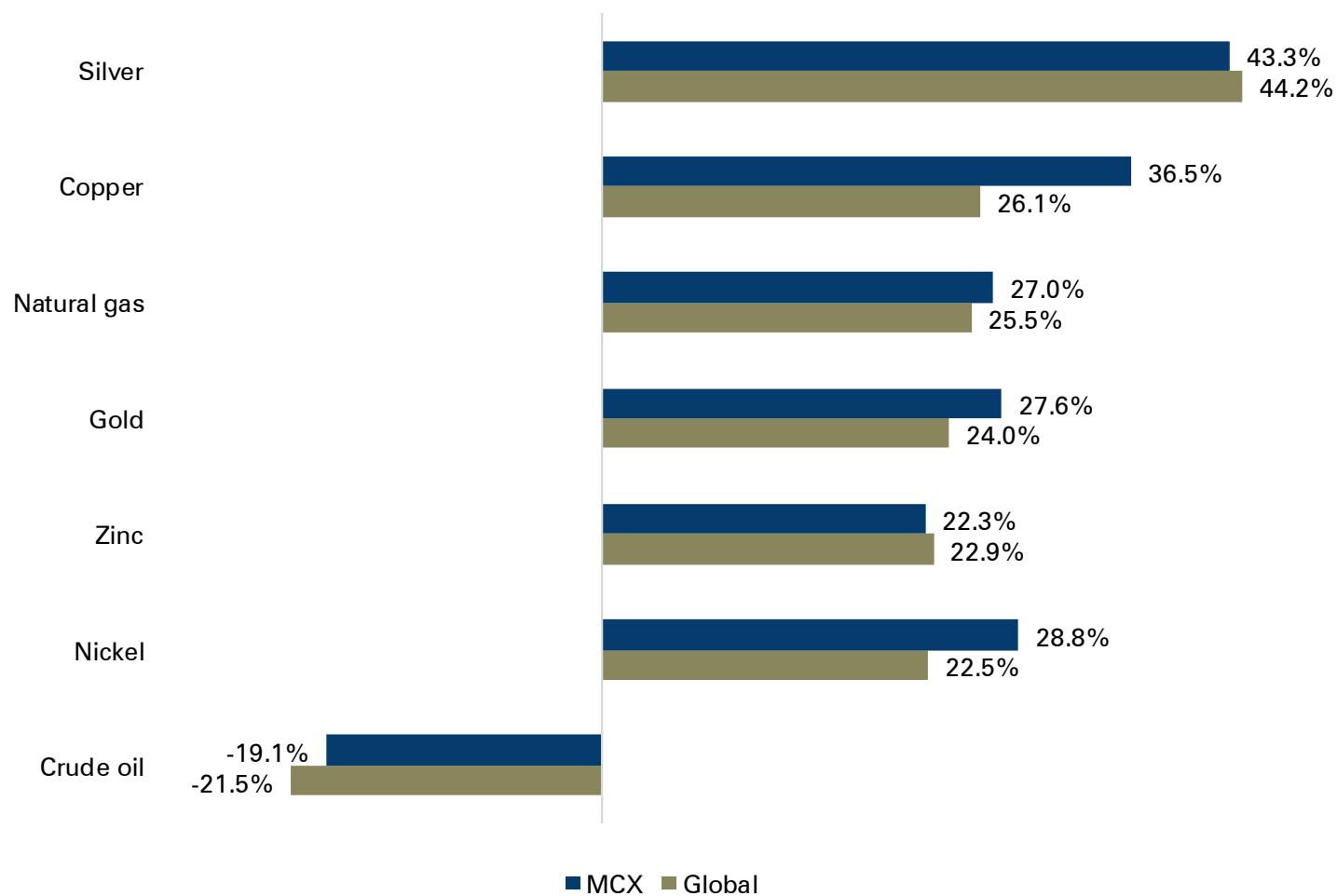
- The GBPUS\$ rebounded strongly from its multiyear low as trade talks between the European Union leaders and British officials continued to provide hopes of a deal before the year-end deadline. In addition to that, continued weakening of the US dollar also supported the cable currency
- GBPINR rallied strongly as a rebound in cable currency, resilience in rupee vs. weakening dollar lifted the pair to its multiyear high. We expect the pair to find support near 95 level as further fall in dollar will support the pair. However, grim outlook of UK economy may cap gains in the pair

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# Commodities Outlook

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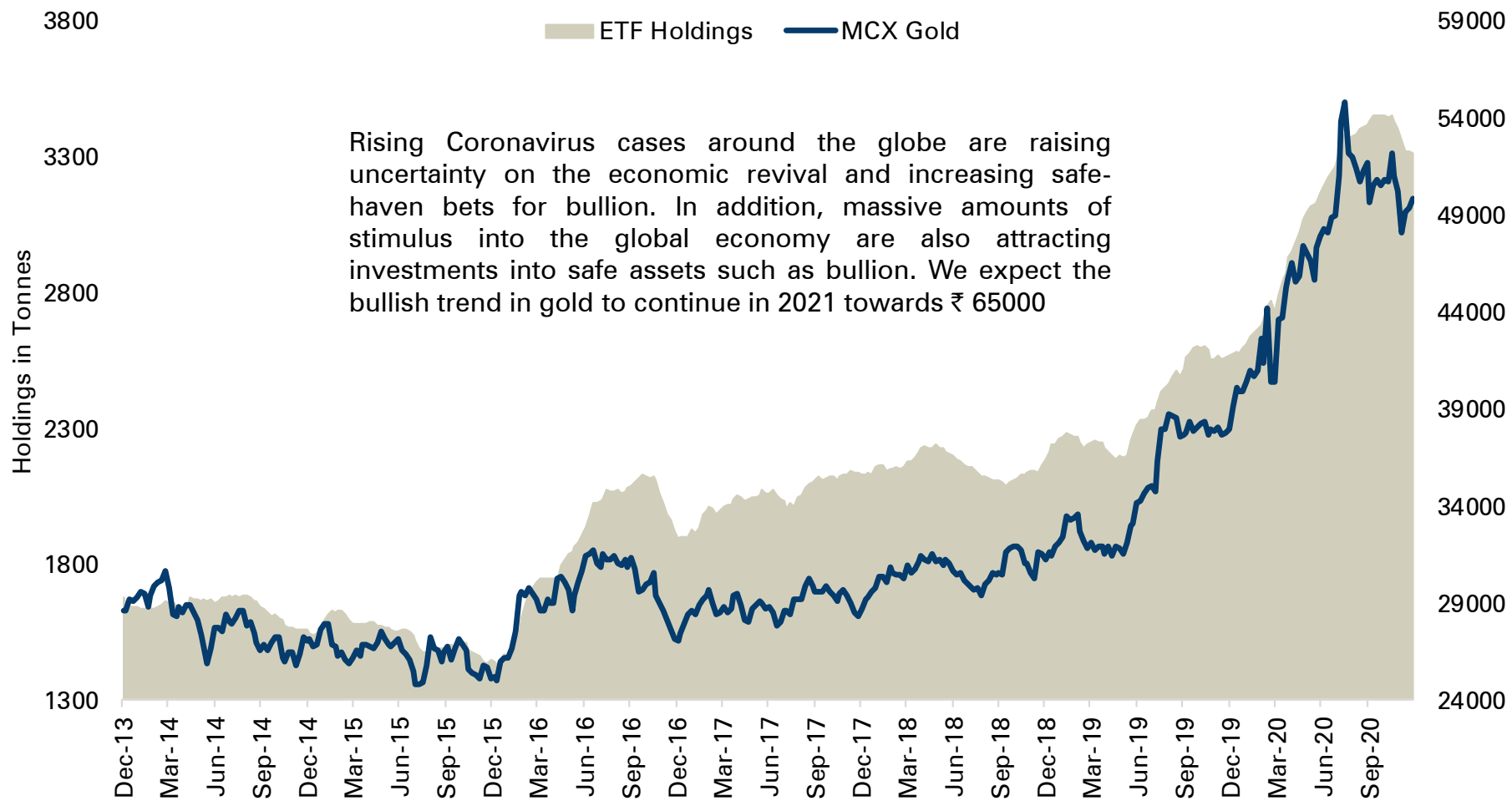
## Yearly returns of major commodities



- Bullion rallied strongly amid safe haven demand and hedge against concerns of possible inflation due to unprecedented global stimulus measures. Silver outperformed as supplies were disrupted due to lockdowns and industrial demand also improved in greener technologies
- Base metals also rallied due to supply constraints as mines production halted in Latin American nations
- Crude oil remained subdued as lockdowns and travel restrictions dampened fuel demand across the globe

Source : Bloomberg, Reuters, ICICI Direct Research  
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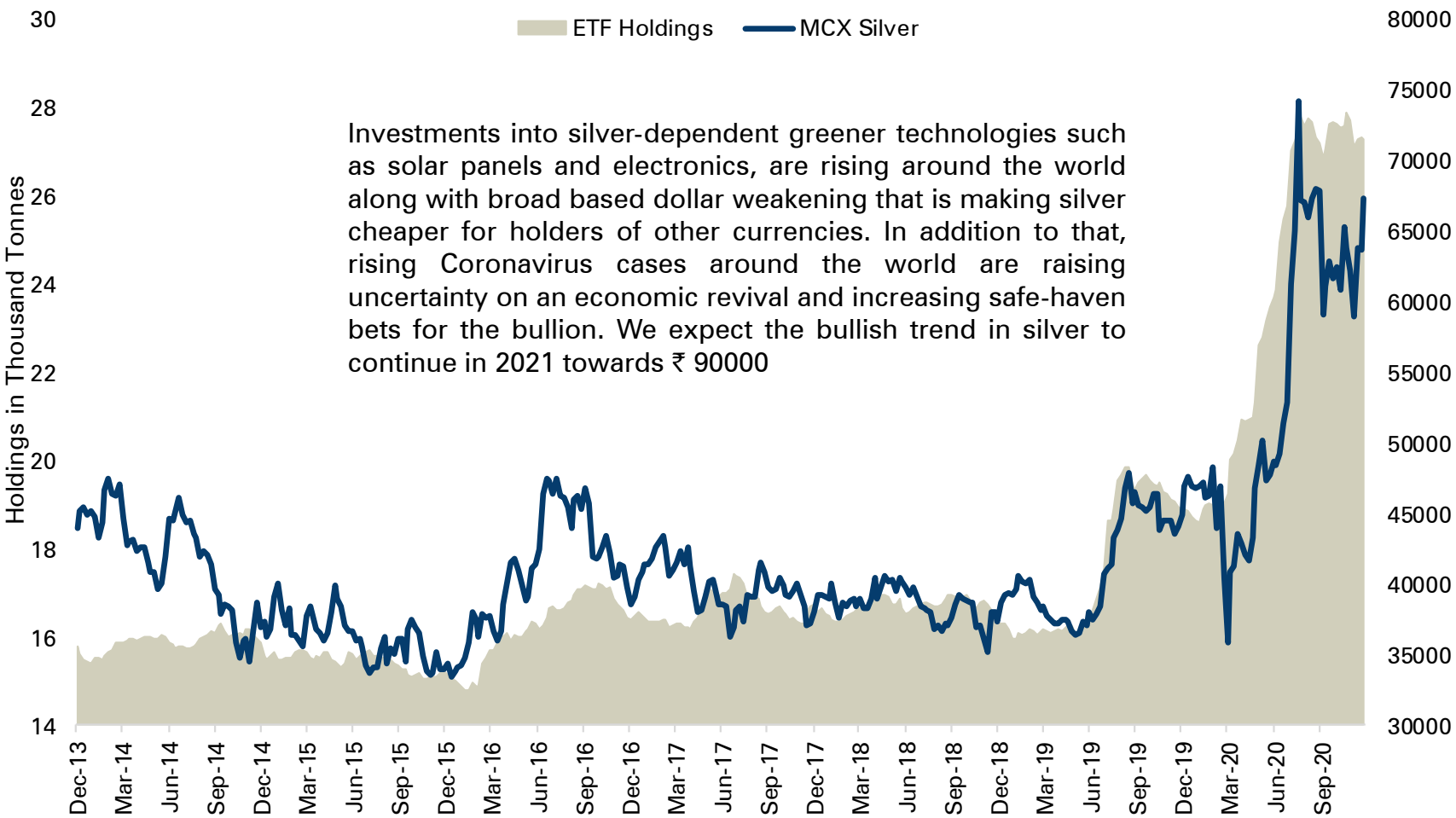
## Gold rises consistently amid safe haven demand



Source : Bloomberg, Reuters, ICICI Direct Research  
December 31, 2020

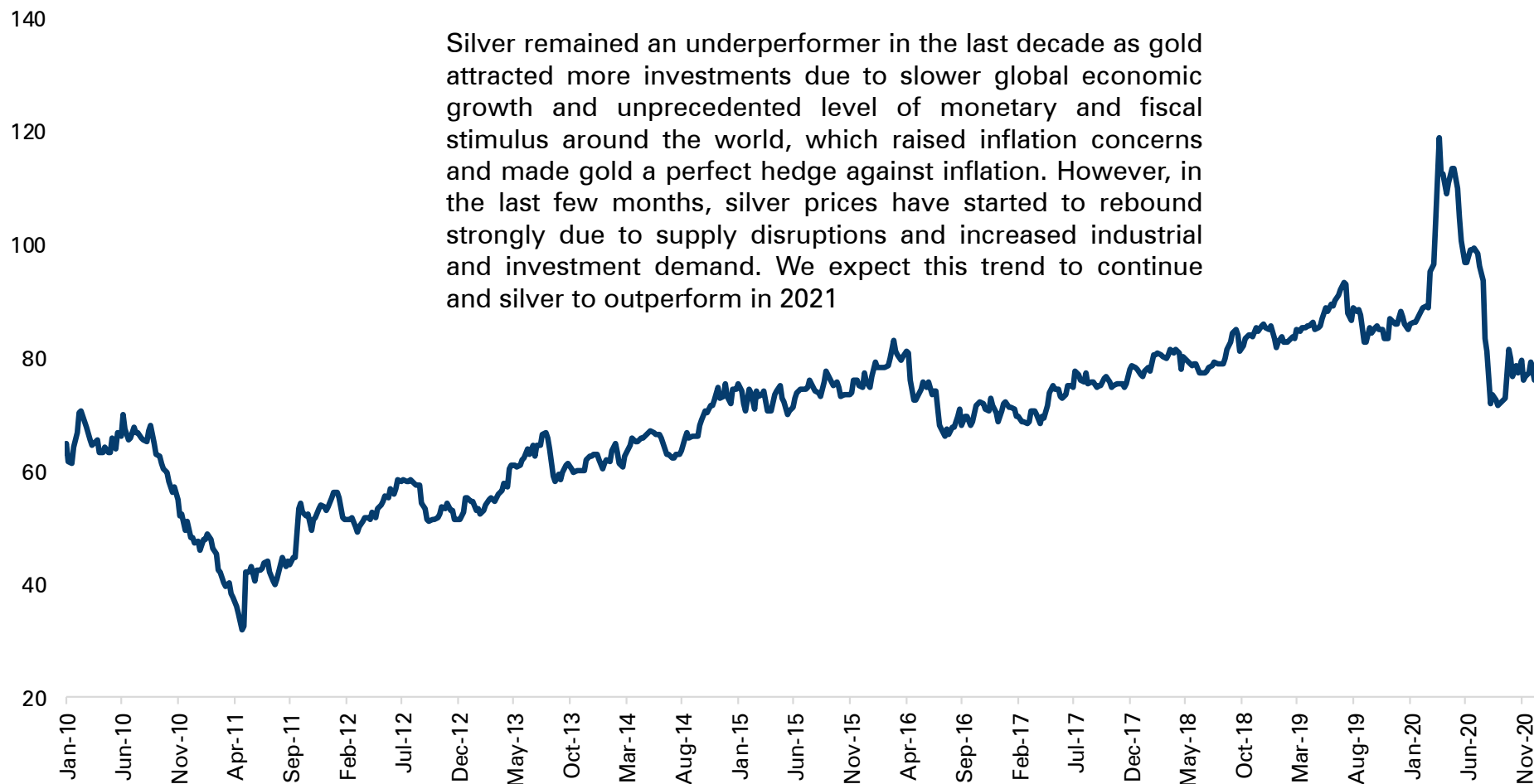
# Silver to shine more towards ₹ 90000 level...

## Silver rallies strongly as investment demand rebounds



Source : Bloomberg, Reuters, ICICI Direct Research  
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## Gold/silver ratio declines as silver rebounds strongly from multi-year lows

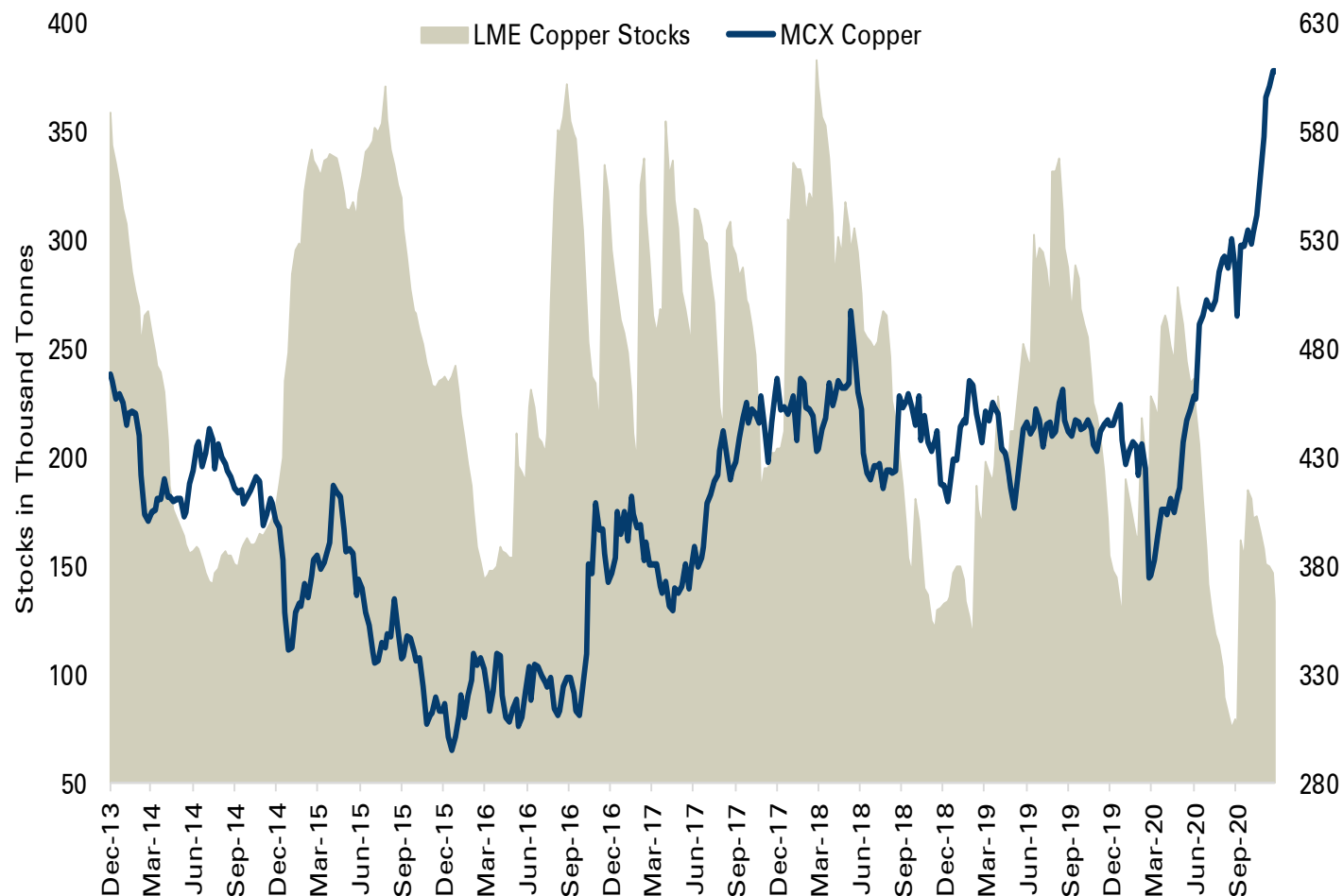


Source : Bloomberg, Reuters, ICICI Direct Research  
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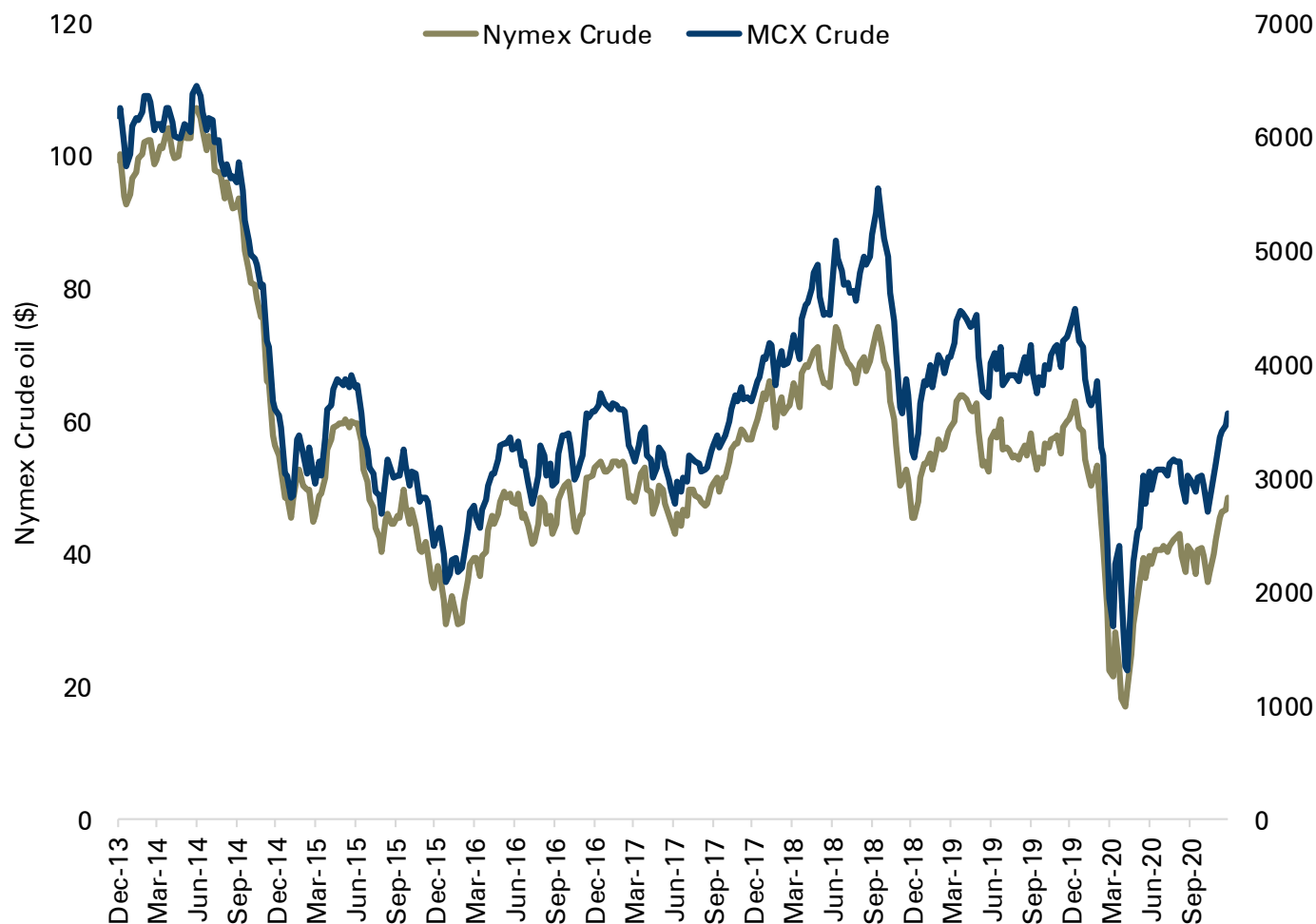


- Copper prices rallied strongly in the last nine months to their multiyear highs after falling to their four year's low around ₹ 336 as mines production was disrupted in Latin American countries like Chile, Peru and Brazil, which are the largest supplying countries. As a result, stocks of copper in the LME registered warehouses tumbled to their historic lows
- However, a rebound in stocks has started in the last few months and mines production is also returning to normal levels. Hence, we see limited upside in copper prices till ₹ 650 and expect a correction towards ₹ 500 level in the coming months as huge long positioning has increased significant downside risk in future

## Copper rally may get exhausted as warehouse stocks rebound



## Crude oil bounce may pause as supplies return to normal



- WTI crude prices rebounded strongly in the last eight months after tumbling to their record low into negative territory as Coronavirus cases around the world pushed people into lockdowns and fuel consumption declined to record lows due to strict travel restrictions. However, prices were supported by Opec+ nations through prolonged supply cuts
- As supplies return to normal levels, we see demand rebounding slowly as lower fuel demand continues to remain a major concern. We expect limited upside in WTI crude prices till \$55 and expect prices to fall towards \$30 in coming months. On MCX, we expect prices to remain in the range of ₹ 2500-4000 levels

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