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TPC/ Trade Promotion Council of India
Notified in the Foreign Trade Policy by Department of Commerce, Government of India

Forex Market Insights

Newsletter

Volume 05 → Apr 09th to Apr 15th 2022

Welcome

Dear Members,

US FOMC meeting minutes strongly indicated a 50bps rate hike as early as May while reducing the Fed's balance sheet by $95bn monthly; leading the US yield curve to steepen after having inverted recently. After a heightened expectation of more than 2% additional Fed funds rate hikes in 2022, the dollar reached for the skies as most global currencies weakened.

The rupee took cue from the central bank's monetary policy meeting where the key interest rates were left unchanged but the committee spoke about withdrawal of accommodative stance going ahead. The measures were set on managing domestic inflation risks. Inflationary pressure mounts after a 14th fuel price hike by ₹10 across the nation.

A short trading week ahead is likely to be uneventful for Indian markets unless some developments are seen on the Ukraine-Russia war front.

Thank you

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

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Key Takeaway Summaries

₹ INR

The US$/INR ended the week at 75.8950. RBI stance on the Repo rate and the reverse repo rate remains unchanged.

€ EUR

The ECB will announce its stance on monetary policy on Thursday, Apr 14. No action is expected this time

£ GBP

Rising expectations that EU will call for a ban on Russian energy imports can push the pair further down.

¥ JPY

We are seeing major weakening in yen since the start of March 2022 due to continuous rise in US Treasury yields

₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.0%	1.84%	6.07%	8.1%	$-18.69B

Events to WATCH

Apr 12, 17:30
Manufacturing Output (MoM) (Feb)

Apr 12, 17:30
Industrial Production (YoY) (Feb)

Apr 12, 17:30
CPI (YoY) (Mar)

The US$/INR ended the week at 75.8950. In the first week of this fiscal year, the Indian rupee faced some pressure against the US dollar. The US$/INR tested the high at 76.02 on Friday, the last trading day of this week. As global economies are interconnected, crude oil prices and tension between Russia-Ukraine are likely to weigh on the pair in the next week. The RBI monetary policy meeting minutes were released yesterday with the RBI stance on the Repo rate and reverse repo rate unchanged.

Hawkish comments from the US Federal Reserve provide strength to the US dollar. The upcoming week events for the rupee which could provide the direction to the pair are CPI (YoY) (Mar), and Industrial Production (YoY) (Feb). It will be an important week for the US with CPI (MoM) (Mar), Core CPI (MoM) (Mar), PPI (MoM) (Mar) and Crude Oil Inventories. Despite dollar index surging past the 100 mark, its highest levels since May'20, the Rupee is holding ground and has been admirably stable at around 75.3-76.3. Slight cool off in crude prices & resilient domestic equities are prime contributors.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.5%	6.9%	7.9%	3.6%	$-89.18B

Events to WATCH

Apr 12, 18:00
CPI (MoM) (Mar)

Apr 12, 18:00
Core CPI (YoY) (Mar)

Apr 12, 18:00
Core CPI (MoM) (Mar)

Apr 13, 18:00
PPI (MoM) (Mar)

Apr 13, 20:00
Crude Oil Inventories

For a technical assessment, let’s have a look at the daily candlestick chart. There are 3 important moving averages (MA) for US$INR: 89-day (pink line), 144-day (blue line) and 377-day (purple line); Fibonacci numbers moving averages. 89-day MA and 144-day MA comes at 75.29 and 74.95 respectively, while the longer term 377-day MA is at 74.12. Such moving averages have indicated important support levels. There are 2 price gaps on the daily chart that are yet to be closed: from 74.73 (23 Feb’22) to 75.0225 (24 Feb’22) – green horizontal lines, and from 73.9750 (13 Jan’22) to 74.04 (14 Jan’22) – red horizontal lines. Price gaps in US$INR daily charts usually fills up. Momentum indicators are primarily neutral. My sense is for a range bound trading period – levels around 76.30 – 76.50 will be good resistance region while 74.80 – 75.10 will be an important support area. Make sense for exporters and importers to play the range. Since we are expecting a weaker rupee in 2022, exporters should moderately increase hedge ratios if spot reaches the resistance region. Use a mix of forwards and vanilla options. Conversely, importers should aggressively raise hedge ratios if rupee recovers and move towards the support territory. Importers to use forwards as the preferred hedge instrument. Can use vanilla options to diversify risk.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.0%	0.3%	7.5%	6.8%	€-27.20B

Events to WATCH

Apr 12, 11:30
German CPI (MoM) (Mar)

Apr 12, 14:30
German ZEW Economic Sentiment (Apr)

Apr 13, 14:30
Industrial Production (MoM) (Feb)

The ECB and the US Federal Reserve unveiled their latest meetings minutes. The accounts from the European Central Bank showed that a number of members believe that the current high level of inflation and its persistence needs further steps toward monetary policy normalization. Furthermore, the 3 forward guidance conditions for an adjustment upward of the key European Central Bank interest rates had either already been met or were very near to the target. As the bank plans to end its bond-buying program early in the 3rd quarter, there is a chance that a rate increase will come before the year-end. The ECB will announce its stance on monetary policy on Thursday, Apr 14. No action is expected this time, but market will be looking for confirmation of upcoming rate surges starting in Sep. The upcoming week events include German CPI (MoM) (Marand Industrial Production (MoM) (Feb). The Euro has slid significantly during the past week, trading below the 1.0850 level before it ended the week at the 1.0875 level. If we can break down below the recent low from about a month ago of 1.0805, it could open up a trap door that leads the market much lower.

The interest rate differential between the bond markets of the European Union and the United States will continue to add the selling pressure, but the market is being overstretched as the technical indicators remain in the oversold region. The size of the weekly candlestick is also worth paying attention to, it shows real conviction that will likely have a follow-through. Any rally at this point in time will be met with a massive amount of resistance, all the way to the 1.12 handle. The 1.12 handle is a region where we had tried to break through during the previous candle on the weekly chart but then turned around to show signs of exhaustion. After all, the European Union is almost certainly going to go into a recession, as the energy issues alone are going to continue causing problems. We have also seen the Germans had to revise the GDP estimates lower going forward, and it doesn't look good.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.75%	1.3%	6.2%	3.9%	£-16.15B

Events to WATCH

Apr 11, 11:30
Industrial Production (MoM) (Feb)

Apr 11, 11:30
Manufacturing Production (MoM) (Feb)

Apr 11, 11:30
Trade Balance (Feb)

Apr 11, 11:30
GDP (MoM)

Apr 12, 11:30
Claimant Count Change (Mar)

Apr 13, 11:30
CPI (YoY) (Mar)

GBP/US$ fell 0.6% this week, Pair made a high of 1.3166 and went as low as 1.2979, pair fell to its lowest level since mid-march amid anticipations of aggressive withdrawal of policy support by the Federal Reserve in the upcoming days which led to a major demand of dollar first day of the week has Manufacturing production and Industrial production along with monthly and yearly GDP of UK - A higher than expected reading should be taken as positive for the pair, while a lower than expected reading should be taken as negative while claimant count change and unemployment rate along with monthly and yearly CPI is set to release in the mid of the week, yearly CPI is expect to come 0.5% higher than the previous print of 6.2%.

The British pound tried to rally earlier during the course of the week but then turned around to trade lower. As it happened, the market looks as if it is going to threaten a much bigger move lower, and a break of the 1.30 level would be a very negative turn of events. That being said, if we were to slice through the 1.30 handle, the market could reach the 1.28 level. If we were to do that, it could unleash a big move driven by the bears in a market that already looks under severe pressure. Looking at the weekly chart, if we were to break the 1.28 level, it is likely that we could go looking to reach the 1.25 handle. On the other hand, if we were to turn around a break above the 1.3250 level, then the market could turn everything around, but at this point, it doesn't look very likely to happen. Keep in mind that the US dollar is a safe haven that picks up a lot of attention during periods of high uncertainty. The interest rates in the United States continue to rise, and as a result, people are looking at the US Dollar as a way to protect their wealth at the moment, and therefore it is worth noting that the inflows continue to favour this pair attempting to make a major breakdown.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	1.1%	0.9%	2.7%	¥-668B

Events to WATCH

Apr 12, 05:20
PPI (MoM)
(Mar)

US$JPY ended the week 1.50% higher at 124.32. Pair made a high of 124.67 and went as low as 122.25 this week. We are seeing major weakening in yen since the start of March 2022 due to continuous rise in US Treasury yields which is supporting dollar to gain versus the yen. Looking at current scenario – Dollar index trading near 100 levels, increasing interest rate differential between US and Japan and hawkish stance by fed. We don't expect yen to recover against dollar in the upcoming days. It's a quiet week on the event side for the japan as monthly and yearly PPI is only set to release in the start of the week - A higher than expected reading should be taken as positive for the pair while a lower than expected reading should be taken as negative. Market participants will be eying on the release of Core CPI (MoM) & PPI (MoM) which is set to release in the start of the week itself.

The US$JPY is in an upward trend and rarefied technical atmosphere. References in the daily charts are from Aug and Jun 2015 and are unlikely to provide guidance. In the previous week on Monday testing the top at 125.10 was a short-lived reaction. The Moving Average Convergence Divergence (MACD) has remained at a multi-year peak since Mar 29. The signal gap has narrowed in price considerably but it is questionable, given the nature of the pair with fundamental support. The Relative Strength Index moved back into the overbought territory after briefly falling below but looking at the MACD, the strength of the normal selling notion is limited. The resistance level is at 125.10 and the pair can test the first support at 123.65 and the second support level is projected at 121.79.

BLOG

Derivatives In Currency Trading

What is Currency Trading?

Due to the advancement of technology and online currency trading platforms and a reduced barrier to entry, Forex or currency trading has witnessed a surge in individual investors' participation. Currency trading entails the sale and purchase of foreign currencies with the objective of making profits from the volatility of currency rates. One of the most critical benefits that currency trading offers is liquidity which allows investors to easily enter and exit a position within a fraction of a second in any major currency pair. However, the risks associated with forex trading that can get further elevated in the absence of a right trading strategy cannot be neglected. Understanding the fundamentals that drive currency fluctuations and technical analysis of the currency pairs can increase the possible returns from forex trading, making it more profitable.

What are Currency Derivatives?

Financial contracts or financial instruments whose value is linked to an underlying asset's value is called derivatives that can be used for multiple purposes, including hedging. In the case of currency or Forex trading, currency pairs are the underlying assets. Forex risk management, speculation, and leveraging a position are the varied purposes for which derivatives are found useful.

Currency Forward Contracts

Forward contracts are traded over-the-counter with an authorized counter-party wherein its terms, including the exchange rate, size, currency pair, settlement process and due date, are set as per the agreement between the two parties involved. The forward contracts involve the exchange of currencies at a predetermined rate at a specified date in the future that extends the benefit of enhanced protection against unfavorable forex rate volatility. Due to the non-standardized nature of the forward contracts, they expose the market participants to counterparty risk upon entering a forward contract.

Currency Future Contracts

An agreement between two parties to exchange currencies at a specified date in the future utilizing a predetermined contract to counterparty risk.

Benefits of Copy Trading

exchange rate is known as future contracts. Since they are traded on an exchange, they are standardized and do not expose the market participants entering a future.

Currency Option Contracts

The option contracts have some similarities to futures contracts since both entail an agreement to exchange currency at a specified date in the future at a predetermined exchange rate. However, the options contracts differ on account of flexibility as they don't impose an obligation for the fulfilment of the contract on the parties involved. One can either fulfil the contract or withdraw from it depending upon whether the forex market movements are favorable to them.

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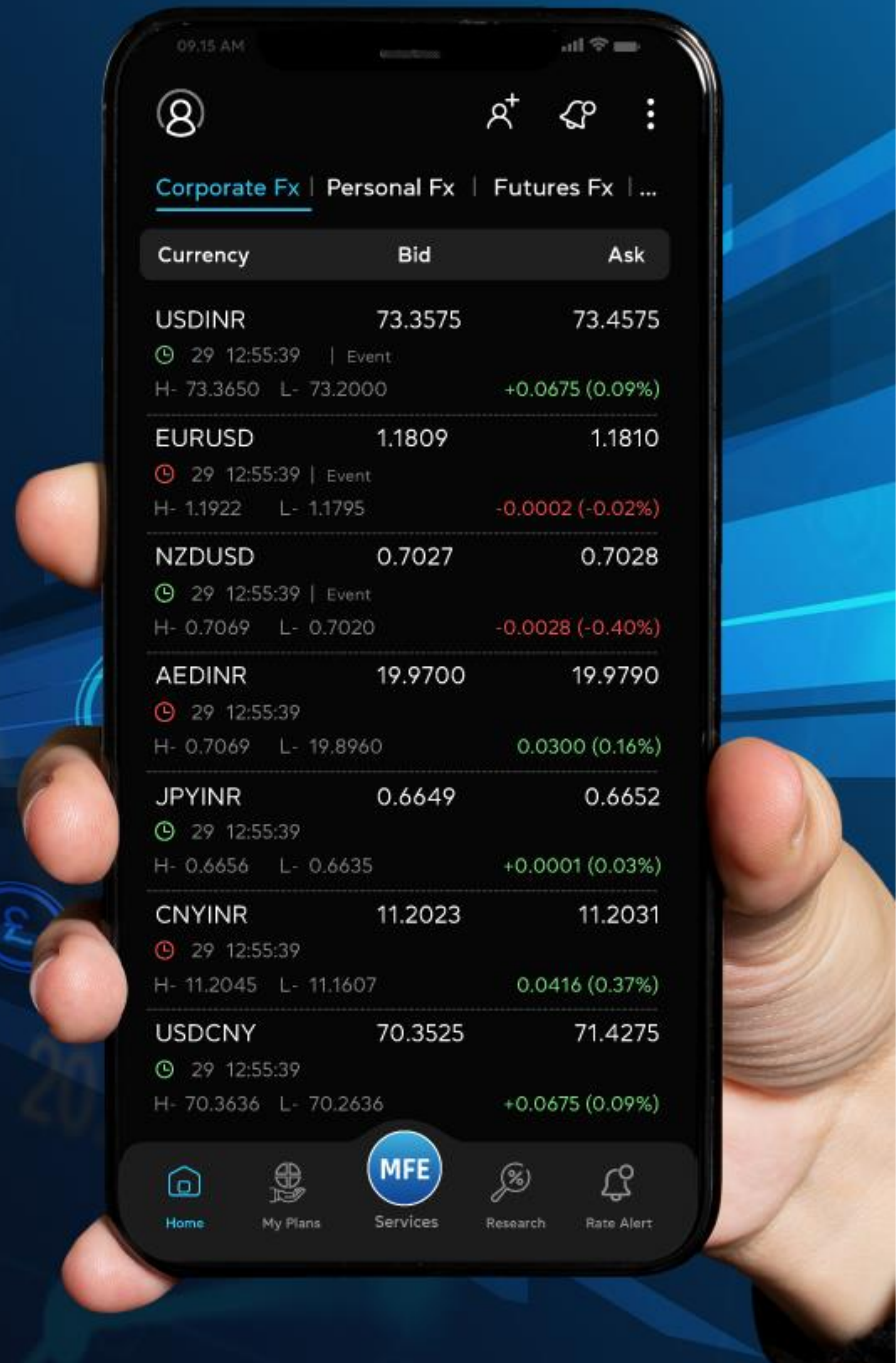
*Till December 2022



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