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TPCI Trade Promotion Council of India
Notified in the Foreign Trade Policy by Depatrtment of Commerce, Government of India

Forex Market Insights

Newsletter

Volume 07 → Apr 24th to Apr 30th 2022

Welcome

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Dear Stakeholders,

Inflation, a ‘clear and present danger’ has made IMF lower the economic growth forecast for the globe by nearly a full percentage point. If Western countries expand their sanctions against Russia, already a 2-month long war could prompt a further increase in inflation. To add to this are the weakening currencies against the greenback as US Fed members’ talk of 50bps rate hike in the early May FOMC meeting. US treasury yields have rocketed, causing capital outflows from Asian economies (read China & India) on aggressive rate hike expectations from US and Europe.

Brent oil slipped nearly 5% this week as Covid lockdowns in China hurt demand. Rupee didn’t play along, falling 0.4% this week. RBI policy meeting minutes showed controlling inflation is RBI’s priority as it moves away from ultra-loose monetary policy. If Fed raises rates in May, would it prompt RBI to take same direction during the June meeting?

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

Key Takeaway Summaries

₹ INR

US$/INR continues to witness range bound trading activity for another week.

€ EUR

The second week in a row the EUR/USD bounced from around 1.0760 reached a high of 1.0935 on Thursday and settled nearby.

£ GBP

Looking at economic slowdown and continuous rise in US treasury yields one can expect further fall in sterling.

¥ JPY

If we see BOJ intervention in the upcoming days we can see some appreciation of yen.

₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.0%	1.84%	6.95%	8.1%	$-18.51B

Events to WATCH

Apr 29, 15:30
Federal Fiscal Deficit (Mar)

Apr 29, 17:30
Infrastructure Output (YoY) (Mar)

The US$/INR ended the week at 76.4825. The greenback is hovering around 101.14 and US Fed Chair Jerome Powell, speaking at an IMF event backed front-loading of rate increases to rein in price pressure and signaled that the central bank of the US would be raising rates by 50 bps next month’s meeting. US$/INR continues to witness range bound trading activity for another week. Despite weakness in Chinese Yuan and South Korean Won (*currencies with whom US$/INR shares high correlation*), INR has been surprisingly stable.

RBI's intervention is protecting the Indian rupee from depreciating further as US treasury yields piled up the pressure on the local currency. However, Powell remarked that many of the US Fed members stated that it would be appropriate to hike rates by 50 bps more than once. Major events due out in the next week for India are Federal Fiscal Deficit (Mar) and Infrastructure Output (YoY) (Mar). The upcoming week is important for US economic releases such as Core Durable Goods Orders (MoM), Pending Home Sales (MoM), GDP (QoQ) and Initial Jobless Claims.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.5%	6.9%	8.5%	3.6%	$-89.18B

Events to WATCH

Apr 26, 18:00
Core Durable Goods Orders (MoM) (Mar)

Apr 27, 18:00
Goods Trade Balance (Mar)

Apr 27, 19:30
Pending Home Sales (MoM) (Mar)

Apr 27, 20:00
Crude Oil Inventories

Apr 28, 18:00
GDP (QoQ) (Q1)

Apr 28, 18:00
Initial Jobless Claims

A quick glance at the US$INR daily chart indicates that the pair has entered into a resistance zone between 76.315-76.97, highlighted by the red horizontal lines. Do recall that 76.97 is the all-time high for the currency pair and hence could act as a psychological resistance level. A steady uptick in prices has sent the momentum indicators, namely 14-day RSI, (5,35,5) MACD and slow Stochastics, gradually higher. Nevertheless, they are still hovering around the neutral territory. Usually, price gaps in the US$INR daily chart gets filled up. This time there are 2 long standing price gaps that are yet to be filled: 74.73 (23 Feb’22) to 75.0225 (24 Feb’22) – blue horizontal lines, and 73.9750 (13 Jan’22) to 74.04 (14 Jan’22) – purple horizontal lines.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.0%	0.3%	7.4%	6.8%	€-7.62B

Events to WATCH

Apr 25, 13:30
German Business Expectations (Apr)

Apr 25, 13:30
German Ifo Business Climate Index (Apr)

Apr 27, 11:30
GfK German Consumer Climate (May)

Apr 29, 13:30
German GDP (QoQ) (Q1)

Apr 29, 14:30
CPI (YoY) (Apr)

For the second week in a row the EUR/US$ bounced from around 1.0760 to a high of 1.0935 on Thursday and settled nearby. The last trading day has witnessed the greenback come back in trend as macroeconomic news were pushed as risk factors.. This week US 10-year yield on T-note made eyes at 3% and settled at 2.93%. US inflation hit four decade high at 8.5% YoY in March and EU hit 7.4%, a multi decade high, yet slightly lower than estimated. It is now a new normal of central bankers' hawkish mode. All the negative factors affecting the market are clearly visible in the observed future. As the US Fed is keep paving the way for an aggressive rate hike there will likely a fall in high yielding stocks yet less suffer in US indexes. As for ECB, it is not confirmed whether there will be a 25bps or 50bps hike, which accommodates surprises that may push the common currency for the moment.

Initially during the previous trading week euro tried to rally but lost its footing towards the end forming a big inverted hammer on the weekly chart. It does seem like the Euro looks is about the drop dead and the next major support level is at 1.08 level. A fall below that area, could lead the market much lower towards the 1.06 handle Alternatively, if we were to turn around a break above the high of the hammer on the weekly candlestick, that would be very bullish for the pair. However, trying to buy the Euro in this environment does seem risky, as I believe we would need to take out the 1.12 level above to take serious note of any type of reversal. What seems more likely is that we simply grind lower over the next couple of trading sessions. Trading the weekly chart is going to be a difficult task from where it is currently, because we do not have any signs of reversal, also we do not necessarily have an easy way down to the 1.06 levels. Conversely, one might have to explore shorter time frames and fade rallies that show the first signs of exhaustion, because quite frankly that is the best way to capture gains amidst the current market situation.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.75%	1.3%	7.0%	3.8%	£-9.26B

Events to WATCH

Apr 29, 11:30
Nationwide HPI (YoY) (Apr)

GBP/USD fell 1.7% this week, Pair made a high of 1.3090 and went as low as 1.2820. Powell hawkish comments pushed US treasury yields to almost 3% mark and BOE Governor Bailey also expressed his worries over a slowdown in UK economic growth. Friday's disappointing release of retail sales and services PMI in UK pushed the pair towards $1.28 levels. It's a quiet week for the pair on the data side as there is no important event next week while in US, core durable goods and new home sales is set to release at the start of week. Quarter 1 GDP is scheduled at the end of week which is expected to come lower by 5.8% compared with the previous print of 6.9% - release of lower than the forecasted release can help the pair to rebound and vice versa.

The British pound traded significantly lower during the course of the previous trading week to break below the 1.30 level. This is a region which has been crucial in the past, so the fact that we finally broke through it is indicating that we might have further to go to the downside. Because of this, the market might make a move towards the 1.28 level, an area that has been well supported in the past. In fact, we are in the midst of a 200 point area of fierce support. Breaking down below the 1.26 level could trigger an even more aggressive selling. Towards the upside, if we break above the 1.30 level, only then the British pound is going to attempt staging a recovery. On the short term charts, signs of exhaustion might continue to lead the way, unless we simply break through the 1.28 handle - an indicator for start shorting this pair. The British pound looks very fragile, and will continue to be punished over the next several weeks.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	1.1%	1.2%	2.7%	¥-412B

Events to WATCH

Apr 26, 05:00
Jobs/applications ratio (Mar)

Apr 28, 05:20
Retail Sales (YoY) (Mar)

Apr 28, 05:20
Industrial Production (MoM) (Mar)

Apr 28, 08:30
BoJ Interest Rate Decision

USDJPY ended the week 1.7% higher at 128.56. Pair made a high of 129.40 and went as low as 126.23 again continuous rise in US Treasury yields supported the dollar to gain versus the yen. But this time we saw less depreciation despite reaching close to 3% of US treasury yields as Japanese FM and Yellen apparently discussed joint fx intervention and US response was positive. Despite the fact japan is a net exporting country but depreciation of a currency on large scale is not good for any country. It’s a quite important week for the pair as Unemployment rate and BOJ Core CPI is scheduled in the start of the week itself while Industrial production is set to release on Thursday along with Retail sales and most important BOJ interest rate decision is due at the end of week which is expected to retain the previous print of -0.1%.

USDJPY this week gained 1.6% opening at 126.45 and ending at 128.46 yesterday. Since the middle of the week, the pair consolidated in the zone between 127.80 to 129.10. The year till date top at 129.10 appears to hold amid the Relative Strength Index at above 79 in the overbought region suggesting a correction on the cards. However, if the scenario plays out, the pair's 1st support would be Apr 20 daily low at 127.45 with a strong next support level as marked in a pink horizontal line at 127 psychological area and 3rd support which is very unlikely is at 125.10. Upwards, the pair's first resistance would be at the 129.00 area. A breach of the latter would expose the 129.40.

BLOG

Spot Exchange Rate : What Is It?

With growing opportunities for international business due to technology advancement, availability of finance facilities, and a reduced barrier to market entry, dealings of organizations with foreign currencies have become prominent. In the quest to cast a wider net of international transactions for their business, corporations and individuals are discovering the importance of understanding forex market nuances and seeking professional support. For businesses that witness significant forex currency involvement, it becomes necessary to understand potential **forex risk** and relevance of correct knowledge regarding spot exchange rates, forward exchange rates, forward contracts, etc. to reduce forex risk and capture favorable market opportunities. This understanding serves two purposes - one is the ability to make informed forex decisions by becoming familiar with dynamics of real-time forex rates vs the rates quoted by banks - while the other is utilizing favorable market movements. When one understands the spot exchange rate, it helps businesses, especially smaller enterprises, to figure out that the exchange rates quoted to them for their **forex transactions differ** significantly from that of a larger corporation with a larger trade magnitude. The exchange rate you get can be influenced by its size, with sizeable volume attracting better rates due to more negotiating power.

There is a high probability that you might be overcharged when buying foreign currency and underpaid due to lowered forex rates while selling foreign currency. Overcharging by financial institutions like banks is attributed to retail clients' smaller transaction value. Due to a situation like this, there is a gap between the expectation of getting currency conversions quotes that are similar to the rates used in the forex market's currency conversions, and the reality of incurred overcharges and added profit margins in the quoted rates. Besides this, the additional charges an individual or company might need to pay on their **forex transactions** include the documentation charges for processing and service provider's margins. Thus, it becomes imperative for individuals who regularly deal with forex to understand that the spot exchange rate is not what they are operating with when negotiating with their banks. Since any **transaction in foreign exchange market** is influenced by forex rates, you still might be missing out on enhanced savings by not exploring better options with expert's help in terms of rates quoted by banks.

What is the spot exchange rate?

The foreign exchange spot market can be very volatile where, in the short term, the rates are influenced by speculation and technical trading whereas in the long term various factors like economic conditions and interest rate differentials, etc. unanimously drive the rates. The exchange rate quoted for immediate delivery/settlement of a contract is the spot exchange rate. The spot value date refers to the date of settlement of the spot contract.

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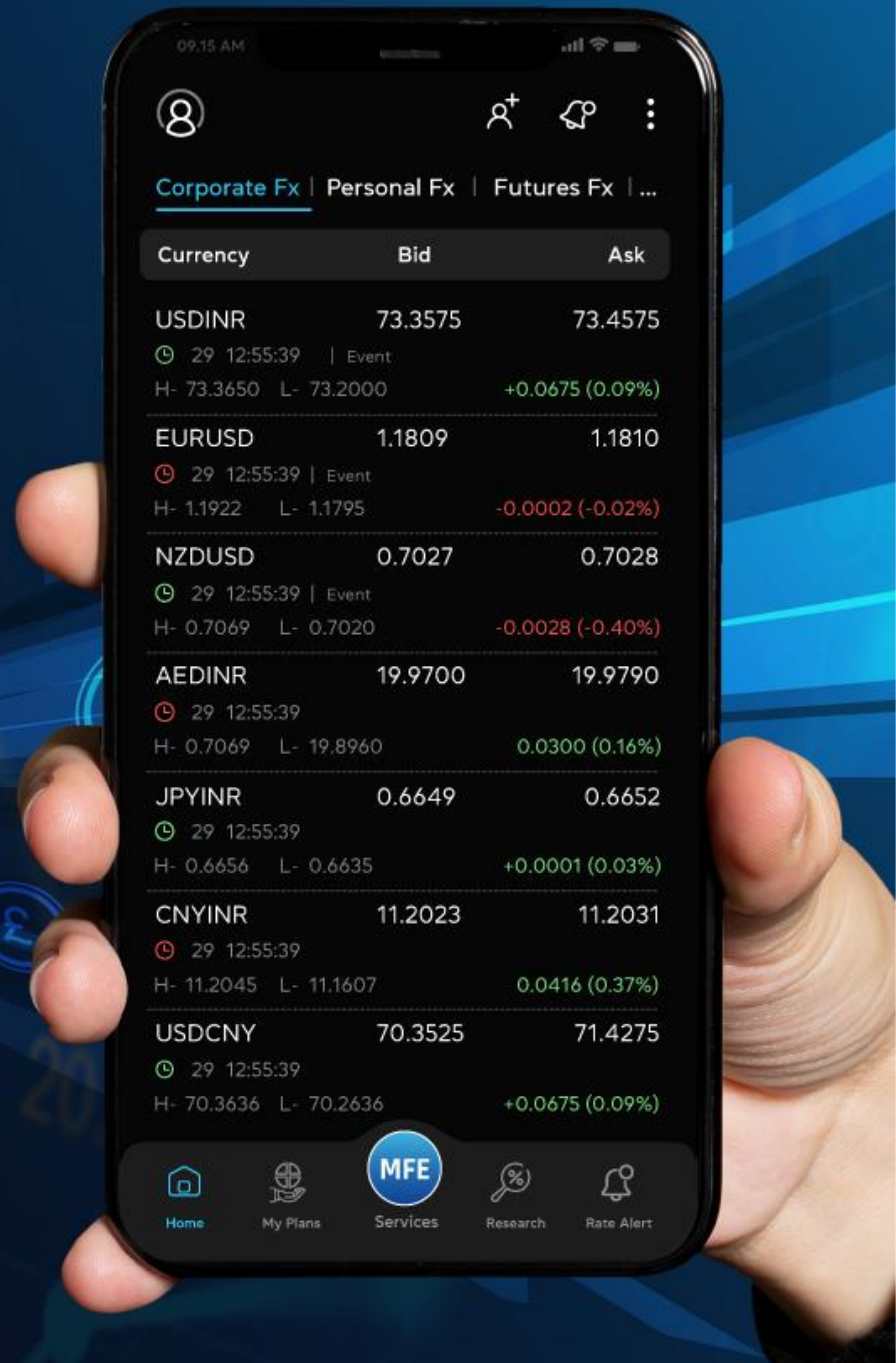

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