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

Forex Market Insights

Newsletter

Volume 12 → May 29 to Jun 04, 2022

Welcome

Dear Stakeholders,

The Indian rupee inched slightly higher to close at 77.59 at the end of the week, taking cues from positive domestic equities and dollar weakness across global markets. It hovered in a narrow range with pressure from elevated crude oil prices, fiscal deficit concerns and persistent NSE. Dollar regained after US preliminary GDP number came in below estimates. RBI has projected that the economy will grow by 7.2% in FY '23, wherein it's worth monitoring inflation and growth fears pressuring the US dollar and restricting the pair's upside.

The recent quarterly results showed a mixed picture on consumer sentiment, with the lower-end of the income scale getting squeezed by rising cost pressures. The Fed will have to more aggressively pull in demand to align with a supply-constrained economy

Is the inflationary challenge due to strong spending keeping the economy in good shape?
Or is it pressurizing the Fed to persist with rate hikes?

Thank You

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

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Key Takeaway Summaries

₹ INR

Reserve Bank of India is monitoring and keeping a check to protect the rupee from uncertain volatility .

€ EUR

The current bounce in EUR/US$ could vanish and correct lower as financial conditions tighten again.

£ GBP

Pair aided by a large govt. spending package for households. Markets think it could support the economy.

¥ JPY

BoJ Governor spoke about the closing of the bank's long-term bond-buying aid package

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.4%	1.84%	7.79%	7.8%	$-20.11B

Events to WATCH

May 31, 15:30
Federal Fiscal Deficit (Mar)

May 31, 17:30
GDP Quarterly (YoY)

May 31, 17:30
Infrastructure Output (YoY)

Jun 01, 10:30
Nikkei Markit Manufacturing PMI

May 02, 18:00
Trade Balance

The US$/INR ended the week at 77.56. This decline was driven by multiple factors, including the growing inflation in most major economies and higher interest rates, exit of investors from Indian markets and a plunging stock market. The strength of the dollar was a result of concerns over the Fed's capability to check inflation levels, which raised the dollar's appeal as a safe haven. The hawkish stance of the Fed toward its monetary policy has boosted confidence for further US investment.

Another reason behind depreciation of the Indian rupee against the US$ has been the Ukraine war. US$/INR traded in the last week in a very narrow band amid all emerging market currencies gaining some strength. The Reserve Bank of India is monitoring and keeping a check to protect the rupee from volatility. The major events due out later in the week for the Indian rupee are Federal Fiscal Deficit (Mar), Infrastructure Output (*YoY*), Nikkei Markit Manufacturing PMI and Trade Balance. Important events for the US are ADP Non-farm Employment Change, ISM Manufacturing PMI, JOLTs Job Openings & Initial Jobless Claims.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.0%	-1.5%	8.3%	3.6%	$-109.80B

Events to WATCH

Jun 01, 17:45
ADP Nonfarm Employment Change

Jun 01, 19:30
ISM Manufacturing PMI (May)

Jun 01, 19:30
JOLTs Job Openings (Apr)

Jun 02, 18:00
Initial Jobless Claims

After a swift decline of 2% in 3 working days, from 75.96 (5 May'22) to 77.52 (9 May'22), the Indian Rupee has stabilized around 77.25 to 77.79 for the last 2-3 weeks. Despite large volatility in Chinese Yuan and other Asian currencies in the last month or so, the rupee weakened a bit. But since then, it is holding rock solid. The trend indicates not much of rupee weakening when others are declining and not much of rupee appreciation either, when others are recovering. Connecting the dollar peaks of 74.95 (20 Jul'21), 76.315 (16 Dec'21), an upward moving trendline (red color) comes around the current range of 77.70-77.80. Notice that the dollar peaks of 75.67 (12 Oct, '21) and 76.97 (7 Mar, '22) come very close to touching this trendline. This could indicate a resistance area around the all-time low rupee levels. Two US$/INR price up gaps formed during the rupee weakening period are as follows: 76.29 (5 May, '22) to 76.56 (6 May, '22) – highlighted by blue horizontal lines 76.97 (6 May, '22) to 77.12 (9 May, '22) – highlighted by pink horizontal lines. Price gaps in US$INR daily chart usually fill up, suggesting a move towards those levels. Momentum indicators, after having moved towards the overbought territory, have started to gradually cool off. The sense is that rupee might recover (assuming that global interest rates and geo-political situations does not worsen further).

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€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.0%	0.3%	7.4%	6.8%	€-16.38B

Events to WATCH

May 30, 14:30
CPI (MoM)

May 30, 17:30
German CPI (MoM)

May 31, 13:25
German Unemployment Change

Jun 01, 13:25
German Manufacturing PMI

Jun 01, 14:30
Unemployment Rate

EUR/US$ is marching towards a second week of gains above 1.07 for the first time since April 2021. The percentage increase over the two-week period is close to 3%. Excluding Covid volatility, last week would be the largest two-week gain since February 2016 when the US dollar turned course on the back of Fed statements, suggesting a slower pace of monetary tightening in response to the financial crisis in China at that time. Recent FX forecasts shows a low-point of 1.04 in Q2 before a gradual rise through the second half of the year. There are risks that this current bounce in EUR/US$ could vanish and correct lower as financial conditions tighten again and there is a renewed upside to the dollar. If the market scenario does not stabilize relatively soon, EUR/US$ could rally further. Radars are awaiting any updates from the ECB, which is expected to begin its hiking cycle in July. So many factors that depict the US$ strength could emerge again. The EUR/US$ could drift lower again as there are factors to suggest better support. The pair remains in a tricky scenario for now.

The EUR/US$ pair ended the week at US$ 1.07, higher by 1.6% compared to the previous week close. It saw a high of 1.0764 and went as low as 1.0556. Closing above 1.07 levels giving a bullish signal, though the pair needs to cross the near-term hurdle of US$ 1.08, crossing these levels might give push to the pair towards psychological level of US$ 1.10, while on the downside, US$ 1.06 could be a major support as 20-day SMA is there. On a daily time frame Momentum indicator RSI trading at 57 levels, which is considered to be slight overbought and MACD is trading in a neutral zone. Exporters can look to hedge their exposure as we saw a big upside move in last 2 weeks. US$/INR is also trading near all-time high levels which are good for hedging by Euro exporters.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.0%	0.8%	9.0%	3.7%	£-11.55B

Events to WATCH

Jun 01, 14:00
Manufacturing PMI (May)

Back to back weekly gains for the pair were aided by a large govt. spending package to help households. Fall in dollar index also helped the sterling to gain. Major pullback in the dollar index due to traders lowered Federal Reserve rate increased anticipations amid signs the central bank might slow or even pause its tightening cycle in the 2nd half of the year. Statement by BOE governor Andrew Bailey in the start of week that central bank is prepared to hike interest rates again in order to bring inflation down could help the pair to gain further. The week ahead starts with a US holiday, which could restrict the pair's volatility. There is no major data on Tuesday as well except for US CB Consumer Confidence. UK's manufacturing PMI for May is scheduled mid-week. Market participants will be eying release of US Nonfarm Payrolls which are expected to come lower by 108k compared to the previous print of 428k. UK will remain closed on Thursday and Friday due to bank holidays.

The GBPUS$ pair ended the week at $1.2616 higher by 1.03% compared to the previous week close. The pair recorded a high of 1.27 and went as low as 1.2469. Currently, the pair is hovering around it's near term resistance of $1.2650-60. Breaking these levels can open the doors of $1.27 psychological level followed by $1.28, while on the downside $1.2450 could be a major support as 20 days SMA is there. On a daily time frame, momentum indicator RSI is trading at 54 levels, which is considered to be slight overbought and MACD is trading in a neutral zone. Exporters can look to hedge their exposure as the pair has rebounded by 4% in just a span of 15 days,

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	-0.2%	2.5%	2.6%	¥-839B

Events to WATCH

May 31, 05:20
Retail Sales (YoY) (Apr)

May 31, 05:20
Industrial Production (MoM)

The Japanese yen approached a one-month peak versus the greenback at 126.36 on Tuesday and closed at 126.83, in what could be a promising back-pedal of the Japanese yen's breakneck fall since the beginning of March. Several reasons have supported the rebounding of the US$/JPY point above 130.00. Bank of Japan (BoJ) Governor Haruhiko Kuroda commented on Wednesday in the Diet about the closing end of the bank's long-term bond-buying aid package. Public opinion of such a differential in policy would have substantial potential for the market's sentiment towards the pricing of the Japanese yen. It is possible that the Bank of Japan has had a change of mindset. This week's withdrawal in the US$/JPY was fundamental, as US economic numbers reported some weakness. Treasury yields gave ground and inflation gave the first indication of slowing down, while Japanese data showed some brawn.

The week's technical conditions indicating lower US$/JPY remain intact. The Moving Average Convergence Divergence has descended though the spread is almost the same. The Relative Strength Index is now below the level of 50 and lower tilted. The actual ranges this week were relatively restricted but the Support level on the technical chart will be at 126.36 (*indicated with a red colour horizontal line*). The first resistance area will be at 128.08 (*green horizontal line*) followed by the second resistance at 129.53 (*pink*), but it is very unlikely to test the 2nd resistance in the upcoming week. The slight decline in PCE prices may cause reduction in the overall rate or may simply be a pause before the surge resumes.

BLOG

Why Are Transfer Rates Important In Forex Hedging?

What are transfer rates?

Converting one exchange rate into another at a particular price makes transferring rates. Ideally all nations should be treated as equal and there shouldn't be any exchange rate applicable, which would mean to have a universal currency.

But amongst many other factors, government policies and growth made by one nation constitute its economic activity. A nation may grow at a different pace when compared to other nations due to many factors – some natural & some political. Natural resources like oil, gold mining, may act as an advantage for one nation,, while rich & fertile terrain may work in favour of the other. Optimum utalization of these resources will drive sustainability first and then growth of the country. Performance of the nation may attract foreign investors when policies are suitable and implementable. Thus the exchange rates of nations vary with respect to another and further fluctuate due to various factors. With the advent of technology, reach of information is highly efficient, thus leading to quicker actions.

Amongst financial markets, the currency market has the highest volume due to its trading hours. Currency markets are open across the globe for 5 days for 24 hours.

This encourages participation of traders irrespective of the region. So while you are sleeping, other markets make the volumes. Bigger markets like Europe and America comprise more volume than others. Starting trade earlier than others, Asian markets also contribute to the volume in the currency markets.

Flexible or fixed exchange rate

Exchange rates are flexible or fixed or somewhere in between depending on the exchange rate policy adopted by the country. Majority of the economies follow a flexible (floating) exchange rate wherein the transfer rate derives its value, i.e. rises or declines based on economic factors. Currency values change constantly (within seconds) purely due to demand and supply.

Demand and supply depends on the changes within the country w.r.t. economic, political & natural factors. A change in political party or a natural event like hurricane or tsunami or man-made pandemic like the Coronavirus cause volatility in the markets.

A country which follows a fixed exchange rate regime would be relatively stable, but would not get the benefit of higher volumes. Control on exchange rate against other currencies is termed as fixed exchange rate. Traders will not see any opportunity of profits and thus would prefer semi or flexible exchange rate regime economies.

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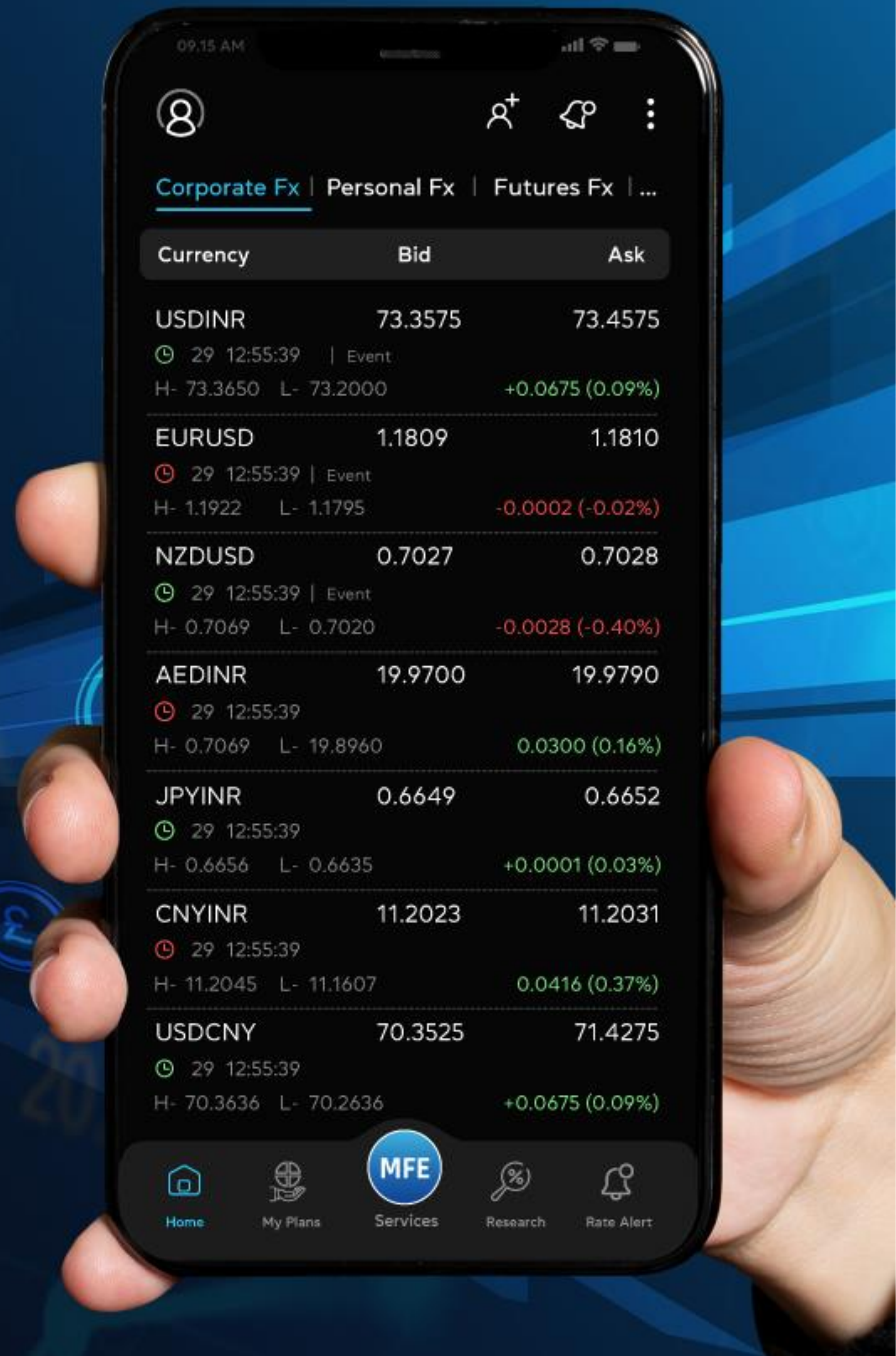

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