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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 30 → Jun 05th to Jun 11th 2022

# Welcome

Dear Stakeholders,

Non-farm payroll growth breached the forecast for last month in the US, with employers adding 390,000 jobs. Unemployment rate remain steady at 3.6%, but labor force growth inched higher and wages rose only modestly. On Wednesday, the Fed Department of Education said that it will disburse US$ 5.8 billion in federal student loans. But such steps are too small to affect the US economic balance sheet.

The US$/INR ended the week at 77.6225, steadying with support of surging US Treasury yields and widespread concerns over high inflation. India's trade deficit widened to US$ 23.3 billion in May 2022, from US$ 6.3 billion US dollars in May 2021. The Indian rupee continued to trade in a narrow band in spite of marginal gains in global and domestic equities. Volatility remained low for the entire week. Trends indicate a strong possibility for rupee recovery.

Regards

Mr Vijay Gauba
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Trade Promotion Council of India

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## Key Takeaway Summaries

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The trade deficit of India widened to US$ 23.3 billion in May 2022.

### € EUR

The trend was directly connected to government bond yields' trend.

### £ GBP

US job report spoiled the party as data showed US economy added 65k more jobs than expected.

### ¥ JPY

US Treasury yields revival and an acknowledgment from BoJ on its indulgent policies pushed US$/JPY.

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# ₹ INR

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 4.4% | 1.84% | 7.79% | 7.8% | $-23.33B |

## Events to WATCH

Jun 06, 17:00
RBI MPC Meetings Minutes

Jun 08, 10:00
Interest Rate Decision

The US$/INR ended the week at 77.6225, steadying with the support of surging US Treasury yields and widespread concerns over high inflation. India’s trade deficit widened to US$ 23.3 billion in May 2022, from US$ 6.3 billion US dollars in May 2021. The Indian rupee continued to trade in a narrow band in spite of marginal gains in global and domestic equities. Volatility remained low for the entire week. US non-farm payroll numbers the US came at 390k. Private payrolls gained wrt the forecasted 325k.



Over the last 3 weeks, US$/INR has remained almost flat, leading to decline in option premiums. US$/INR is considered one of the stable US dollar pairs amongst peers. The intervention of the RBI is not allowing it to move higher and market sentiment is not supporting the pair to fall. The upcoming week is going to be important for the rupee due to RBI MPC Meetings Minutes and Interest Rate Decision. Major data points for US$ are trade balance, crude oil Inventories and Initial Jobless Claims.

# $ USD

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 1% | -1.5% | 8.3% | 3.6% | $-109.802M |

## Events to WATCH

Jun 07, 18:00
Trade Balance(Apr)

Jun 08, 20:30
Crude Oil Inventories

Jun 08, 22:30
10-Year Note Auction

Jun 09, 18:00
Initial Jobless Claims

For US$/INR, nothing has changed much in this week. The same range bound trading extended into the third week without fireworks. Relatively stable dollar index & steady Asian currencies encouraged a quiet period for the rupee. The upward moving red trend line, connecting the recent dollar peaks, and identified last week, continues to indicate a resistance zone around 77.70 – 77.80. Two, long standing, US$/INR price up gaps, highlighted by blue and pink horizontal lines are yet to be filled up. Momentum indicators of MACD, RSI and Slow Stochastics have cooled down further and are gradually moving towards neutral territory.

Recognizing rupee's ability to fill price gaps, there is a strong possibility for a short-term rupee recovery. Strong recommendation to all exporters and importers to use vanilla options to hedge. Due to an extended period of range bound trading, US$/INR options volatility has come down substantially. As such, vanilla option premiums will be quite low. For exporters, since US$/INR spot is close to all-time highs, doing a vanilla option is advisable to hedge forex risk. It's a bigger challenge for importers – they should explore at-the-money options and if option premium looks large, evaluate out-of-the-money strike prices.

# € EUR

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 0 % | 0.3% | 8.1% | 6.8% | €-16.382M |

## Events to WATCH

Jun 06, 11:30
German Factory Orders(MoM) (Apr)

Jun 08, 11:30
German Industrial Production (MoM)(Apr)

Jun 08, 14:30
German GDP(YoY)

Jun 08, 15:00
German 10 Year Bund Auction

Jun 09, 13:30
ECB Interest Rate Decision

The EUR/US$ pair marked its highest at 1.0786 mid-week in the month of May but stayed pretty much unchanged in the 1.0720/30 range bound. Mostly the currency pair's trend was directly connected to government bond yields' trend, impacted by inflation and growth-related threats. Recession is predicted to be stronger than normal and the euro may struggle to recover. Given the European Central Bank's aggressive attitude and decision to continue negative rates by September, yields may not proceed considerably above in Eurozone without increasing paring risks. Besides, the rates could re-price higher in the US as Fed officials have a stated bias to be more hawkish, if needed, to gain their mandate. And yet, it will considerably take aggressive action to put back price stability along with energy costs surging again. Expectations that inflation may have surged higher supported Wall Street to recover some losses after the selling spree in March and May.

The EUR/US$ opened near the session highs at around 1.0745 and inched up towards 1.0760, on nerves of the R1 daily pivot at 1.0782 on Friday. Still, traders pushed the pairs below the daily pivot in the European session and touched 50SMA at 1.0712. The RSI, in upward territory, begins to shift. Hence, the EUR/US$ might hover between the narrow ranges of 1.0627-1.0787 before settling downwards. On the other hand, the pair is reversing back above the 50-simple moving average at 1.0716, consolidating near the daily pivot, which settles at 1.0714. On the upper front, the EUR/US$'s first resistance lies at 1.0764 the high of June3, wherein the second resistance stays around 1.0787 on May 30, followed by the 1.0800 mark. Besides, the first support would be the 1.0700 figure and second support is at 1.0627 level of June 1, followed by the 200-SMA at 1.0618.

# £ GBP

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 1% | 0.8% | 9.0% | 3.7% | -£11.55M |

## Events to WATCH

Jun 07, 14:00
Composite PMI(May)

Jun 07, 14:00
Services PMI (May)

Jun 08, 14:00
Construction (PMI)(May)

The pair booked the first weekly loss in three weeks. Though the pair surged mid-week, but US job report released on Friday spoiled the party as data showed US economy added 65k more jobs than expected. Negative outlook for the UK economy also aided the dollar vs sterling. Market participants will be eying the release of critical inflation data mid-month to take fresh positions. The dollar is expected to surge further against sterling as economic conditions seems to be good in the US. Composite PMI of May month is set to release in the start of the week, while Construction PMI is scheduled mid-week. The pound lost its value initially during the previous week to trade slightly below the important 1.25 level. This indicates that we are likely to see a lot of volatility.


The pair will remain volatile as there is so much in the global markets that has been throwing the currency markets around. Because of this, one should look at this through the perspective of whether or not we are in the middle of a risk on or a risk off; if there is nervousness in the market, then the US dollar will continue to attract inflows. Examining the weekly chart tells us that we can break above the top of the weekly candle, we could go much higher. But if we break down below the bottom of the weekly candlestick, it’s likely that we will continue to go much lower, perhaps reaching down to the 1.22 handle. Towards the upside, 1.30can be construed as a potential market top. Breaking above that level could pave the way for further upside, but it would need some major fundamental shift to make that happen. Hence, participants may continue to look for selling opportunities.

# ¥ JPY

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| -0.1% | -0.2% | 2.5% | 2.5% | ¥ -839B |

## Events to WATCH

Jun 07 05:00
Household Spendings (YoY)(Apr)

Jun 08, 05:20
GDP (QoQ)

Jun 10, 05:20
PPI (YoY)(May)

US$/JPY mounts above 130 the highest level in two weeks, adding up 3.1%. US Treasury yields advance steeply from the six-week bottom, and Japanese Government bonds reinstated as stable. US Treasury yields revival and an implicit acknowledgment from the Bank of Japan on its indulgent policies pushed the US$/JPY back towards its 20-year high this week. Fed policy is the factor for the US$/JPY because the Bank of Japan functionally has no policy. It is completely dubious that US interest rates can carry on higher given the shape of the US economy, but the current spread is aggressively higher to support US$JPY. Probably a change can be witnessed in BoJ's easy money policy which is apparently perpetual and ineffective. Haruhiko Kuroda's observation was probably the first evaluation of a policy change and the beginning of new ideas.

The Moving Average Convergence Divergence level crossed the signal line on Thursday indicating an incipient buy signal. The Relative Strength Index has been surging since Monday. The MACD had also crossed the signal line on 27th Apr but as the pair never generated any upward momentum, so the indication to buy was never operational. An identical situation applies now. There is strong resistance at 131.34 (green horizontal line) and major support is at 129.50-129.51 (red horizontal line). The second support, which is unlikely, stands at 128.61.

# BLOG

## Is managing forex risk essential for hedging?

Foreign exchange risk is a financial risk which exists when a home currency is converted into another during the transaction. Unfavorable currency movements lead to a lower value of assets which are quoted in the domestic currency in international markets. All corporates dealing with international markets are exposed to foreign exchange risks.

Foreign exchange markets fluctuate due to many factors beyond the control of a company and thus these risks have to be incorporated while quoting prices to clients and suppliers overseas. Factors such as recent Russia-Ukraine war lead to high fluctuations in currencies and may trigger stop loss levels for high volume currency pairs.

Thus dealing in currency is highly risky and calls for an expert who tracks forex markets on a regular basis to assist corporates to manage them. Revenues earned abroad will be affected with currency risks. Already, uncertainties due to global trade war have created havoc. Though some risk aversion assets like Gold, Japanese Yen, Swizz Franc have seen appreciation during such times, but in all it calls for better foreign exchange risk management.

**Why manage currency risk?**

Managing currency risk helps protect cash flows and profit margins, which in turn help assimilate financial budgeting and forecasting. Once cash flows are determined, it becomes easier to plan the future and work around costing accordingly. With clarity around finances, the corporate is in a better position to understand borrowing capacity, especially from growth perspective. Every change in currencies, affects the balance sheet, which is turn affects the health of the corporate. Thus business benefits are many for effectively managing the foreign currency risks.

**How does one go about managing forex risk?**

The first step is to create a foreign exchange policy within the corporate. This helps in understanding the risk which the company is ready to take along with key benchmark levels for all transactions.

Once the cash flows is in place, the process of understanding which currency fluctuation will affect which portion of the balance sheet is important as many factors are in place at one go.

Periodic reviewing of operating cycle helps in pinpointing risk areas. While negotiating with clients (*buyer or seller*), the risk exposure before execution of the transaction should be understood. Thus the level of hedging can be determined accordingly. Transaction risks occur due to time gap between commitment of contract and actual cash flows. More often than not, these risks are easier to manage as they can be hedged using financial derivative instruments. Thus understanding the quantum to hedge is important. Formulating a corporate policy is easy, but to review it periodically is the key with ever changing foreign exchange markets.

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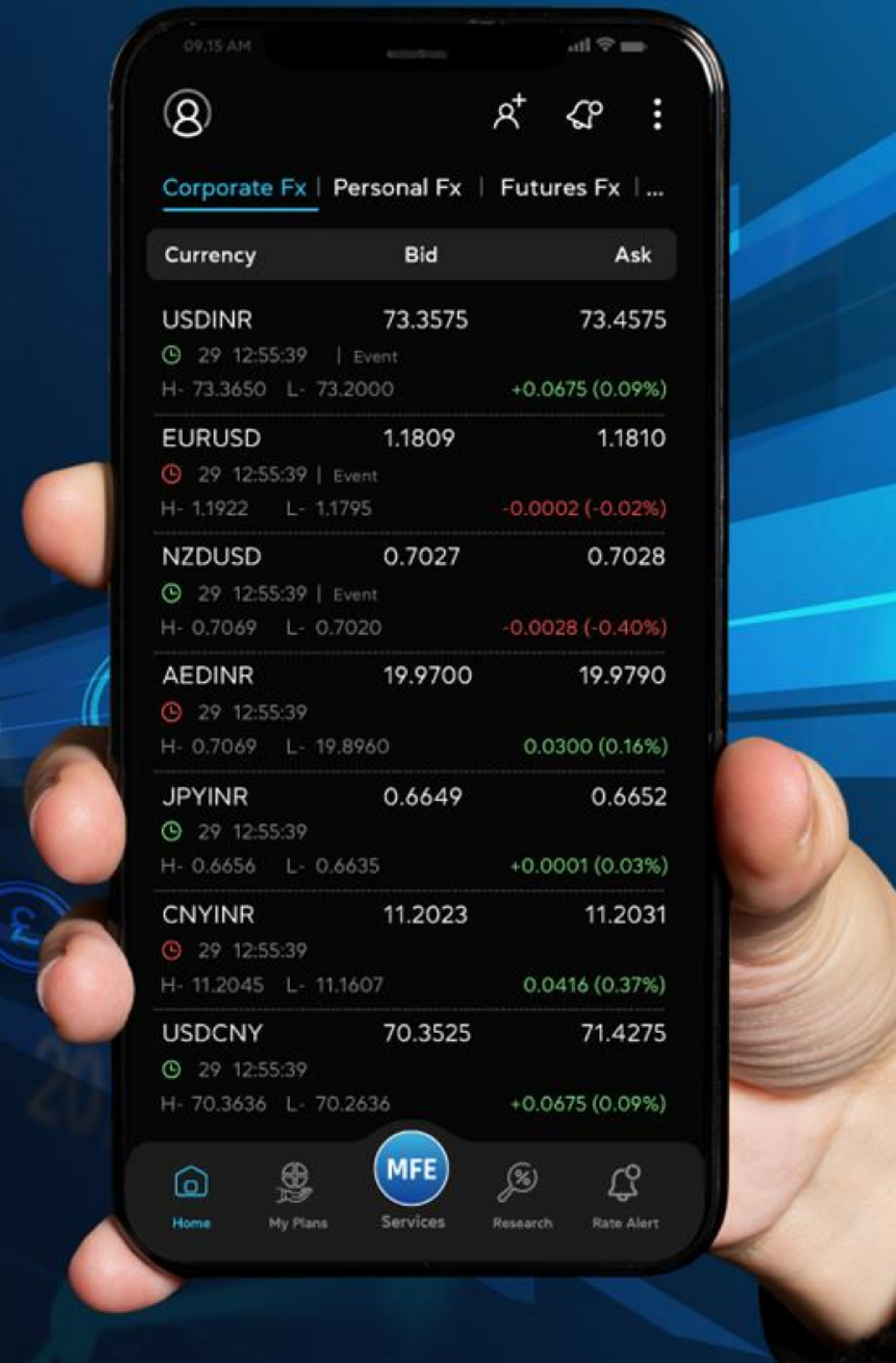


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