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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 15 →Jun 19th to Jun 25th 2022

Welcome

Dear Stakeholders,

The EUR/US$ continued its slide after falling below 1.0500 and breached a fresh intraday low of 1.0450. Followed by the continued dollar strength, the EUR/US$ looks to end the second straight week in the red. Meanwhile, the Swiss National Bank's shocking 50 basis point rate hike provided strength to the CHF against the dollar and US$/CHF ended last week at the 0.9697 level. Further to a two-day slide, the US Dollar Index, which tracks the dollar's strength against a basket of six major currencies, turned its direction and ignored its weekly losses. The DXY rose more than 1% on the day at 105.00.

The risk-sensitive market environment, increasing US Treasury bond yields and aggressive Fed speeches induce the dollar's rally following the weekend. Fed member's speech on Friday indicated that there could be support for another 75 basis points rate hike in July and also that there could further raise rates beyond what is expected recently if inflation were to drift higher. The benchmark 10-year US Treasury bond yield inched higher more than 2% intraday at 3.27%.

Regards

Mr Vijay Gauba
Additional Director General
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Key Takeaway Summaries

₹ INR

Rupee may depreciate further by 10-15 paisa if crude pressure combines with a higher dollar index.

€ EUR

European Central Bank has stated it will hike policy rates by 25 basis points in July.

£ GBP

25 bps hike in interest rates couldn’t push GBP higher as it was already discounted.

¥ JPY

The currency pair marched two figures after the BoJ decision.

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.9%	1.84%	7.04%	7.8%	$-24.29B

Events to WATCH

The US$/INR ended the week at 78.07. The US$/INR is expected to consolidate in the range of 77.70 to 78.30 in the next week. The Indian rupee may depreciate further in the next week by 10-15 paisa if the pressure of crude prices combines with a higher dollar index amid continuous outflows of FIIs. The Reserve Bank of India is likely to intervene if dollar pressure piles up against the rupee. The Fed Chair Powell said that super-sized interest-rate increases will be rare after a 75 basis points hike on Wednesday. History repeated with the US$ gauge halted a 5-day winning streak after the decision.

The US Fed chairman Powell might have convinced markets that the Federal reserve will manage to get inflation under control with a couple of rate hikes in the coming months. Market participants expect US GDP growth to slow to almost zero by the 2nd half of next year due to the lagged impact of tighter financial conditions. Our worst fears around the US Fed have been that they fell way behind the curve and are now playing an aggressive game to catch up. No major events are scheduled for the rupee in the next week. Major events in the US are Existing-home Sales, API Weekly crude oil stock, Initial Jobless Claims and Crude oil Inventories.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.75%	-1.5%	8.6%	3.6%	$-87.077B

Events to WATCH

Jun 21, 19:30
Existing home Sales(May)

Jun 23,02:00
API Weekly crude oil stock

Jun 23, 18:00
Initial Jobless Claims

Jun 23, 20:30
Crude oil Inventories

The US$/INR pair is moving alongside in a narrow range of 78.03-78.30 since Monday and was unable to breach the critical resistance of 78.40. Huge selling action dragged greenback buyers and minimized volatility. After a real upside move a correction takes place, but that should not be mixed with a trend reversal. On the hourly move, the pair is experiencing a Symmetrical Triangle move, which resembles for downtrend in the standard deviation respective to the asset followed by a breakout in the same. The upside trend line started from Monday's low at 77.98 while the sliding trend line is plotted from Monday's high at 78.41. The pair has fallen below 20- and 50-period EMAs at 78.11 and 78.05 respectively, which signals short-term correction.

The RSI 14 is wavering between 40.00-60.00 ranges, which depicts a continuation of alongside movement. US$/INR should overstep Tuesday's high at 78.30, an upward breach of the Symmetrical Triangle will strengthen greenback bulls and drive the pair towards Monday's high at 78.40, following the next resistance at 78.50. Otherwise, Indian rupee buyers could dictate the asset if it delivers a downside break of the above-mentioned chart pattern at the psychological support of 78.00. This will drag the asset towards last week's average price at 77.85. The breach below 77.85 will send the pair towards this week's low at 77.68.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.00%	0.6%	8.1%	6.8%	€-32.43B

Events to WATCH

Jun 20, 11:30
German PPI (MoM)(May)

Jun 23, 13:00
German Manufacturing PMI(Jun)

Jun 23, 13:30
Services PMI (Jun)

Jun 24, 13:30
German Ifo Business Climate Index (Jun)

The Euro recovered during Wednesday and Thursday sessions but moved downward on Friday. It was limited and ranged between 1.0566 and 1.0767 and the greenback strengthened again due to the aggressive US Fed. The European Central Bank remains dovish and tries to control debt crises. The currency pair is moving on a bearish path and expecting to increase its losses below 1.0340. The US Fed conducted a monetary policy meeting, and as broadly expected, policymakers agreed to increase the interest rate by 75 basis points, the most significant hike since 1994. The prime benchmark is at the zone of 1.5% to 1.75%. US Fed Chair Jerome Powell commented that further meetings could increase policy rates between 50 bps and 75 bps, shedding 100 bps off the table. Central banks are increasing policy rates all around the world to control inflation. But hiking rates also increase the cost of borrowing. The European Central Bank has stated that it would hike policy rates by 25 basis points in July, being a laggard compared to most other prime central banks.

The Euro had a very volatile trading week, trading above the 1.06 level at one point, only to turn around and trade 200 pips lower, breaking below the 1.04 level. The 1.05 level has been a price magnet, so it is worth paying close attention to. Currently, we could continue to see a lot of volatility, but if we break down below the bottom again, it opens up the possibility of the Euro testing the 1.02 level, possibly parity in the long run. The ECB has given a few hints on whether or not they can stay hawkish. While keeping this in mind, it’s likely that every time the Euro rallies, there will be sellers waiting exploit the opportunity. If the Euro were to turn around and break above the 1.08 level, then we can expect recovery, but right now that seems far-fetched. The current downtrend is very strong, and nothing fundamentally or technically indicates that its going to reverse in the current environment.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.25%	0.8%	9.0%	3.8%	-£8.50B

Events to WATCH

Jun 22, 11:30
CPI (YoY)
(May)

Jun 23, 14:00
Manufacturing
PMI

Jun 23, 14:00
Services PMI

Jun 23,14:00
Composite PMI

The pair booked a loss for the 3rd consecutive week and was down by 0.7% this week. It remained on the back foot from the start of week & touched its lowest level since March 2020 of 1.1932 amid multi-year high inflation in US, which led to massive sell off in riskier assets. Though the pair recovered to 1.23+ levels after the release of US jobless claims, housing starts and Philadelphia Fed Manufacturing Index (*which was worse than expected*), it couldn't sustain and closed at 1.2224. A 25bps hike in interest rates by BOE also couldn't push Sterling higher as it was already discounted. It's quite an important week ahead for the pair on the event side as critical inflation data of UK is due mid-week. This could be a big market driver for the pair while composite PMI of Jun month is set to release on Thursday along with Manufacturing & Services PMI. Retail sales and Core retail sales is due at the end of week which will be worth watching out for fresh trading opportunities in pound.

The British pound has been very volatile during the past trading week, as it tested the 1.20 level, only to retrace significantly. Notably, the Friday session looked fragile, and the long term downtrend is still intact. Currently, if we break down below 1.20 level, then the pound may see a massive sell-off. Towards the upside, the 1.25 level offers significant resistance that extends to the 1.26 level. If the pound manages to break above that, then there is higher probability for a move towards the 1.30 level. The longer-term chart certainly looks as if it is a little oversold, but there is excessive fear surrounding the markets. So this is a market that should continue to favour the US dollar, just as most Forex markets globally.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.1%	-0.1%	2.5%	2.5%	¥ -2385B

Events to WATCH

Jun 23,06:00
Manufacturing PMI

Jun,23 06:00
Services PMI

Jun 23, 10:30
BOJ Core CPI (YoY)

Jun 24, 05:00
National Core CPI(YoY) (May)

The US$/JPY has seen profits in Wednesday and Thursday sessions and bounced back on Friday. Bank of Japan pulls out base rate and JGB yield control remains the same. The currency pair marches two figures after the BoJ decision. It was highly probable that the Bank of Japan would not change its eternal easy money policy on Friday. The currency pair reversed on time gaining more than two figures during the Friday session in Tokyo. There was anticipation that BoJ might control its monetary aid following the trend of central bank rate hikes. BoJ Governor Haruhiko Kuroda also commented in the Diet that a change in the bank's monetary policy was plausible, and of the apparent hardship for Japanese consumers and importers caused by the yen's extended weakness. It is possible that if US economic data indicates south, rates will continue to come off. That is the main risk for the US$/JPY currency pair.

The outlook for the US$/JPY pair is higher with the caveat that the US Treasury rates decline could again attract profit-taking to large gains since Mar. The 2-day profit run to below 132.00 on Wednesday and Thursday was sensible. The Fibonacci retracement reversed at the 38.2% Fibonacci level from May 30 to Jun 14. The bracket (127.01-135.47) move underlined eminent motivation. Technical indicators are supportive of a higher US$/JPY. The MACD and RSI rebounded with yesterday's 2-figure increase. The MACD price line came close to crossing the signal line last Thursday and the reopened spread is not a strong indication. The pair failed to establish a new high in the last trading session to 135.42, just under Wednesday's top at 135.60. The important resistance will be at 135.42 (green hor. line). Major support is at 133.50 (red line) followed by the second support at 132.15.

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