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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 16 → Jun 26 to Jul 2, 2022

Welcome

Dear Members,

The interest rate differential has been shrunk between the dollar and the Rupee. The US central bank has hiked the Fed interest rate by 175 bps till date, while the RBI has raised it by only 90 bps, thus resulting in an 8-year low of annualized premiums of Indian rupee; which is 2.5% now compared to the previous of 4%. Brent has been continuously trading above $105 per barrel, despite falling from a high of $125 in the near term; wherein our domestic imports consist of 83% of oil, resulting in an increase in CAD.

On the global front, the demand for the dollar has also weighed on the DXY index, which has moved higher to around 104.23. The S&P 500 shot over 3% for its biggest intraday rise since May 2020 and gained upto 3,911.74. Asian currencies are trading on a negative note with KRW making a 13.5-year low below 1300 to the $. The Japanese Yen is at a critical level to the dollar at around 135.17.

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

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Key Takeaway Summaries

₹ INR

Reserve Bank Of India took control at the 78.39 mark to stem the decline.

€ EUR

Over the past few months, concerns have shifted from inflation to recession.

£ GBP

BOE will probably have to do something to fight inflation, they may not be as hawkish as the Americans.

¥ JPY

Inflation has fallen back even with global price hikes though headline CPI is above the 2% bank target.

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.9%	0.8%	7.04%	7.8%	$-24.29B

Events to WATCH

Jun 30, 15:30
Federal Fiscal Deficit (May)

US$/INR started the week at 77.94 and made a low of 77.87 before making a fresh peak of 78.39 which was a new high for the US$/INR pair. Most Asian currencies were on the weaker side thus allowing the Indian rupee to depreciate as the Reserve Bank Of India took control at the 78.39 mark, while not changing the rupee direction. On every dip, there were buyers of the dollar who ensured that the INR does not appreciate. Brent Oil has been above $105 per barrel though it has fallen from a high of $125 in recent days. Oil forms almost 83% of our imports and if it remains at that level we will see the pressure on our current account and trade account.

In May 2022, India's trade deficit recorded a peak of $24 billion, the highest to date. Current Account Deficit for FY 2022 ended at 1.2% of the GDP against a surplus of 0.9% in FY 2021. The DXY, which tracks the greenback against six major peers, closed at 104.10. Treasury yields in the US were higher on Friday, but closed for the week, as participants assessed the major central banks implementing interest rate surges to curb soaring inflation. The yield on the 10-year Treasury note was trading higher at 3.13%, down from last Friday's close of 3.23%. The important event for the rupee is the Federal Fiscal Deficit (May). Major events for the US dollar are Pending Home Sales (MoM) (May), Crude Oil Inventories and Initial Jobless Claims.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.75%	-1.5%	8.6%	3.6%	$-87.07B

Events to WATCH

Jun 27, 19:30
Pending home sales(MoM)(May)

Jun,28 19:30
CB Consumer Confidence(Jun)

Jun 29 , 18:00
GDP (QoQ)(Q1)

Jun 29, 20:00
Crude Oil Inventories

Jun 30, 18:00
Initial Jobless Claims

The Dollar wants to regain its strength up to 78.50 wherein the FED chair speech stimulated US$ buyers against the Indian rupee. It is fundamentally forecasted that the domestic unit could weaken to 80 by the third quarter of this year. It is widely expected that the US$/INR pair should remain between 77 and 80. Even though the recent correction happened from 10-DMA level surrounding 77.90, the pair is sticking onto the downside break of a six-week-old ascending trend line, which in turn suggests further grinding towards the south.

The Indian rupee remains under pressure around the levels of 77.90 and is trying to create a range between 78.20-78.25 after recovering from an all-time high at 78.46. The SMA on the daily chart trends to 77.79, the break of which leads to 77.23 and then to 76.46 on SMA 20, 50 and then 100 respectively. US$/INR forms double tops around 78.40, which in turn teases bears if the prices sustained a downside break of the 77.87 horizontal support, comprising multiple lows marked in the last one week.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0 %	0.6%	8.1%	6.8%	€-32.43B

Events to WATCH

Jun 27, 11:30
German Retail Sales (MoM)(May)

Jun 29, 17:30
German CPI (MoM)

Jun 30, 13:25
German Unemployment Change (Jun)

Jul 01, 14:30
CPI (YoY) (Jun)

The EUR/US$ pair regained some ground after falling to the bottom level in mid-June at 1.04, ending the week by gaining some pips above the 1.05 threshold. The surge was offhand, as sellers kept up to save the upside around 1.06. During the past few months, the last inflation-related worries transformed into recession threats. Central banks spent years nourishing market liquidity and were caught off guard in early 2020 by Covid. The following stall in economic affairs and the slow recovery had surprising effects, and inflation turned out to be the most notorious. The leader of the central bank commented that it is “significantly more challenging” to wrestle with inflation without affecting the labor market. However, the US Fed is agreeable with the current pace of rate increases, and markets forecast another 75 bps increase for July, tracked by a series of at least, 50 bps increases. The FX chart is more of the greenback’s advance at a specific time and sentiment than euro-sided components.

The Euro rallied initially during the past trading week, but couldn’t hold on to the gains near the 1.0650 level. This is the same region that we had seen offering resistance during the previous week, so it’s logical that we pull back from there If the Euro manages to break below the 1.05 handle. Then it’s likely that we go down to the 1.04 level, a region which is already well supported. If the Euro somehow breaks even below that level, it’s likely that the Euro will fall to the 1.02 level, and then perhaps even parity. It is very probable, that we will see parity at some time, especially if the Europeans are unable to source energy. On the other hand if we manage to break above the top of the candlestick for the past two weeks, then it’s probable that the market will test the 1.08 level above. The 1.08 level is an area that has been a very resistive region in the past, so we should anticipate a lot of selling pressure in that area as well. Ultimately, euro doesn’t seem to have a real fight left in it to push through the upside, so it seems that this is going to be more of a despondent move towards the downside.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.25%	0.8%	9.1%	3.8%	-£-8.50B

Events to WATCH

Jun 30 , 11:30
GDP (QoQ)

Jun 30 , 11:30
GDP (YoY)

Jul 01 , 14:00
Manufacturing PMI (Jun)

Pair edged up versus the dollar this week and registered its first weekly gain in four weeks amid a weaker dollar and better-than-forecasted retail data released on last trading day allowed market participants to look past mounting pressure on British Prime Minister Boris Johnson. The pair has had a somewhat quiet week, but this is actually a good thing considering how it had sold off in last weeks. While the BOE will probably have to do something to fight inflation, they may not be as hawkish as the Americans. It's a quiet week ahead on the event side as GDP is only major event scheduled during the mid of week while BOE Governor Bailey speech is also due - Bailey has more influence over pound's value than any other person.

The British pound had a relatively quiet week, trading around the 1.23 level. Currently, if the market were to continue to climb higher from here, a move towards the 1.25 handle seems likely. The 1.25 level has been attempted a couple of times, so the market seems attracted to it. The market will almost certainly look at this rallying again unless some major changes happen with BoE and the Federal reserve. The US Fed is amidst a massive tightening cycle, so the greenback is generally favoured. If we break down below the weekly low, then we could be headed towards the 1.20 level underneath, a region which has been well supported in the past. Towards the upside, if we were to break above the 1.26 handle, then a move towards the 1.30 level is more likely. That being said, we can continue to expect fading rallies on the first signs of exhaustion.

¥ JPY

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

Events to WATCH

Jun 28,10:30
BOJ Core CPI (YoY)

Jun, 29 5:20
Retail sales (YoY)(May)

Jun 30 , 05:20
Industrial Production (MoM)

The US$/JPY pair was a 24-year high last Tuesday at 136.71. The following fall and come-back stated the Fed's rate hikes dynamic driving multiple US dollar-based currency values. The Bank of Japan retained its soft money policy at its previous meeting as well as its open-ended duty to yield curve control in the JGB market. Inflation has fallen back even with global price hikes, though headline CPI is marked above the 2% bank target. National CPI was 2.5% (YoY) in the previous month, the same as in April, though less than the 2.9% prediction. The US Fed's clear determination to control inflation will be put on trial as the US crawls to a recession. but the governors will keep their patience at least until the 2nd-quarter GDP status on July 28. The US$/JPY will keep a positive side until the US-Japan rate differential remainS unchanged and the central bank policies are at opposite corners.

Market sentiments will remain fragile amid concerns that an aggressive move by central banks to curb inflation would pose challenges to global recovery. MACD illustrates dependence of the pair on interest rates. A minor decline in Treasury rates of the US brought the price line into contact with the signal line and a cross can be expected; so US$/JPY may consolidate below 135.00. Spot prices, so far, have technically managed to defend the 134.30 level, indicated by the red horizontal support line. This is closely followed by the 134.00 psychological mark, which if broken might reflect in technical selling. The strong resistance can be seen at 135.42 (green horizontal line). The Relative Strength Index remains firmly in a positive area without suggesting an immediate move higher.

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BLOG

Letter Of Credit - Definition & Processes

A letter of credit or a LC is known to be a mechanism of payment commonly used in international trade. It acts as a guarantee of payment for the seller or the exporter of goods since it is routed through bank and has its credit worthiness attached. It is considered safe in case of international trade, since there are high chances of parties being unknown to each other. This might raise anticipation on the side of the seller of non-payment for goods or assets from the buyer. The letter of credit is a legally enforceable written guarantee from a credit worthy bank to make payment on behalf of the buyer of goods. This mitigates the risk faced by the seller in trade. The bank gives an underwriting to pay in case there is a default on behalf of the buyer of goods. An LC is used on a regular basis in the international markets.

Documentary credit and banker's commercial credit are some other names for Letter of Credit. It is a basic and primary way of dealing with risks faced in international transactions by the seller of goods and ensures payment on presentation of required documents by the seller to the bank that promises to pay money in the LC.

It becomes easier for the seller to trust the bank than to rely upon the importer or the buyer of goods. Banks charge a fee from the importer or the buyer to provide them with the service of letter of credit and also demand some collateral to ensure that the bank does not have to face the loss. The bank has the right to recover its money from the collateral involved, in case the importer defaults to make payment to the bank. In the scenario today, LC, its associated services, chargeable fees and rules & regulations are all framed, enacted and governed by the international chamber of commerce.

A letter of credit is highly preferred as it is a customizable document i.e. it can be modified according to the terms of the parties involved in the contract of trade. It ensures safety of payment being made hence enhances the trust of traders in dealing internationally. A seller can easily avail pre shipment finance in order to prepare and ship the goods against the LC.

A letter of credit also ensures timely payment and helps the seller/exporter to plan the cash flows. Although highly used, a Letter of Credit has certain associated backlogs. It leads to an extra cost on the buyer/importer i.e. the buyer has to pay the fee charged by bank for the letter of credit service. The formalities involved in obtaining a letter of credit are pretty time consuming. Also, there is a possibility of misuse of the letter of credit which raises the issue of fraud. A letter of credit is time bound, so the seller has to make the payment within the time duration of the letter.

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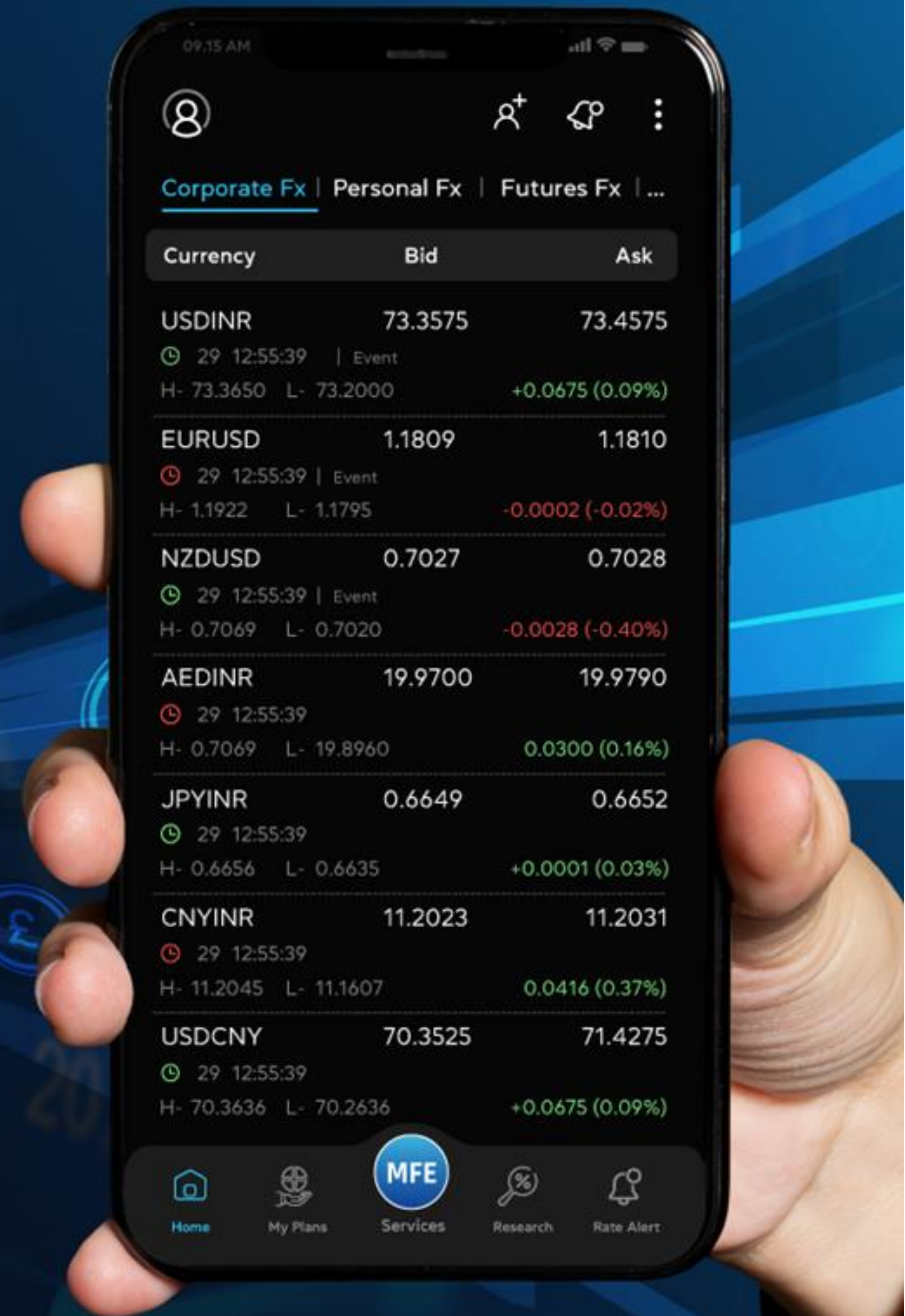
*Till December 2022



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