Forex Market Insights

Newsletter

Volume 14 → Jun 12-18, 2022

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

Welcome

Dear Stakeholders,

The US$ index (*DXY*) was trading in an unusual manner on Friday followed by Thursday's heavy volatility to the area beyond the 103.00 levels. Extreme sell-off in the 'risk complex' added extra pressure after the ECB did not sound as hawkish as expected at its event on Thursday, leading to added pressure, while pushing the index to fresh multi-week highs past the 103.00 yardstick. In the US$ session on Friday, treasury yields and the long end of the curve appear to be smoothening compared to a continuing uptrend in the short end.

On the other hand the dollar appears supported in the short term following the restarting of the selling bias in the risk-associated space, while the Fed's separated against most of its G10 peers amidst geopolitical tension. Positive US yields and a potential "hard landing" of the US economy are supporting a stronger dollar in the coming months. The index is firmly supported at 103.32 and a breach above 103.36 would touch up to 105.00 and finally 105.63. On the downside, it's expected to touch up to 101.75 followed by 101.64 and then 101.29.

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

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Key Takeaway Summaries

₹ INR

Elevated prices of crude oil hurt sentiments for the rupee, with traders fearing a fresh position.

€ EUR

A lot of red flags in the calendar are weakening economic growth and fueling inflation.

£ GBP

Now market participants will be eying the Fed and BOE monetary policy decisions due next week for fresh direction.

¥ JPY

The short-term fear is for US$JPY to float higher. The CPI and US Fed meeting next week will aid US yields

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.9%	1.84%	7.79%	7.8%	$-23.33B

Events to WATCH

Jun 13,17:30
CPI(YoY)(May)

Jun 14,12:00
WPI Food (YoY)

Jun 14,12:00
WPI Inflation (YoY)

Jun14,12:00\
WPI Fuel (YoY)

The US$/INR ended the week at 77.8325. INR declined further on Friday to hit a fresh all-time low against the US dollar amid domestic equities plunging due to risk aversion in markets. The Consumer Price Index gained 8.6%, up from Apr 8.3%, where it was expected to remain in the US. The pace of future rate increases by the Fed can be aggressive after the figures released yesterday. Elevated prices of crude oil also hurt sentiment for the Rupee, with traders fearing a fresh bout of foreign portfolio investment outflows, stating the unfavorable outlook on inflation and current account deficit for India.

INR traded at an all-time low of 77.87 against the US$. The Indian rupee has dragged to a record low after a prolonged phase of consolidation, as risk sentiments soared, beside tensions about acute price pressures and re-imposition of lockdown restrictions in some cities of China. Further, accentuated inflation has inflicted damage on the global economy, strained due to monetary policy tightening by major central banks. RBI increased the repo rate by 50 bps in the last MPC to 4.9%. The major events in India are CPI (YoY) (May) and WPI Inflation (YoY) (May). Important events in the US are PPI (MoM) (May), Retail Sales (MoM) (May), Crude Oil Inventories & Fed Interest Rate Decision.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1%	-1.5%	8.6%	3.6%	$-87.077M

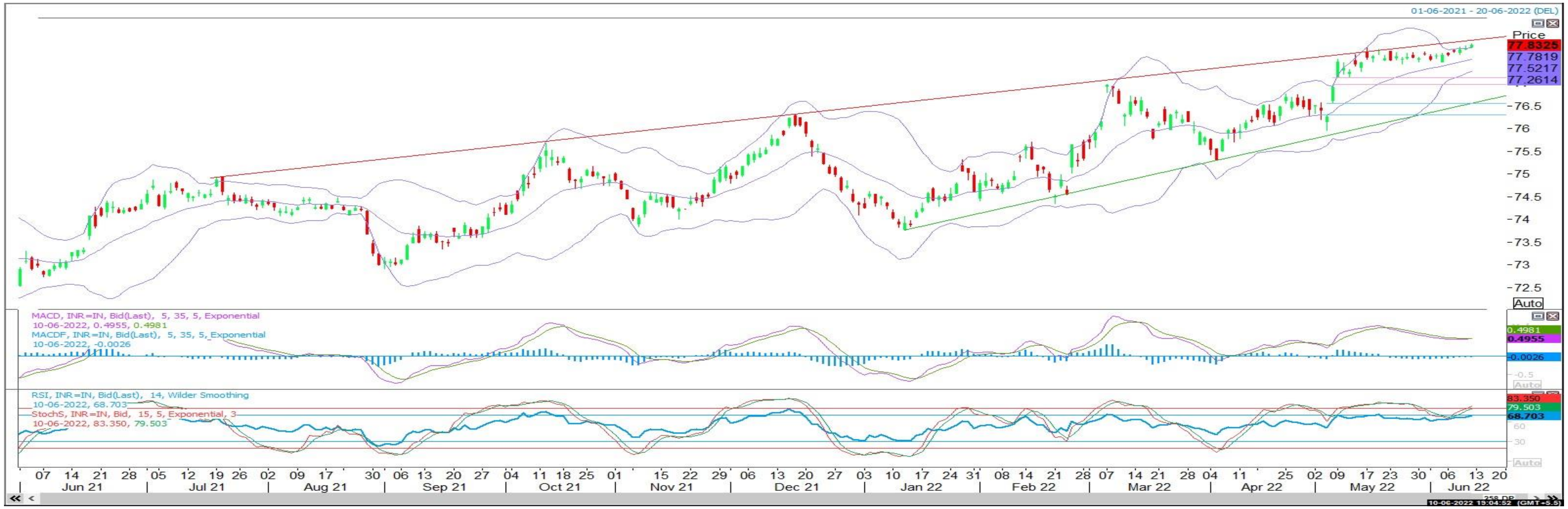
Events to WATCH

Jun 14, 18:00
PPI (MoM)
(May)

Jun 15,18:00
Core Retail Sales(MoM)
(May)

Jun,15 20:00
Crude Oil Inventories

Jun15, 23:30
FED Interest Rate Decision



The rupee declined to its all-time low of 77.8750 and closed the week at 77.8325 – weakest ever rupee close. RBI has been managing this extraordinary situation quite well and despite the surge in dollar index, rupee weakening has been extremely gradual. Analyzing the daily candlestick chart, one can observe small bodied candles, implying continuation of range bound trading activity. The upper and lower bands of the Bollinger (3 purple lines) have converged significantly, another indication of reducing volatility. Since the spot has not cooled off at all, momentum indicators continue to hover around the overbought territory. The resistance area, highlighted by the upward moving red trend line, connecting the recent dollar peaks, comes at 77.90 – 78.00.

Due to an extended period of range bound movement, US$/INR options volatility is close to its multi-month lows. Lower options volatility indicates reduced option cost (premium). To all exporters and importers, strong recommendation to use vanilla options to hedge. The global geo-political and inflation situation is extremely delicate and risk sentiment is completely off. In such circumstances, it's always better to have the flexibility of vanilla options rather than getting bound to obligatory forward rates.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0 %	0.6%	8.1%	6.8%	€-16.382M

Events to WATCH

Jun 14, 11:30
German CPI (MoM)(May)

Jun 14, 14:30
German ZEW Economic Sentiment (June)

Jun 15, 12:15
French CPI (MoM))May)

Jun 15, 14:30
Industrial Production (MoM)(Apr)

The EUR/US$ pair plunged in this weekly session and ended around the 1.0520 price zone, as concerns concealed other factors. A lot of red flags in the macroeconomic calendar are related to weak economic growth and higher inflation, which stimulates demand for safety. The ECB was one of the main boosters of the US dollar's march. The central bank conducted a monetary policy meeting and, as broadly predicted, kept policy rates unchanged. Also, as anticipated, European decision-makers predicted a rate increase of 25 basis points for July. The Governing Council said that a further increase will come in September, with more on the ticket in the future, yet the range of each hike would rely on the medium term inflation overview. All eyes are on the US Fed next week. New economic projections will be released by the central bank. Market participants have been wagering about a crucial stop in a rate increase in September, denoted to measure impacts of the economic measures in past. Given the recent inflation numbers, the US Fed may abstain from it but declare consistent hawkish tightening.

Following the Thursday's losses EUR/US$ prints new multi-week lows near 1.0520 during the end of the week. The spot was not able to breach the 4-month resistance level near 1.0730. Alongside the continued rally could open the door to a next level touching the 2022 low near 1.0350 (May 13).For the long term, the pair's bearish view is expected to sustain as long as it trades below the 200-day SMA at 1.1202. The 200 simple moving average 4-hour chart resembles a crucial support at 1.0600. The breach of which starts using it as resistance, and it could target the Fibonacci 50% retracement of 1.0570 and 1.0520 of Fibonacci 61.8% retracement. On the upside, 1.0650 is the first resistance and next resistance of 1.0680 and 1.0700 psychological level of 3rd resistance. Meanwhile, the RSI indicator on the four-hour chart stays near 40, suggesting more chance on the downside before the pair turns technically oversold.

£ GBP

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

Events to WATCH

Jun13, 11:30
Manufaacturing Production (MoM) (Apr)

Jun 13, 11:30
GDP (YoY)

Jun14,11:30
Claimant Count (May)

Pair booked a loss for two consecutive weeks and was down by 1.4% this week, though bulls remained hopeful in the start of week as the UK PM Boris Johnson braced for a confidence vote to keep his position as the PM and leader of the Conservative Party. But safe haven dollar demand rose on the return of concerns over a potential recession after the World Bank & OECD slashed the 2022 growth forecasts and annual inflation in US surged to multi-decade high, as data showed on Friday; pushing the pair to $1.23 levels. Now market participants will be eying Fed and BOE monetary policy decisions due next week for fresh direction. Its an important week ahead as GDP of UK is scheduled in the start of week along with April month Manufacturing and Industrial production while Unemployment rate is set to release on Tuesday which is expected to be lower by 0.1% over the previous print of 3.7%.

The British pound initially rallied last week but was unable to hold on gains above the 1.25 level as it was continuously pressured by the US dollar. The inflation numbers in the US came out much higher than anticipated. Due to this, we may see further loss in value of the British pound, alongside many other currencies around the world. We have been in a violent downtrend for a while now, and although we had a couple of green candlesticks on the weekly chart, it looks like this will turnaround into a seller's market again. If we do manage to break above the 1.2650 level, then an argument can be made for more of a bounce, but that doesn't seem to be the case right now and the situation continues to deteriorate.

¥ JPY

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

Events to WATCH

Jun 14,10:00
Industrial production(MoM) (Apr)

Jun,16 5:20
Trade Balance (May)

Jun16, 05:20
Imports (YoY)(May)

The US$JPY pair registered gained by nearly 2.80% within this week, and on Friday marked up after falling a daily low at 133.36, tracking the announcement by Japanese authorities, which admit the yen weakness. The US$/JPY pair dropped, though late as the New York trading session decreased, recovered, and then bid at 134.43, surging by 0.11%. The short-term fear is for US$/JPY to float higher. The CPI data and the US Federal Reserve meeting next week will provide aid for US yields, highlighting that change is lacking in the policy divergence driver, especially reported in the speech by Governor Kuroda. The fear of intervention is absolutely much elevated, which may result in extended hesitation for speculative yen shorting and the outcome in non-dollar yen strength in an environment of broader greenback advance as we head for the FOMC and BoJ meetings next week.

Treasury yields in the US was the prime source of dollar strength. Since March 4 at 1.721%, the 10-year yield climbed 141 basis points to 3.13%. The 2-year rose 166 points to 2.97%. Inflation climbed to a new 4-decade peak in the US in May. The CPI gained to 8.6%, up from Apr 8.3%, where it was expected to remain. The MACD has retained its upward bias despite the lack of meaningful penetration above the close of Wednesday at 134.25. The Relative Strength Index has been overbought status from last Tuesday without negative reflection on the pair. The first support is at 132.54 (pink horizontal line) following the second support at 131.34 (red line). The next stop on resistance is at 135.00 (psychological level). The technical motivation for selling the pair is strong even if the direction of the fundamental remains higher.

BLOG

Forex Trading In India & International Markets

Introduction

The main concept of forex trading is creating a currency marketplace wherein traders from all parts of the world can trade currencies and make a strong portfolio to maximize earnings. The whole ball game of buying one currency and selling the other to make profits, along with understanding and managing market volatility is what makes forex trading so intriguing. The popularity of forex trading has grown on a large scale in the last few years. One of the prime reasons is its availability in online mediums or over-the-counter investment transactions.

Forex Trading In India

The forex trading market is the largest and at present the most liquid global market in the world. It is basically the transaction of currencies in terms of buying & selling different currencies to complete one trade transaction. It came into existence in late 1978 but was permitted to the banks alone and not individuals.

In India, it is legal to participate in forex trading in exchanges like NSE, BSE, MCX-SX, etc. However, for the longest time, forex trading in India was limited to certain specified foreign exchange platforms that acknowledged the base currency to be Indian rupees. It was prohibited to use any electronic forex trading platform as the the government wanted to ensure that currency pairs are always traded against the Indian rupee.

Only after 10 December 2015, cross-currency exchange was permitted but only in a few currency pairs that included GBP-US$, EUR-US$, and US$-JPY. If you are caught participating in foreign exchange of forex trading illegally in the country, punishment like imprisonment and heavy fines are both applicable. But even though Indian citizens residing in the country are limited to specified foreign exchange platforms, NRIs are under no obligation and can freely participate in forex trading or foreign exchange in the country.

Forex trading in International Markets

Other than forex trading in India, the international markets are well involved with this global network online where traders buy and sell currencies to create a strong portfolio for themselves. There are two different tiers in the global market that include the interbank market and the second is over the counter market.

Both have their individual characteristics and each caters to a different target market. The interbank market is the base for currency exchange for some of the biggest banks. It has limited members but trade volumes are enormous, as you also need a shared value of a minimum of 1 million to begin the currency trade with any other bank. The over-the-counter market is a base for both companies as well as individuals to allow them to trade ad participate in currency markets using online platforms. At present, London, UK dominates the entire market and up until April 2019, the aggregated global trading amount for the UK was 43.1% of the total global trading amount.

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*Till December 2022

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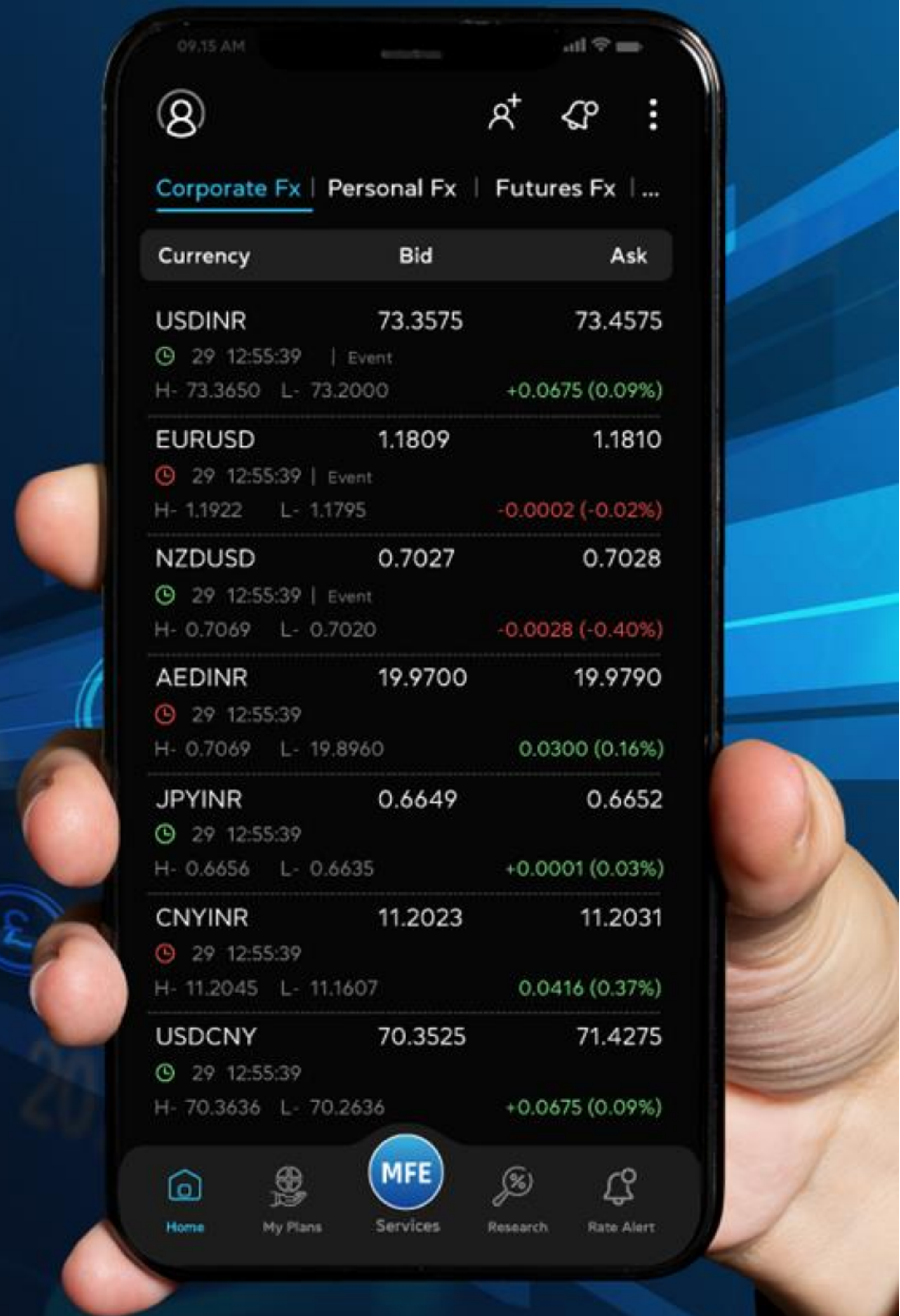

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