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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

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# Welcome

Dear Stakeholders

All-time record depreciation of the Indian Rupee at 79.13 and increasing interest rates could hit domestic corporates that relied on on overseas loans riding low-interest rates, as rating companies begin to relook at them. Companies with major business revenues generated in rupees will be more vulnerable to a downgrade. Indian rupee pair's recent gains could be linked to firmer oil prices at around US$ 110. Due to heavy dependence on energy imports domestically, strong oil prices pressurized the rupee amid a record budget deficit.

The bullish challenges on the Non-Deliverable Forwards hint at further US$/INR pair upside, which is hovering around 79.10 as per last recorded trends. On the global front, Wall Street began the session on a dull note on Friday as investors worried over risks to economic growth from the Fed's determination to curb rising prices at all costs. Further, the S&P recorded new 52-week highs and 39 new lows, while the Nasdaq recorded five new highs and 90 new lows.

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

## Key Takeaway Summaries

### ₹ INR

US$/INR remained on the front foot all week from a low of 78.23 to a fresh peak of 79.12.

### € EUR

The currency pair broke down to sustain above the 1.06 level and plunged as low as 1.04.

### £ GBP

Prospects for an aggressive Fed rate hike & growing recession fears boosted demand for US$ & prompted fresh selling on Friday.

### ¥ JPY

Fading US Treasury yields set a floor below the yen post reaching a 24-year low versus US$ on Wednesday.

# INR

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

## Events to WATCH

Jul 04,20:00
Trade Balance

Jul 04,20:00
Exports(US$)

Jul 04,20:00
Imports(US$)

Jul 05,10:30
Nikkie Services PMI( Jun)

US$/INR remained on the front foot throughout the week, from a start of 78.23 to a fresh peak of 79.12. The rupee was weighed down by a much stronger dollar, as participants retreated from domestic equity markets. The greenback remained strong versus major peers due to the aggressive US interest rates and concerns of a widespread recession. Intervention by RBI couldn't help much as the depreciation pressure was large. Fear of widespread recession and dollar index at 105+ levels could depreciate Rupee further in the near-term. RBI might intervene further, but we recommend Importers to hedge for near term payments on every dip.

Global inflation pressure and aggressive intent of the US Fed could put further pressure on the pair. Market participants are expecting the possibility of a downturn in some of the major economies. Forward premiums came down substantially in US$/INR since last month. It's an important week ahead, as Nikkei Services PMI for June is scheduled in the start of the week. On the US side, Services and ISM Non-Manufacturing PMIs are set to release mid-week along with Initial jobless claims. Market participants will be eying US job data scheduled for the last trading day of the week, A higher than expected reading should be taken as a positive for the pair, while a lower than expected reading should be taken as negative.

# $ USD

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 1.75% | -1.6% | 8.6% | 3.6% | $-87.07B |

## Events to WATCH

Jul 06, 19:30
JOLTs Job Openings (May)

Jul 06,19:30
ISM Non Manufacturing PMI (Jun)

Jul,07 17:45
ADP Nonfarm Employment Change (Jun)

Jul 07, 18:00
Initial Jobless Claims

Jul 07 , 20:30
Crude Oil Inventories


US$/INR has failed to stay above the crucial all-time-high recorded above 79.20. Indian rupee took support from options market signals to renew record low near 79.20, although it was bracing for the biggest weekly jump since late February during Friday's Asian session. Any pullback remains elusive until the pair stays above the previous resistance line from early March, at 78.60. In the daily chart of US$/INR, the simple moving average trends up to 78.06 and then to 77.50; the breach of which leads to 76.68 in the average levels of SMA20, SMA50 & SMA100 respectively. The pivot points of the daily chart signals the resistance are at 79.26 & 79.44 on the upper side wherein the support levels are at 78.86 &78.70 on the downside.

# € EUR

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 0 % | 0.6% | 8.6% | 6.6% | €-32.43B |

## Events to WATCH

Jul 04, 11:30
German Trade Balance (May)

Jul 05, 13:30
Services PMI (Jun)

Jul 06, 11:30
German Factory Orders (MoM)(May)

Jun 06, 14:00
Retail Sales (MoM)(May)

Jul 07 11:30
German Industrial Production (MoM)(May)

EURUS$ ended the week with a deep fall, renewing the latest bearish sentiment after noting a brief remission in the previous week. The currency pair broke down to sustain above the 1.06 level and plunged as low as 1.04, reaching its bottom level since mid-June. Bulls tried to push a rebound, but stepped back due to current recession concerns. Market participants will start preparing for the US Nonfarm Payrolls report on Thursday, along with the US ADP jobs data ahead of weekly Jobless Claims. The ECB policy accounts will also consider being studied for new intuition on the central bank's coming policy action. The main event risk of the last trading day of the week rests in the US labor market figure with hourly incomes explicitly in focus. The Euro initially tried to rally during the last trading week of June, but couldn't hold on to gains.

On the weekly chart, this region is worth paying close attention to, because the 1.04 level has been a significant support in the past and if the pair manages to stay above there, it opens up the possibility of trying to build up some type of base. But currently it looks like everybody's focusing on buying US dollars, and therefore there seems to be little hope of a turnaround. If the market were to rally from here, the 1.06 level is an area that's been very resistive and difficult to break in the last three weeks, followed by the 1.08 level. With all the present factors in mind, it is probably only a matter of time before we break through the 1.04 level and go much lower. Once the pair breaks down, the 1.02 level is our next target, followed by parity. We may see parity in a few months, especially as economic conditions continue to show no signs of improvement. With the world heading into recession, the greenback will continue to be very strong, at least through foreseeable future.

# £ GBP

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

## Events to WATCH

Jul 05, 14:00
Service PMI
(Jun)
(MoM) (Apr)

Jun 05, 14:00
Composite PMI
(Jun)

Jul 06,14:00
Construction PMI
(Jun)

Bank of England monetary policy divergence with the US Fed weighed on the Pound. BOE Governor Bailey spoke at the ECB Forum on Central Banking, stating that the Bank of England may not need to forcefully get inflation under control, adding that cracks were appearing in the economy of the UK. The pair added to its heavy intraday losses and plunged to over a 2-week low, close to 1.2030. Aggressive US Fed & growing recession fears boosted demand for the $ and prompted fresh selling. The subsequent decline below the 2-week-old descending trend support confirmed a fresh bearish breakdown and supports a further near-term depreciating move. The negative outlook is reinforced, as technical indicators on the daily chart are away from being in the oversold territory.


The British pound initially tried to rally during the last trading week of June, but then fell hard into the 1.20 level. This is a big, psychologically important support level, which has been recently attempted. A break below 1.20 opens up possibility of 1.18, followed by 1.16. The pair is being dominated by the $ right now over anything else. Rallies should be considered as selling opportunities because quite frankly there are no good economic fundamentals backing the pound. So people will continue to flock towards the US dollar, as it's considered to be a safe haven currency. It is not until the Federal Reserve has a shift in its overall attitude that one can expect the US dollar's strength fading. At this point, it does not look likely to happen anytime soon.

# ¥ JPY

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| -0.1% | -0.1% | 2.5% | 2.6% | ¥ -2385B |

## Events to WATCH

Jul 05,06:00
Services PMI

Jul,08 05:00
Household Spending (YoY) (May)


This week saw the first clear sign that inflationary upsets have gone beyond just consumer disruptions and have started to dampen growth. Consumer purchasing power has diminished over 15 consecutive months, devastated by sharp price hikes. Wages and incomes haven't kept pace. A recession is sensibly unavoidable if US consumers are pushed to lessen spending because of rate hikes in food, transportation, and shelter. The extending spread between Japanese Government Bonds (JGB) and US Treasuries had been steered solely by the American side. Credit markets showed the US Fed's inflation rate program, magnifying the 10-year yield from its close at 1.514% in 2021 to its June 14 high at 3.480%. The June's Eco Watchers Survey following regional sentiment is the most compulsive.

The Treasury-JGB spread has been strong support for the pair. As it decreases, it also takes the US$JPY down with it. The US Fed has given no quarter to the notion that its interest rate hikes could be halted due to recession. Market participants are not buying that hard talk. Treasury yields have come off sharply in the last 2 weeks and will continue to fade if US data points crumble. The MACD Wednesday cross of the signal line and its gap on Thursday and Friday are classic sell signals in early market hours. The Relative Strength Index has plunged to its lowest point in 2 weeks. The strong resistance is at 136.81 (green horizontal line). The major support can be seen at 134.44 (red horizontal line). The Japanese Yen dropped more than 10% versus the US$ in the 2nd quarter as the US$/JPY pair bulls pressed higher with unrelenting pressure.

BLOG

## Is Pegged Foreign Exchange Rate Better?

Foreign currency exchange rates can determine the relative strength of one currency to another, since the disparity is manifested in the value gap observed upon currency exchange. Factors that hold influencing power over the economic condition of a country include inflation rate, government stability, geopolitical conditions, prevailing interest rates and many more.

In turn, these factors drive fluctuations in foreign exchange rates due to changes in any currency's value, subsequently influencing forex transactions. Any transaction in the forex market bears the impact of market movements and also affects international trade. However, in the case of pegged foreign exchange rates, market conditions do not contribute to forex risks, since pegging stabilizes the exchange rate between countries. It empowers business planning by offering long term predictability of exchange rates. When the value of a country's currency is tied to a usually stronger currency like the €, £ or $, it is referred to as a pegged exchange rate or fixed exchange rate. The exchange rate by pegging it to a more stable and internationally prevalent currency.

The government sets the fixed or pegged rate against a major world currency, wherein the central bank buys and sells its own currency in the forex market to maintain the exchange rate.

**Merits of a pegged exchange rate**

Countries prefer the pegged exchange rate regime due to the predictability of the exchange rate and the profitability factor for trade purposes. The fluctuation susceptibility of smaller economies is reduced due to pegging, which also strengthens the morale of larger economies in setting up trade deals as rates that will not fluctuate beyond reasonable levels. For smaller economies, pegged exchange rates improve global competitiveness of goods. One example is of China in 2008, when it decided to return to a fixed exchange rate regime during the global financial crisis.

**Demerits of a pegged exchange rate**

While governments take measures to ensure fixed exchange rates, they must also take into account the disadvantages associated with this approach.

As the central bank is constantly buying and selling domestic currency, large foreign reserves need to be maintained. Moreover, the massive amount of capital created can lead to economic side effects like inflation. Due to the directly proportional relationship between currency reserves and monetary supply, prices continue to rise, causing troubles for countries that are inclined to keeping things stable.

While pegged exchange rate might empower countries to defend against the adverse global situation, they often fall short in navigating domestic situations. The Thai baht suffered tremendously following adverse market events during 1996-1997, when it was pegged to the US$.

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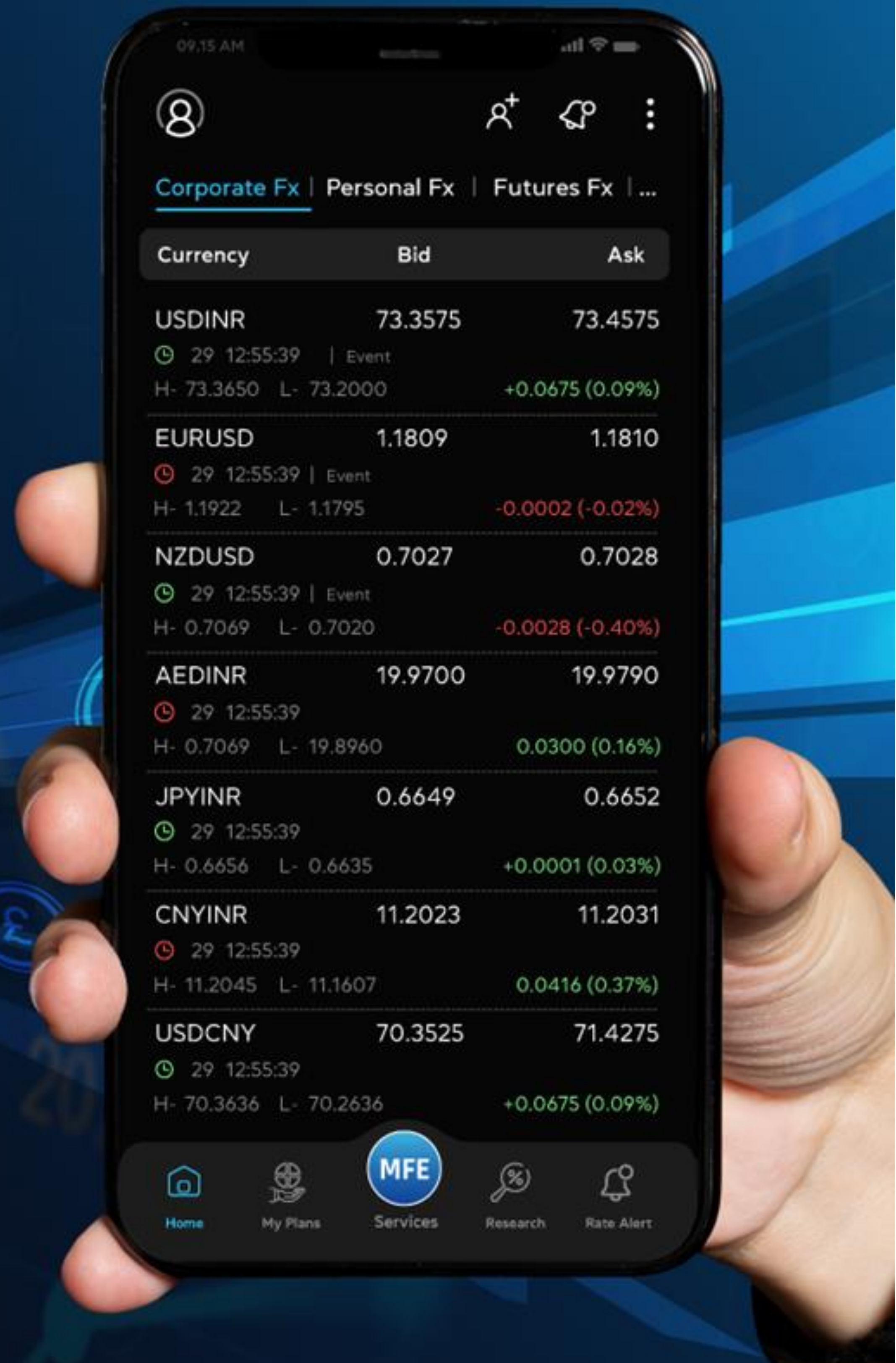


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