Myforexeye
Simplifying Forex

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

# Forex Market Insights

## Newsletter

Volume 18→ Jul 10-16, 2022

# Welcome

Dear Stakeholders,

A memorable week – dollar index surged to its highest levels since Nov '02, sending major currencies to multi-year bottoms. Euro plunged to an abyss not seen after Dec'02, very close to the much talked about 'parity to dollar'. Global focus is gradually shifting towards fear of recession from the earlier worries of high inflation. Even though global commodity prices have cooled off significantly from their peaks, energy prices (*oil and gas*) continue to remain high. It's going to be a tough tightrope walk for global Central Bank policy makers – control sky high inflation or encourage economic growth.

In such an unprecedented and chaotic scenario, the rupee plunged to an all-time low of 79.375, despite RBI's persistent efforts to rein in volatility (read rupee weakness). The Central Bank's recent measures to enhance forex inflows is an effort in the right direction. It is extremely imperative to manage forex risk prudently to tide through turbulent times. Stay focused and may GOD bless us with wisdom.

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

CONTENTS



## Key Takeaway Summaries

### ₹ INR

RBI is protecting the currency from knee jerk volatility in the market.

### € EUR

President Christine Lagarde had reiterated that the hike would be 25 bps.

### £ GBP

Looming recession fears, and significant dollar strength pushed the pound lower.

### ¥ JPY

Rising interest rate differentials strongly support the greenback

Myforexeye
Simplifying Forex

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

# ₹ INR

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 4.9% | 0.8% | 7.04% | 7.8% | $-25.64B |

## Events to WATCH

Jul 12,17:30
Industrial Production

Jul 12,17:30
Manufacturing Output

Jul 14,12:00
WPI Inflation (YoY)(Jun)

Jul 14 ,17:30
CPI (YoY)(Jun)

US$/INR ended the week at 79.25. The Indian Rupee has dropped more than 6% this year against the US dollar, putting it on the threshold to test 80 per dollar for the first time ever. Continuing FII outflows and Brent crude regularly holding above $100 per barrel are pressurizing the rupee. The current drop in the rupee brought back memories of the local unit's frantic selloff in 2013, with similar concerns of widening current account deficit, high inflation and increasing US treasury yields. In the current scenario of persistently high pressure on the rupee, RBI is protecting the currency from any knee jerk volatility in the market. On Wednesday, RBI raised overseas borrowing limits for companies and liberalized norms for foreign investments in the Indian bond market.


Such measures will help boost forex inflows in an effort to counter continued FII outflows. Dollar index rose 0.39% to 107.54 and advanced to its highest level since late 2002. After a brief decline below $99, Brent crude futures are back above $106-107 per barrel. In the forthcoming week, the Indian Rupee could start under pressure after upbeat US non-farm payrolls data was released on Friday. The US Fed is likely to maintain its aggressive stance on interest rates to control soaring inflation. Economic data due to be released next week for the rupee includes Industrial Production (YoY), Manufacturing Output (MoM) and CPI (YoY). Upcoming week events for the US are CPI (YoY) (Jun), Initial Jobless Claims and Retail Sales (MoM).

# $ USD

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 1.75% | -1.6% | 8.6% | 3.6% | $-85.54B |

## Events to WATCH

Jul 13, 18:00
Core CPI (MoM)(Jun)

Jul 13,20:00
Crude Oil Inventories

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

Jul 14, 18:00
Initial Jobless Claims


Rupee plunged to its all-time lows of 79.3750 this week. At a time when risk aversion is sky high and currency moves are completely managed by the Central Bank, efficacy of a technical write-up is often questioned. A first glance on the daily candlestick chart shows a string of green candles – 18 consecutive days to be precise. Rarely in history, has US$/INR seen such a continuous series of positive days (close price higher than open price).

There are 3 price gaps, 2 old ones (grey and blue horizontal lines) and a new one formed last week, highlighted by orange horizontal lines. The new price gap is formed between 78.36 and 78.515. In normal times, a price in US$/INR usually fills up. A ‘Hammer’ was formed yesterday – such a candlestick pattern is formed when the price declines significantly after the open but rallies higher intra-day to close near the open, forming a long lower shadow and a small real body. A stubborn US$/INR uptrend has sent the momentum indicators into the overbought territory.

Technically, US$/INR is overbought and is ripe for a correction. RBI actions and global risk aversion may derail the technical assessment. Exporters and importers are suggested to remain hedged. Exporters should use more of forwards and some vanilla options to capture more of rupee weakening (if that happens). Importers should predominantly use vanilla options to hedge – prefer to have flexibility at such weak rupee levels rather than getting bound to fixed forward rates.

# EUR

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

## Events to WATCH

Jul 12, 14:30
German ZEW Economic Sentiment

Jul 13, 11:30
German CPI (MoM) (Jun)

Jul 13, 14:30
Industrial Production (MoM) (May)

A bearish week for the single European currency that closed the week at 1.0185, after hitting a fresh 20-year low of 1.0071 during the European session on Friday. Despite the release of a better than expected US Nonfarm Payrolls report on Friday, euro recovered from multi-year lows to close the week near its intraday high of 1.0194. On the last trading day of the week, US Department of Labor reported that June's non-farm payrolls data reported addition of 372K jobs to the economy, exceeding estimations of an addition of 268K. Average Hourly Earnings, an indication of wage-price spiral, remained contained at 5.1% YoY, also printing above forecasts. The Unemployment rate remain unchanged at 3.6%. Better than expected Labor report increases the probability of another 75 bps interest rate hike this month. On Thursday, European Central Bank released its June meeting minutes. In the wake of persistently rising inflation, the Governing Council agreed it needed to preserve its credibility "by showing its resolve" with some members keeping the door open for a larger rate hike in the July meeting. This is despite President Christine Lagarde reiterating multiple times that the hike would be 25 bps. With parity to dollar in sight, euro might face a psychological challenge.


The Euro had a very difficult trading week, as we continued to see a lot of bearish bias, and sooner than later we can expect parity to be tested. The parity level is an area that will cause a lot of volatility and perhaps potential buying. Nonetheless, it's an important psychological support more than anything else. After all, the market is likely to see a lot of follow-through on any significant bounce, with the 1.05 level exerting significant downward pressure. The size of the weekly candlestick is rather impressive, and it does tell you all you need to know. The market has witnessed a drastic sell-off, which is expected to continue. With US 10 year yield trading over 3% and the Eurozone in major financial crisis, there's no real reason for a trend reversal anytime soon. Any rallies will be looked at as opportunities to buy cheap US Dollars.  Unless the US Federal Reserve alters its monetary policy, which is quite improbable under current circumstances, there's no real reason to think that anything changes anytime soon. However, if this pair were to break down below the parity level, that could open up a new floodgate of selling.

# £ GBP

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 1.25% | 0.8% | 9.1% | 3.8% | -£85.03B |

## Events to WATCH

Jul 13 11:30
Manufacturing Production (MoM)(May)

Ju 13, 11:30
GDP (QoQ)

Jul 13,11:30
GDP(MoM)

Jul 13 ,11:30
GDP (YoY)

Another down week for the cable as UK political issues, looming recession fears, and significant dollar strength pushed the pound lower. Sterling tested 1.1873, levels unseen since March 2020, but managed to recover from those levels and close the week at 1.2025. The US job numbers released yesterday were far better than expected, which might boost the Fed's decision to hike interest rates more aggressively. The market participants have started pricing in 70% chance of a global recession amid the European gas crisis, which has heightened growth worries for the UK and Europe. Looking at the current scenario and the Dollar index trading at its highest level since late 2002, above 107.00, the pair might fall further. It's quite an important week ahead for pound as BoE Governor's speech is due at the start of the week. Bailey has more influence over the sterling's value than any other person. While the UK's (MoM) and (YoY) GDP is scheduled to release on Wednesday along with the US Core CPI (YoY) which is expected to rise by 0.2% from the previous print of 8.6%. US retail sales data is scheduled to be released at the end of the week.


The British pound had fallen during the course of the past trading week as we continue to see risk off assets rally. The market will continue to be very cautious about rallies, as the US dollar continues to act like a wrecking ball against almost everything. Currently, the 1.20 region will continue to attract a lot of attention, as it is a large, round and psychologically significant number. Cable might trade around the 1.20 region for a while. The pair is trading in the oversold territory, so the idea of a recovery cannot be disregarded. Rallies at this point will have to overcome the 1.2250 level as potential resistance, and then the 1.25 level would be the crucial resistance region as well. We look for signs of exhaustion after rallies, and then pouncing on the opportunity to buy cheap US dollars. The US$ is very likely to remain favored amidst uncertainty. As a result, market participants will continue to focus on the Federal Reserve and other Central Banks, but the sell-off has been so massive that profit-taking is probably long overdue.

# ¥ JPY

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

## Events to WATCH

Jul 12,05:20
PPI (YoY)(Jun)

Jul,14 10:00
Industrial Production (MoM)(May)

The US$JPY stayed aggressive this week without breaking any fresh resistance level or taking over its 24-year high of 137.00 on June 29. Strong US June payrolls reduced recession threats and supported the US Federal Reserve's hawkish interest rate policies, consequently US$JPY surged close to 0.6% in 20 minutes. The Bank of Japan's policy passivity has left the Japanese economy and the yen feeble. Fundamentally, increasing interest rate differentials strongly favour the greenback. US$/JPY faced resistance to crack its previous high but the pair overall remains bullish. US interest rate dominance and the dollar's safe haven status have retained a bullish trend since the beginning of March. Factors pushing the US$/JPY remain unchanged from previous week but the constant inability to penetrate the level of 137 leaves the pair exposed to a short-term pullback. That said, the support region of 134.5 to 135 is solid and is expected to hold.

US$/JPY has traded in a narrow band of 100 pips in the last 5 days. The pair was subdued and consolidated in the range of 135.00-136.00. US$JPY began the last day of the week trading close to 136.00, followed by an aggressive drop toward 135.32 on the news of the attack on ex-PM, Shinzo Abe. The MACD price line crossed the signal line on June 30. Bearish MACD divergence narrowed slightly this week and it remains an indication of potential declines. A major rally in the pair from May 30 to June 29 run is intact and yet the US$/JPY is unable to break above the old peak at 137.00 level made on 29 June. The Relative Strength Index improved a bit from Monday to Friday reflecting a basic positive aspect of the pair. The major resistance is still at 137.00 level (indicated in green horizontal line). The first support in the pair is at 23.6% Fibonacci level (134.49) of the dollar rally from 126.36 to 137.00 (red horizontal line).

# BLOG

## How Prolonged Inflation Can Affect Foreign Exchange Rate?

**Inflation- Meaning**

Inflation refers to a persistent rise in prices over time. It indicates a free market principle of supply and demand. When the demand for a product is greater than the supply (in a free and open market), prices tend to increase. Inversely, when supply is greater than demand in such a situation prices go down. Simply put, with too much of product supply, each unit loses value.

Technically speaking, inflation is not so much about an increase in prices, but the decrease in the buying power of the dollar. Investors who deal with international goods or services are hugely affected by forex rates. Higher inflation rates can cause exchange rate depreciation, potentially leading to higher import prices.

It even leads to higher inflation and more depreciation in the foreign exchange rate. This is relatively a rare situation and should not be often observed, provided that periods with high inflation are usually met with an increase in domestic interest rates.

**Inflation, Interest Rates & FX**

The direction of interest rates to a large extent influenced by the rate of inflation. Inversely, interest rates influence the direction of inflation and if inflation is on the higher side, interest rates are ideally raised by the nation's Federal Reserve to slow economic growth.

Again, when inflation is low, economic growth is generally low and such decrease in rates is enacted to lower the cost of borrowings and o spur economic growth. Similarly, when interest rates are increased to tame inflation, foreign capital gets attracted to higher rates as compared with other countries. Investments are at bulk when the rate of interest is at higher levels. This helps to boost the foreign exchange rate. But when inflation is high, currency rise automatically gets limited. As currency rates go lower, currencies suffer in such an environment.

**What factors that lead to Inflation?**

**Government & Public Debt**: If the government spends more than they take in, they must either borrow or print money out of thin air to cover their operating expenses. When a country borrows, its debt increases to raise the money which is required for debt repayments, the government may use one of the several methods including rising taxes or printing more money.

An increase in taxes to businesses will result in higher prices of goods and services for customers because businesses must pass on the increased burden of the corporate tax. When the government borrows money it "monetizes" it which is one way the government "prints money." The increase in money supply is the primary cause of price inflation.

Increase in Input Costs- Manufacturers also initially see an increase in input costs (raw materials, labor, and utilities) but eventually, this cost is passed on to the consumers by increasing the price of finished goods.

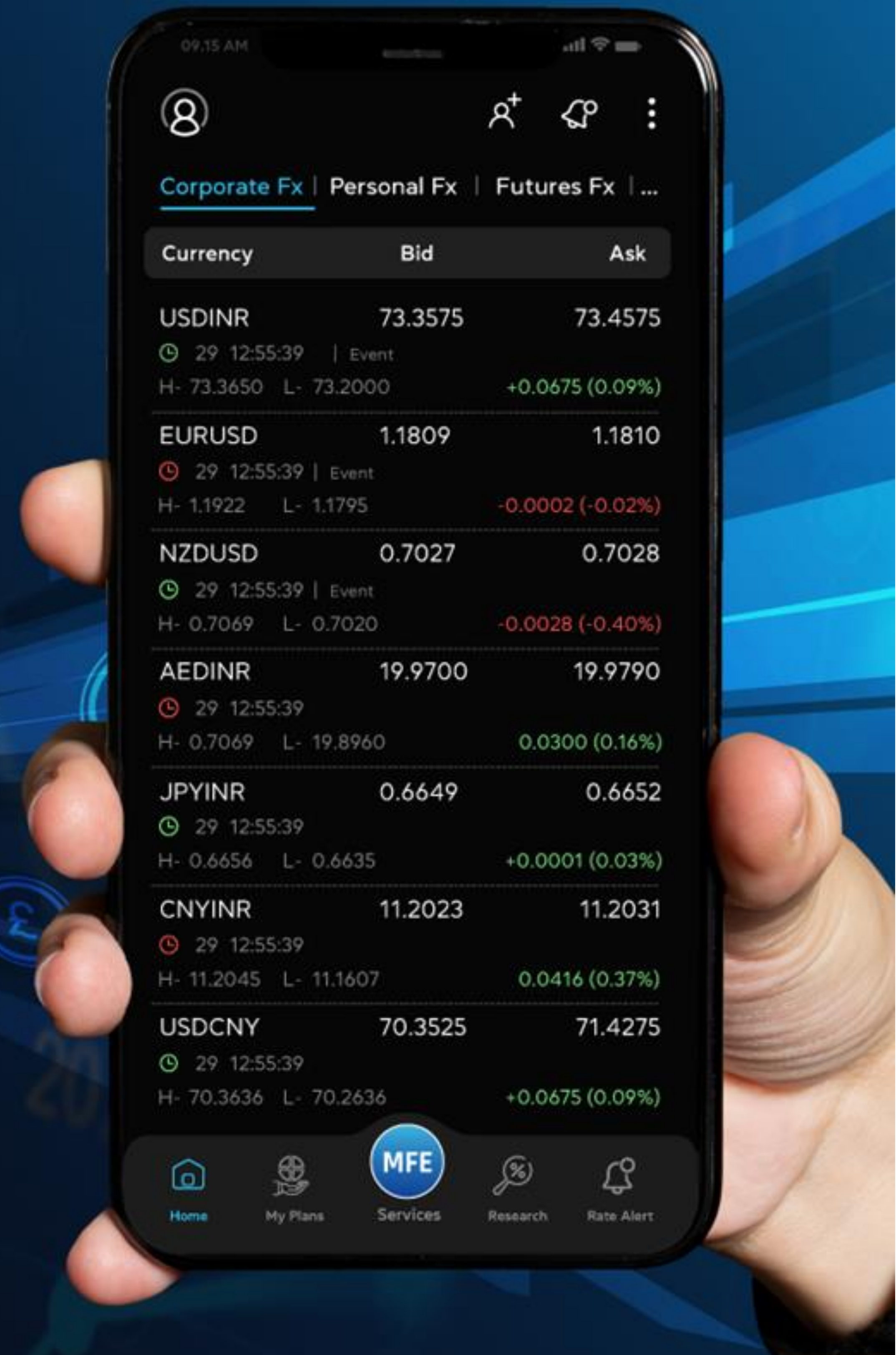
.

Exclusively for TPCI members: Complimentary

Myforexeye application access

*Till December 2022

Scan this QR To Get the Myforexeye APP




Myforexeye Simplifying Forex

TPCI Trade Promotion Council of India

# Contact Details

Myforexeye
Simplifying Forex

Ritik Bali
8860447723
advisory@myforexeye.com

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

Nikhaar Gogna
9818995401
editorial@tpci.in