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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 20 → Jul 24-30, 2022

# Welcome

Dear Stakeholders,

US$/INR hovered around the top psychological 80 mark last week, as the former moderated Thursday's losses. Rupee depreciation resulted in trade deficit hitting record levels in the past two months, driven by the highest monthly import bill of more than US$ 60 billion. Imports value shot up primarily due to increased global energy prices and a slipping rupee, which can further broaden the current account gap. Corporate earnings for sectors relying heavily on imported raw materials such as automobiles, steel and electronics will bear the heat of a falling currency. Fortunately FIIs turned positive buyers after a very long time, along with strong results, keeping momentum positive for equity markets during the week.

On the global front, DXY regained its one-day high of around 106.95, as negative sentiment joined slow progressing US yields to support the greenback. In the coming week, currency traders will be influenced by next week's Fed meeting which is expected to deliver a rate hike of 75 basis points. Markets will be volatile to the cues of recession fears and statements surrounding the Fed's decision.

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

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## Key Takeaway Summaries

### ₹ INR

Reserve Bank of India has zero tolerance for volatile and bumpy movements in the Indian rupee.

### € EUR

ECB just surprised the markets with a 50 basis point rate hike.

### £ GBP

ECB boosted the chance of a 50 bps rate hike by the Bank of England in the upcoming meeting.

### ¥ JPY

BoJ ignored the hawkish global trend and carried on with its ultra-easy policy settings.

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# ₹ INR

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 4.9% | 0.8% | 7.01% | 7.8% | $-26.18B |

## Events to WATCH

Jul 29, 17:00
Deposit Growth

Jul 29, 17:00
FX Reserves US$

Jul 29, 17:30
Infrastructure Output

The Indian rupee is likely to depreciate as fragile risk sentiments in global markets drive a strong US$. However, losses may be capped by falling crude prices, positive equity markets and FIIs selling slowdown. Next week, US$/INR is expected to trade with a positive bias in the range of 79.75 and 80.30. On Tuesday, the rupee declined below the 80 mark for the first time against US$ due to strong dollar demand. The Reserve Bank of India has zero tolerance for volatile and bumpy movements in the Indian rupee and will continue to engage to ensure the rupee finds its appropriate level, stated the governor.

Indian bond yields edged lower in the previous trading session, tracking their US peers' slide after a bigger than expected hike by the ECB brought the focus back on a possible global recession. India's benchmark 10-year bond yield ended trading at 7.41%. Brent crude declined from the week's high at $107.61 per barrel to $103.20 per barrel in the last trading session.

Important economic data points next week are New Home Sales on Tuesday following Fed Interest rate decision on Wednesday along with GDP (*QoQ*) and Initial Jobless claims on Thursday. Major events for the rupee are infrastructure output and deposit growth. Most importantly, markets await the Fed meeting outcome on July 27 for further action.

# $ USD

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
| --- | --- | --- | --- | --- |
| 1.75% | -1.6% | 9.1% | 3.6% | $-85.546B |

## Events to WATCH

Jul 26, 19:30
New Home Sales(Jun)

Jul 26,19:30
CB Consumer Confidence (Jul)

Jul, 27 18:00
Core Durable Goods order(MoM)(Jun)

Jul 27 , 20 : 00
Crude Oil Inventories

Jul 27 , 23:30
Fed Interest Rate Rate Decision

Jul 28,18:00
GDP (QoQ)

Jul 28,18:00
Initial Jobless claims


Despite declining to all-time lows of 80.0650, the Indian Rupee stabilized this week and closed at 79.8550. For the first time in almost 2 months, the rupee remained in a tight range for the whole week. On the daily candlestick chart, observe the 3 red candles formed this week. A red candle is formed when close price is lower than the open price. Since early May'22, this is the first time such a formation has developed. Price gaps formed in the previous months (*blue, grey, orange and red horizontal lines*) continue to remain unfilled and there seems to be no sign of closing gaps anytime soon. Momentum indicators of MACD, RSI and Slow Stochastics, after hovering around the overbought territory for over a month, have gradually started to cool off – probably, a pre-cursor to short term dollar cool off.

In such a challenging geo-political global environment, it is quite an arduous task to make a technical assessment. We do sense a short-term rupee recovery, at least towards 79.00 – 79.20. Dollar exporters should hedge using an optimum mix of forwards as well as vanilla options (*low-cost structured options can also be considered*). Dollar importers should predominantly use vanilla options to hedge. Option volatility is quite low and such hedging instruments will come reasonably cheap.

# € EUR

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 0.5 % | 0.6% | 8.6% | 6.6% | €-26.3B |

## Events to WATCH

Jul 25, 13:30
German Business Expectations

Jul 25, 13:30
German IFO Business Climate Index

Jul 28, 17:30
German CPI (MoM)(Jul)

Jul 29 ,13:25
German Unemployment Rate

Jul 29 ,13:30
German GDP (QoQ)

Jul 29,14:30
CPI (YoY)(Jul)

After struggling a bit, EUR/US$ regained to around 1.02 after touching a low below 1.015 ahead of negative PMI numbers from Germany and the EZ in the beginning of the trading session on Friday. As market participants focused on US PMI surveys, improving market sentiment pressurized the dollar. During the Friday’s Asian session, the pair moved in a narrow range above 1.0200., The asset found it difficult to gain traction in case safe-haven flows continue to dominate the financial markets. The Eurozone economy looks set to shrink in the third quarter as business activity slid into decline in July and forward-looking indicators signal more pain in the months ahead. Meanwhile, the ECB’s decision to hike key rates by 50 bps (against market expectation of 25 bps) failed to trigger a euro rally on Wednesday, leaving it at the mercy of data releases. Further, PMI data shows that the US economy remains relatively stronger than the EU. If the Wall Street's main indices suffer huge losses, the dollar should be able to continue to gather strength. Otherwise a positive sentiment could help EUR/US$ limit its losses.

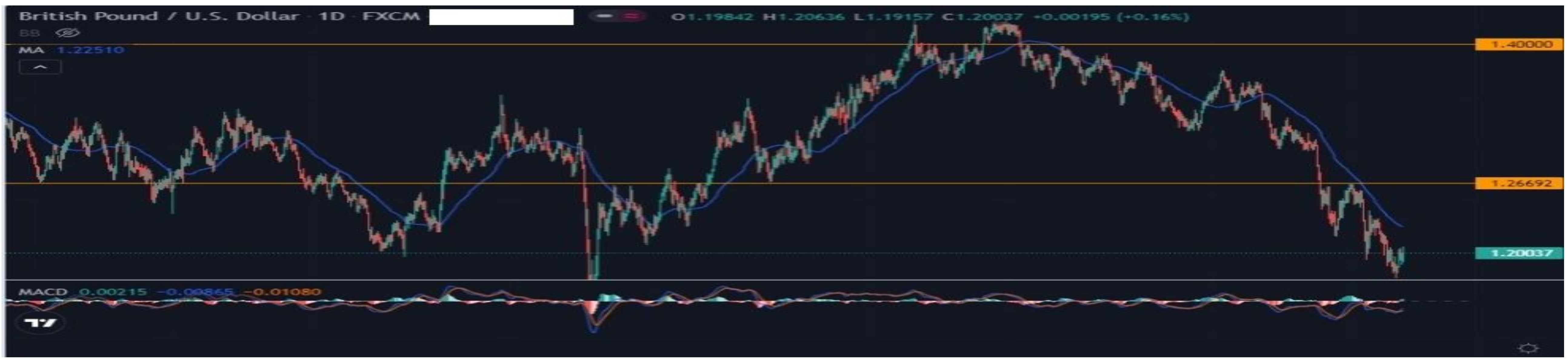
The Euro has rallied remarkably during the past trading week. Eventually, the market looks likely to experience a bit of short term volatility in this general vicinity, and of course the parity support will continue to attract a lot of attention. Ultimately, this market may continue to see a lot of noisy price action after the ECB ‘s surprise rate hike. But it does not essentially imply that Euro will rally. The Fed has a meeting scheduled next week and the US dollar could strengthen going ahead. The 1.05 level will offer massive resistance and would be very difficult to break anytime soon. If we were to break above the 1.03 level, we can expect an attempt towards the 50 Day EMA, which is dropping lower and currently hovering close to the 1.04 level. The market continues to see a lot of bearish bias in general, so the best visible trade is selling at the earliest signs of rally exhaustion. On the other hand, if we were to break down below the bottom of the past week’s candlestick, the Euro could make an attempt towards the parity again.

# £ GBP

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 1.25% | 0.8% | 9.4% | 3.8% | £-9.747B |

## Events to WATCH

After falling for three consecutive weeks, sterling got some relief and closed higher by 1.3% this week. Easing bets of a 100 basis points US rate hike, in the face of less hawkish statements from Fed policymakers and better than anticipated employment data in UK helped the pair to rebound. Meanwhile hot inflation data in Britain and unexpected 50 bps interest rate hike by ECB boosted the chance of a 50 bps rate hike in UK too by Bank of England in the upcoming meeting due next month. However, anxiety over the ongoing political uncertainty in the UK and the return of recession concerns will continue to put pressure on the British currency. The week ahead is dominated by the Fed policy decision. A 75 bps rate hike is fully discounted for the July meeting due Wednesday but Powell's nod for another 75 bps lift-off in September will reinforce the US-UK monetary policy divergence, and could bring back the greenback bulls; while on the UK side, there is no relevant data scheduled.




British currency rallied reasonably well during the course of the week, but has found the 1.20 level as difficult to get above, it seems to be a good resistance for the short term. Even if pound breaks 1.20 levels, we are still in the downtrend. Pair will continue to be very volatile especially this coming week as a very crucial Federal Reserve meeting is scheduled mid-week. Certainly more green candles need to get in the uptrend, 50 days SMA lies at 1.2250 which could also be good resistance for the pair. Breaking these levels could open the doors for physiological levels of 1.25, while on the downside, 1.1850 would be good support. Momentum Indicator RSI is trading around 46, which is considered a neutral zone, while MACD is giving bullish signal on the daily time frame.

# ¥ JPY

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| -0.1% | -0.1% | 2.4% | 2.6% | ¥ -1384B |

## Events to WATCH

Jul 26 ,10:30
BOJ Core CPI (YoY)

Jul 29, 05:20
Unemployment Rate (Jun)

Jul 29 , 05:20
Retail Sales (YoY)(Jun)

Jul 29,05:20
Industrial Production (MoM)

The US$/JPY pair allured investors to buy dips near the 137.00 level, or over a weekly low touched this Friday, and backpedaled a considerable part of the overnight decline. US Treasury bond yields fell sharply overnight resulting in tapering of the US-Japan rate differential, which helps the Japanese yen and acts as a barrier for the US$/JPY pair. Moreover, growing concerns about a plausible recession continue to put pressure on investor sentiment. The BoJ ignored the hawkish global trend and carried on with its ultra-easy policy settings on Thursday. It repeated its commitment to keep buying Japanese Government Bonds (JGB) of around ¥80 trillion annually. Japan's core CPI was upwardly revised to 1% from the previous data of 0.8%, and supports the safe-haven JPY, and is limiting the US$JPY pair.

The Japanese yen strengthened by 0.98% versus the greenback at 136.05 per dollar, while the yen is up across the board even as stock prices rise in Europe and Wall Street. The central bank of Japan recently said that the uncertainty surrounding the economy is high but they are monitoring the financial and currency market moves. This ongoing loose monetary policy has left the Japanese Yen making record multi-year lows. From a technical perspective, the short-term bias points to a downside in US$JPY. The pair posted the first daily close under the 20-day Simple Moving Average since May. Immediate support is seen at 135.55, followed by the 134.50 zone which is close to the Fibonacci retracement level of 0.382 (pink horizontal line). The major resistance is at 137.95 level (green horizontal line).

## Currency Options & Futures: Key Differences

The paramount importance of currency **hedging** is deeply rooted in forex market volatility, which exposes participants to currency risk. For an organization with operations worldwide, the necessity for **hedging** against forex risk is manifold since it deals with foreign currencies on a large scale. Any fluctuation in **forex rates** ultimately affects revenue, profits and cash flow availability for operational efficiency of the organization. While some companies believe in extensive hedging strategies, others might not find its relevance in operations, due to scale or cost-efficiency.

A forex hedge is a transaction that fortifies an individual or corporation from an unwanted move in exchange rates owing to market volatility and protects the existing or anticipated position of forex market participants. Forex hedge implementation is observed in businesses, investors, and traders. Currency Hedging is the move of entering a financial contract to protect against expected, unexpected, or anticipated changes in currency **exchange rates**. Hedging can be a very entangled enterprise. The various hedging mechanisms range from basic to incredibly intricate.

When considering a hedging strategy, the most sagacious first steps would be to take note of foreign exchange exposure and, based on that, comprehend what goals need to be set and what measures needed to mitigate risk.

Currency futures, and foreign currency options are widely used currency hedging methods, bearing features like locking an exchange rate now for a delivery time in the future. Entering a currency futures contract doesn't command an upfront cost, making them a lucrative hedging vehicle. Although, a foreign currency option, because of its non-obligatory nature, is one of the most popular currency hedging methods.

**Difference between Currency Options & Currency Futures?**

The point of difference between options and futures is reflected in the terms that they extend regarding buying and selling a particular currency.

They are both used as hedging instruments which are better suited for different situations due to the distinctive contract structures and risks associated with them. Currency futures are obligatory contracts traded on a centralized exchange, which enable buying or selling a certain currency at a predetermined price on a specified future date. In contrast, options are non-obligatory, which gives an individual the right but not the obligation of buying or selling a particular asset at a specific price on a specified date. Another differentiating factor is the risks an individual incurs with futures and options. Options are risky owing to their complex nature wherein one can go long with fixed risk and unlimited return or go short with fixed return and unlimited risk. Gains on futures positions are automatically marked to market daily, influencing the money to be deposited by both the parties of an agreement into their trading accounts, futures carry larger risks for the individual investor.

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## Myforexeye application access

*Till December 2022

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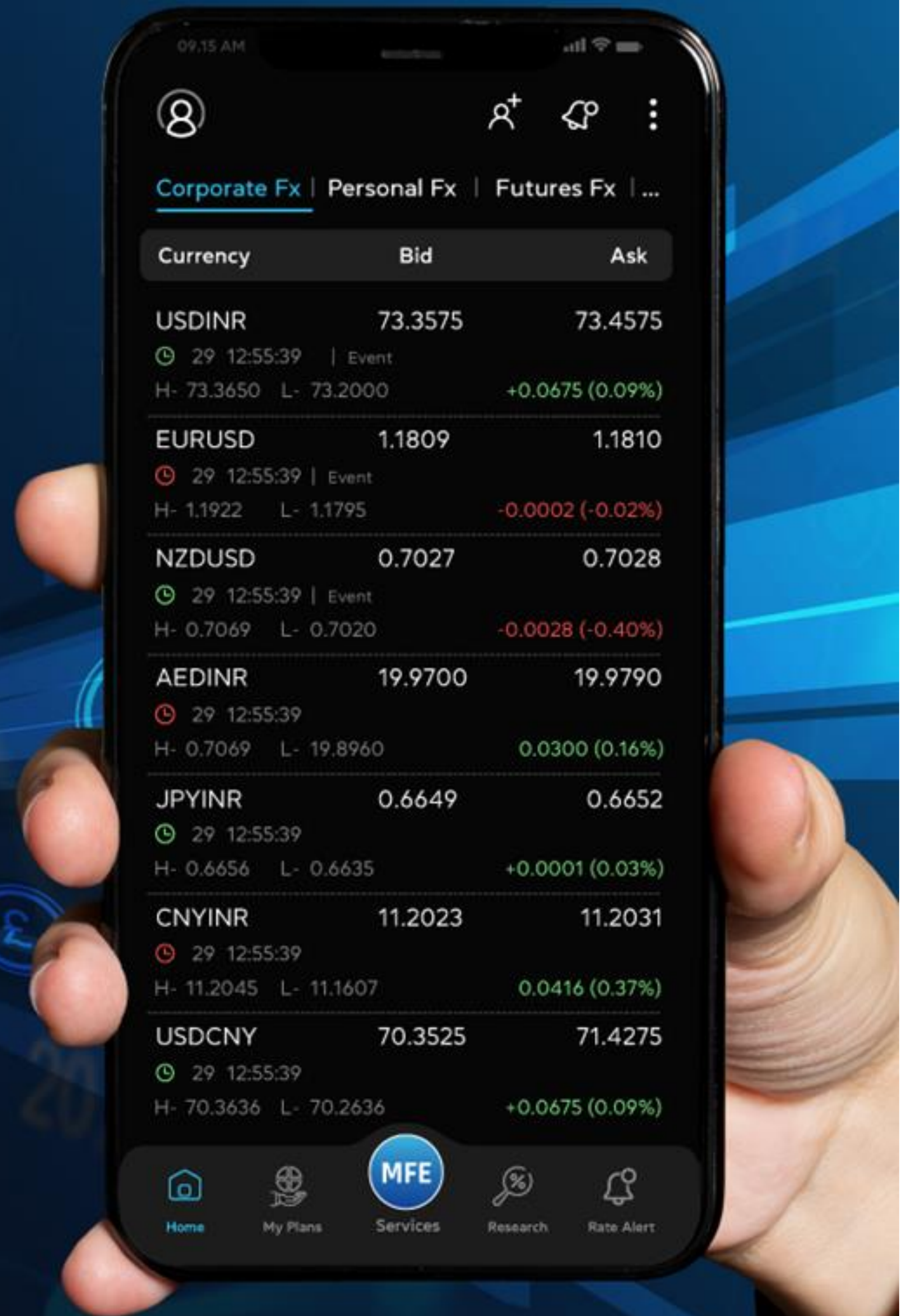


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