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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,

The Indian Rupee touched an all-time low of 79.95 in Friday's Indian trading Session during a dollar bull rally ahead of firmer oil prices, higher US inflation rate coupled with recession fears. Call buyers have an upper hand when compared to the bear traders in the current scenario. On the global front, the DXY remained firm around 108.60 after regaining a two-decade high of 109.28 in the previous week.

Upbeat US inflation figures boosted speculation that the Fed could hike rates by 100 bps, although it was subdued by comments from an FOMC member, which further clarified that a 75 bps hike will bring the FEDs position to neutral.

It's worth noting that the US 10-year Treasury yields flashed 2.95% level while the 2-year bond coupon ranged around 3.12%. This portrays the market's fears of recession appear reducing of late, thus allowing dollar buyers to take a breather.

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

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Key Takeaway Summaries

₹ INR

This was the 11th straight week of rupee weakening, as investors continued to dump riskier assets.

€ EUR

The EUR/US$ dropped for a third straight week to touch a fresh 20-year low of 0.9951.

£ GBP

The GBP/US$ pair retained modest intraday gains & ended in the 1.1852 region.

¥ JPY

The US dollar carried on its rally, touching a 25 year high versus the yen on Thursday.

₹ INR

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

Events to WATCH

This was the 11th straight week of rupee weakening as foreign investors continued to dump riskier assets amid rising fears around a global recession. US$/INR remained on the front foot from the start of week, though we saw some selling on the last trading day. This shows that 80 is a strong psychological level, which would be difficult to breach in the near term. But heightened concerns over a global recession could put further pressure on our local unit in this crucial week.

US Building Permits (MoM) and US Housing Starts (MoM) data is scheduled for Tuesday while US Existing Home sales (MoM) on the very next day while Philadelphia Fed Manufacturing Index is set to release at the end of week along with Services & Manufacturing PMI of this month. Market participants are now awaiting the Fed meeting outcome on July 27 for further action. Given this unfavourable situation for Importers due to major dollar strength currently, we would recommend buying US$/INR on every dip for short term payments while exporters can wait for higher levels for fresh selling. The RBI took a notable step last week when it allowed international trade settlements in the rupee, which may have positive repercussions over the medium to long term.

$ USD

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

Events to WATCH

Jul 19, 18:00
Building permits(Jun)

Jul 20,19:30
Existing Home Sales (Jun)

Jul, 20 20:00
Crude Oil Inventories

Jul 21 , 18 : 00
Philadelphia Fed Manufacturing Index(Jul)

Jul 21 , 18:00
Initial Job less Claims

The dollar index sky-rocketed to 108.50 – 109; levels last seen in Sep '02. Pressure on rupee is a natural consequence. A rather unusual US$/INR daily candlestick chart shows a series of 22 successive green candles followed by a red one. A green candle is formed when the close price is higher than the open price, and vice versa for a red candle. In addition to three old price gaps, highlighted by blue, grey and orange horizontal lines, a new price gap has formed last week – 79.44 (11Jul '22) to 79.51 (12 Jul '22), shown by the red horizontal lines. These days, US$/INR has lost its usual character of filling price gaps and it does not look like filling them up anytime soon. Momentum indicators have remained in the overbought territory for over a month now and there looks to be no sign of any cool-off. Geo-political and economic uncertainties have completely overshadowed technical judgement.

In such extremely turbulent times, it is prudent to keep forex positions hedged. Importers should use vanilla options. They can use some forwards as well if forward rates are compatible with internal costing rates and risk management policy allows it. US$/INR forward premiums (hedge cost) are substantially lower at 3% compared to the usual 4-4.5%. Exporters can use an optimum mix of forwards & vanilla options. Some conservative structured options can also be explored according to risk appetite.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0 %	0.6%	8.6%	6.6%	€-26.3B

Events to WATCH

Jun 19, 14:30
CPI (YoY) (Jun)

Jul 20, 11:30
German PPI (MoM) (Jun)

Jul 21, 17:45
Deposit Facility Rate (Jul)

Jul 21 , 17:45
ECB Interest Rate Decision (Jul)

Jul 21 ,17:45
ECB Marginal Lending Facility

The EUR/US$ dropped for a third straight week to touch a fresh 20-year low of 0.9951, regaining modestly to settle around 1.0080 level. The global economic situation continues to worsen, and speculative interest rushes into safety, ultimately supporting the greenback. The Ukraine war shot up demand for global food and energy, with the EU suffers the most from the latter, as it depends on Russia for oil and gas. Italian PM Mario Draghi announced his resignation after coalition partner Five Star withdrew support, adding further trouble on the Euro side.

Additionally the ECB lags behind the inflation war as it plans to hike rates by 25 bps for the first time in years next Thursday. Further the MP decision will be announced on Thursday by the central bank wherein market participants are widely expecting a first 25 bps rate hike. The most awaited data is the preliminary estimates of S&P Global PMIs for July for the EU and the US on Friday. The Euro has sunk through the parity level to underline its inherent weakness, though we believe this market will present selling opportunities again, given enough time.

On the upper side, the region above 1.05 levels should offer significant resistance, so any sign of exhaustion would be a good selling opportunity. The 1.05 level is important from the perspective of shorting the pair. For going long at this level, first it needs to trade above the 1.08 level to be convincing. If we were to break down below the low of the previous trading week's candlestick, it is likely that the market might test the 0.98 level. Eventually, a lot of this boils down to the interest rate differential between the two economies, and of course the decisions of the Fed. It's unlikely that the ECB will turn around and reverse course much quicker than the Federal Reserve ever will. It's worth paying attention to the candlestick for the previous trading week, which looks almost like a hammer, so there is the possibility of a significant bounce. However, at the first signs of exhaustion we're sure the market will penalise the Euro, and continue to flock towards the US dollar overall.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.25%	0.8%	9.1%	3.8%	£-9.747B

Events to WATCH

Jul 19, 11:30
Average Earning Index+ Bonus(May)

Jul 19 , 11:30
Claimant Count change (Jun)

Jul 20 ,11:30
CPI (YoY) (Jun)

The pound has done a bit of grinding sideways during the last trading session of this week. Market participants think this is a "fade the rally" type of scenario in the market going forward. Traders don't have any interest whatsoever in trying to fight the long-term momentum of the pair. It is likely that we will see a more aggressive stance than what we have seen over the last several months by Fed. The GBP/US$ pair held on to its modest intraday gains and ended the week at the 1.1852 region. Expectations that aggressive hikes in interest rates of the US won't be matched by similarly dramatic moves by the BOE have contributed to the pound falling from close to 1.42 against the dollar a year ago to just a little above 1.18 in the last week. Important events in the upcoming week for the UK are Claimant Count Change, Unemployment Rate and CPI (YoY) (Jun).

GBP slumped below the 1.20 level during the past trading week. It was a psychologically significant support level, so it's likely that we will continue to see downward pressure. That being said, all momentum indicators are hovering in the oversold region, so we can expect short lived rallies. We think that any rally at this point will be shorted at the first sign of exhaustion. It is safe to assume that we can expect high volatility in this "fading rallies" type of market. On the higher side, it's not until we trade above the 1.26 level that we would consider a trend reversal. As long as the Fed stays hawkish, US dollar will continue strengthening. One should pay close attention to the 10 year yield in the US, because if it starts to climb again that could prove more bearish for the Pound.

¥ JPY

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

Events to WATCH

Jul 21 ,05:20
Trade Balance (Jun)

Jul 21, 05:20
Exports (YoY)(Jun)

Jul 21 , 08:00
BoJ Interest Rate Decision

The US dollar carried on its bull rally, touching a 25 year high versus the yen on Thursday. The rate decision of the Bank of Japan due next Wednesday, or possibly maintenance of status quo, will bring out a sharp variance with the US Fed's hyper-active policy. Whether the Federal Open Market Committee (FOMC) chooses a 75 or 100 basis point increase, the sovereign rate spread will probably extend in the weeks ahead. Before the previous BoJ meeting, some reports in the Diet and an indirect reference by Governor Haruhiko Kuroda to inflation's footprint on Japanese households seemed to indicate that the bank was considering the policy. National CPI and trade data information for June is limited, and will not impact markets. US Existing Home Sales and S&P Global PMIs headline a limited release calendar. The overview for the US$/JPY is higher regardless of any midway profit-taking.

Markets have priced in the Bank of Japan-US Fed policy divergence, with the Japanese currency meeting this week against the US dollar. The June 30 negative cross of the signal line by the MACD price line did not signal a lower trend, as it was easily negated by fundamental factors favouring the pair. The positive crossover of the signal line the last Wednesday was indicated by the RSI touch on the overbought region but it does not signal a technically higher trend. Fears of global recession in the 2nd or 3rd quarters kept the safety-trade lively and funds continued flowing into the US dollar. Strong resistance is at 139.38 (green horizontal line). The pair tested this level last Thursday. The major support region is in the range of (136.35- 136.65). The 136.35 level is at 0.236 Fibonacci retracement.

Challenges Of Forex Trading You Should Know

If you want to trade in a more liquid market with a low initial cost and enjoy higher returns, then forex trading could be what you're looking for. However, the forex market is highly volatile, due to currency fluctuations. Besides large profits and growing portfolios, there is another unpleasant side to the forex, which is ugly but true if you don't take precautions. So, let's take a look into the major **challenges of forex trading** that traders face.

Major Challenges of Forex Trading

Unlimited Leverage: Forex traders often borrow a certain amount of money from brokers to control or maintain large currency trading positions with low capital. Many traders use margin-based leverage, expressed in a ratio such as 100:1. For example, you can trade one standard lot of $100,000 with a margin of $1,000. This ratio can go up to as high as 400:1 with a margin of 0.25%. However, one should carefully look at leverage levels to maintain safe and steady profits. As a basic rule for beginners, the potential loss should ideally be less than or equal to 3% of trading capital. Therefore, traders sitting on extremely leveraged positions and with inadequate savings should be careful. Negligent moves can bring huge losses to your capital. With experience and exposure, one can frame their risk strategy according to their trading practices.

Unregulated And Limited: Although the forex market has high trading volumes, there is no international regulatory body that manages currency trading worldwide. In India, authorities such as RBI and SEBI regulate forex trading. However, only seven currency pairs such as US dollar, INR, EURO, and UK Pounds are legal to trade in India. The base currency for trading in India also needs to be INR.

Top Reasons Why Forex Traders Fail

Poor Discipline and Planning: Never allowing losses to control your emotional intelligence is the first step to an established discipline in forex trading. The goal is to accrue large gains by letting off small and consecutive losses. With customized risk management strategies and expected ROI plans, one can plan their trading day to mitigate common downfalls.

Unhealthy Relationship with Market: Aggressive trading without following or understanding the market can wipe out your portfolio to the lowest point possible. Scenario analysis and reactive strategies for every market fluctuation can alleviate the risk and mitigate unexpected losses.

Lacking technical knowledge: Before becoming a forex trader, it is necessary to gain the understanding and language relating to the currency market. With multitude of trading apps and forex courses available online with custom schedules, it has never been easier. Technical knowledge and hands-on experience give you exposure and help in Do Your Own Research (DYOR) sessions.

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*Till December 2022

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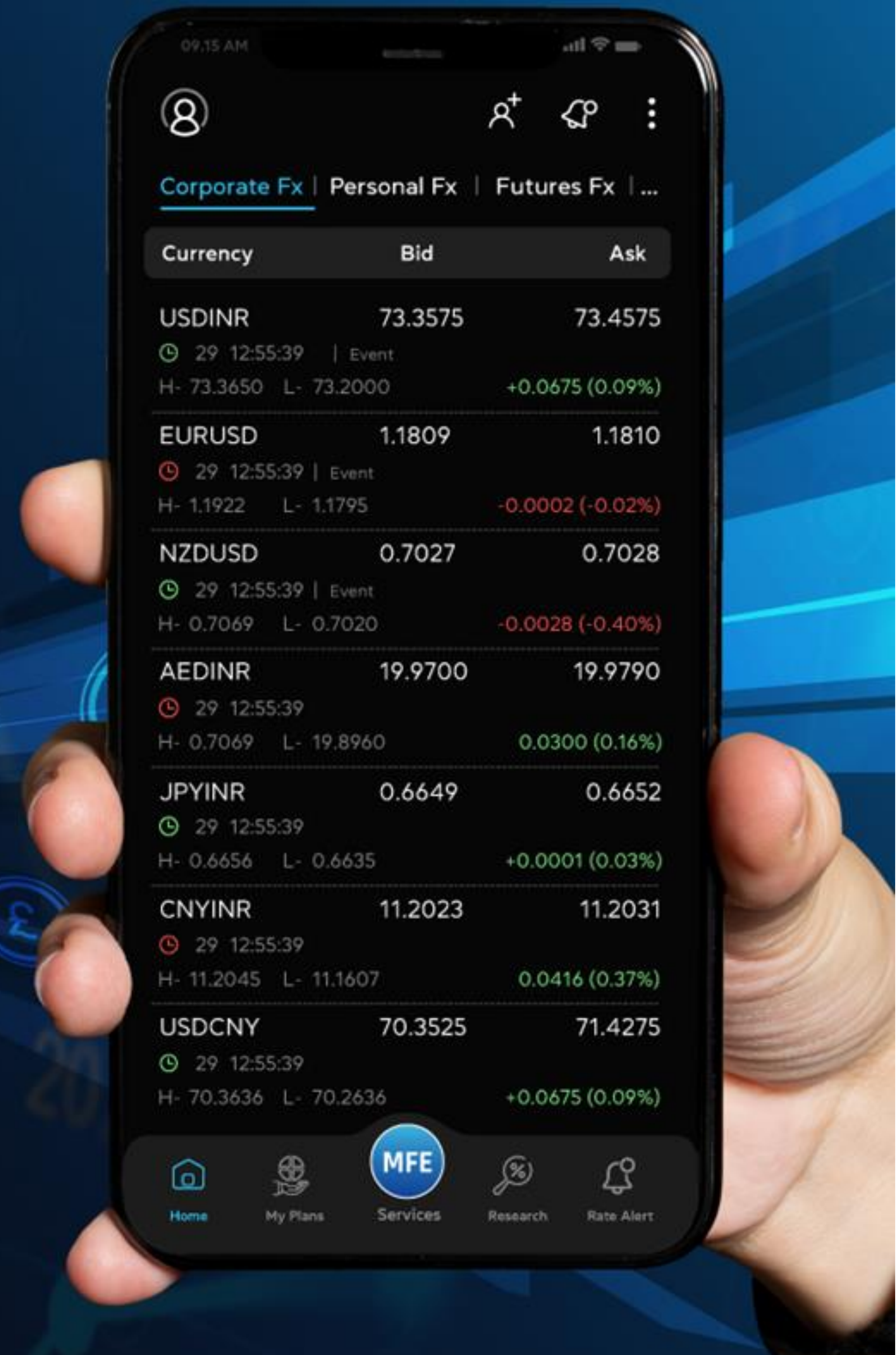

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