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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 25 → Aug 29 to Sep 2, 2022

Welcome

Dear Stakeholders

Last week was a critical week for Euro as, it became worth less than a US dollar. EUR/US$ pair tumbled to new 20-year lows near US$ 0.99 in a visible sign of the challenges facing the zone, not least an energy crisis hitting the euro zone harder than elsewhere, although the pair recovered after the Jackson hole symposium which happened on Friday.

The Fed Chair speech induced only meagre volatility, as he did not mention anything significantly different than what Fed members have been discussing already. Global economic worries are growing and the US monthly jobs report and Eurozone inflation gauges will be key data points for markets and central banks.

Consumer price index on Wednesday is likely to show the inflation worries in Eurozone, which is pressurising the European Central Bank to hike rates again in September, even as recession risks mount. China's declining economy may continue the lead after the US and Europe in reporting manufacturing gloom in the coming week. Coming to India, the RBI is likely to intervene at key levels of 79.90, thus providing an opportunity to buy the pair on dips.

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

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Key Takeaway Summaries

₹ INR

RBI is protecting the rupee from surpassing the 80 level. But will it continue to do so for long?

€ EUR

EU and Iran are in mid of negotiations to revive the 2015 nuclear deal along with the US.

£ GBP

After losing almost 300 pips in the previous week, pair lost further 80 pips this week.

¥ JPY

Bank of Japan continues to keep interest rates below 0.25%, the level on 10-year notes

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.4%	0.8%	6.71%	7.8%	$-30B

Events to WATCH

Aug 31, 17:30
Infrastructure Output (YoY) (Jul)

Sep 01, 10:30
Nikkei S&P Global Manufacturing PMI (Aug)

This was the third straight week where our beloved rupee closed on a negative note, though it was not a big decline during the week; as US$/INR traded within a 25 paisa range during the week. Despite dollar index trading near its 19-year high, hawkish statements coming from Federal Reserve Chair Jerome Powell on fighting inflation and US 10-year yields hitting highest level of 3.125 in two months, the rupee didn't depreciate as it should have. Clearly, the RBI is protecting these levels but we don't know whether it will continue to do so in the upcoming days, as surge in oil prices will also put pressure on rupee.

Additionally, market participants will be eying the release of US job data due on Friday, which is expected to come lower by 243k compared to the previous print of 528k. The upcoming week is important for the US as CB consumer confidence and job openings is scheduled on Tuesday while Manufacturing PMI of August is set to release on Thursday along with initial jobless claims. Looking at Indian data side, the GDP Quarterly (*YoY*) (*Q1*) is to be released along with Infrastructure Output (*YoY*) of July and FX Reserves is scheduled as usual at the end of week.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
2.5%	-0.6%	8.5%	3.5%	$-79.614B

Events to WATCH

Aug 30, 19:30
JOLTs Job Openings (Jul)

Aug 31,17:45
ADP Nonfarm Employment Change

Aug,31 20:00
Crude Oil Inventories

Sep 01, 17:45
ADP Nonfarm Employment Change (Jun)

Sep 01, 18:00
Initial Jobless Claims

Sep 01, 19:30
ISM Manufacturing PMI (Aug)

The Rupee remained in an extremely tight range this week with a high-low range of just 26.5 paise (*79.945-[79.68*). Average of daily amplitude (*difference of high and low*) for the last 5 trading days were just 14 paise – goes to show that the exchange rate barely moved this week. Technically, nothing much has changed from the previous week's analysis. Region around 79.95-80.05 will continue to be a resistance area following the 'First Top' formed at the all-time rupee low levels. Price up-gap formed last week, at 79.4775 and 79.58 (*red horizontal lines*), is unfilled yet. MACD and RSI are neutral while Slow Stochastics is gradually moving from overbought to neutral.

Rupee's rock solid stability despite large volatility in Asian currencies and international majors indicate that some really big event/development needs to happen for rupee to get volatile. All dollar exporters are recommended to increase their hedge ratios. It's unlikely that rupee will weaken much from here and forward premiums have stabilized around 3%. They must do more forwards and some vanilla options. Dollar importers are strongly recommended to hedge using vanilla options. US$/INR options volatility is close to its lowest levels and hence option premium cost will be quite cheap. Obligatory forwards for importers does not make much sense when Rupee is close to its all-time lows.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.5 %	0.6%	8.9%	6.6%	€-24.618B

Events to WATCH

Aug 31, 14:30
CPI (YoY) (Aug)

Aug 31, 14:30
Core CPI (YoY) (Jul)

Sep 01 13:30
Manufacturing PMI (Aug)

Sep 01 14:30
Unemployment Rate (Jul)

The EUR/US$ pair plunged to a new multi-year low of 0.9898 (*since December 2002*) but managed to cut its weekly losses and ended the week at around 0.9963. The dollar started the week with a march, but lost strength afterward, despite a cautious mood in financial markets. The Fed's eye remains on price stability, noting that reducing inflation requires a sustained period of below-trend growth and it will require continuing a restrictive policy stand for some time. Meantime, the EU and Iran are in mid of negotiations to revive the 2015 nuclear deal along with the US. Macroeconomic data showed mixed sentiment, yet most were seen as positive providing help to high-yielding assets. The preliminary August inflation data for Germany and the EU will be released in the upcoming week.

The euro was shaken up initially on knee-jerk reaction but has not been bent out of shape technically on the 4-hour charts. EUR/US$ remains above a key support area of 1.00. The following illustrates. the upside bias as long as this support remains intact for days ahead with a focus on 1.0120 on a breach of 1.0080. The bullish harmonic pattern leaves an upside bias on the charts so long as D holds around 0.9900. For the near term, for positive conviction, bulls will be more encouraged should the area between 1.0000/0.9980 hold, as per the W-formation's support zone. The neckline of the pattern is a 50% mean reversion of the range between points C-D. Zooming down, we can see there is resistance between the highs of the day and 1.0080. This is a high volume area that guards the target and 1.0145 higher up.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.75%	-0.1%	10.1%	3.8%	£-11.38B

Events to WATCH

Sep 01, 14:00
Manufacturing PMI (Aug)

After losing almost 300 pips in the previous week, pair lost further 80 pips during this week. US dollar recovery due to hawkish Fed rate hike expectations was the key reason for the continuous downtrend in the pound. With the aggressive tone from Federal Reserve Chair Jerome Powell on fighting inflation and US 10-year yields hitting highest level of 3.125 in two months, we don't see much appreciation in the pair in near-term. More volatility is expected in the upcoming week as market participants will be eying the release of US job data due on Friday, which is expected to come lower by 243k compared to the previous print of 528k. The UK will remain closed on Monday due to Bank holiday, no other major event is scheduled in Britain except Manufacturing PMI of August due on Thursday. A higher than expected reading should be taken as positive for the pair, while a lower than expected reading should be taken as negative.

Pair remained on the back foot at the start of week, after showing some sign of relief in the mid of week again, and ended on a negative note. Currently, the pair is trading at its near-term support of 1.1750 level; breaking down of these levels could push the pair towards psychological region of 1.15, while on the upside, 1.19 seems to be a good resistance. Breaking 1.19 region could open the doors for 1.20 psychological level. The BoE has already suggested that the United Kingdom is going into a recession, strengthening of pair would be difficult in the near-term. On the 4 hourly time frame, momentum indicator MACD gives a bearish signal while RSI trading at 38 region, which is considered to be an oversold zone.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.1%	0.5%	2.6%	2.6%	¥ -1437B

Events to WATCH

Aug 30, 05:00
Unemployment Rate (Jul)

Aug 30, 05:00
Jobs/applications ratio (Jul)

Aug 31, 05:20
Retail Sales (YoY) (Jul)

Aug 31, 05:20
Industrial Production (MoM) (Jul)

Sep 01, 06:00
Manufacturing PMI (Aug)

Sep 01, 09:05
10-Year JGB Auction

US$/JPY stayed in consolidation from 137.70 and ended the week at levels of 137.52. The US dollar has gone back and forth during the week, as the market continued to witness a lot of volatility. As traders tried to find out where central banks are going, it makes sense that people do not really know what they are going to do yet. The market is certainly in a bullish trend, and after the extreme bullish pressure of the last week, it's probably not a big surprise that we had to take a bit of a breather. The Bank of Japan keeps seeing the requirement to keep interest rates down below 0.25%, the level on 10-year notes, indicating that they are inclined to "buy unlimited bonds." Finally, traders probably do eventually look toward the 140 level. It's not until the pair fell below the 132.50 level that they began to question the trend. At around 130 level, doubts arises about the entire situation. If the US Fed suddenly becomes dovish, or if the BoJ shifts from the idea of keeping rates lowered, that would be a factor to change the market.

The US$/JPY pair built on the previous day's recovery move from the 131.75-131.70 area, or a one-and-half-week low and gained some positive traction on Friday. The pair maintained its bid tone through the early part of the European session and later placed just below mid-133.00s. Technical levels to be watched for the coming week are the previous week high of 137.23 and low of 132.56. Further, this month high lies in 139.39 and low lies in 132.5. Additionally the Fibonacci retracement of 38.2% hovers at 136.66 and 61.8% is at 136.86 respectively. The pivot points of support levels on the downside for the US$/JPY pair are at 136.14, 135.79 and 135.26. On the upper side the daily pivot points of resistance are at 137.02, 137.55 and 137.9.

Beginner's Risk Management Strategies For Forex Trading

Forex trading implies the global marketplace for exchanging currencies. The need for currency exchange is very high, as international trade has become a common phenomenon.

There is no confirmation that you will always gather profits from forex trading. The prime reason behind this uncertainty is the volatility of the forex trading market. It can go up and down in just a fraction of a few seconds.

With that being said, the excitement of trading is unmatched. You just need to work around your intuition, analyse market news and price ups and downs, and use effective risk management strategies that work in your favour.

However, people believe forex trading is just an easy moneymaking strategy and tend to ignore the list of common risks involved in forex trading.

To help you understand better, some of the possible risk management strategies that you can adopt before you buy in your next currency, are mentioned below.

Forex Risk Management Strategies

Use Demo Account: The effectiveness of practicing with the demo account before going full in for forex trading lacks the acknowledgment it deserves. The demo account lets you trade in the same market environment but without the risk of money losses. It is necessary to help you build the confidence to begin real trading.

Fix A Risk-Reward Ratio: The strategy of analysing and setting a risk to reward ratio for your trade is highly necessary to avoid losing big. The main goal behind this strategy is to ensure you make every trade worth it for your bank account. It does not guarantee profit, but it does reduce the chances of losses greatly.

Watch The News: Analysis plays a major role in deciding the potential future of any currency trade. So, it is very important to keep an eye out on different market announcements, political declarations, etc., as they might have an impact on the prices of currencies you have invested in.

Set Your Risk Tolerance: You need to enter forex trading with a brave heart as it can get a little stressful. So, another risk management strategy to better plan your profits and losses is to set a risk tolerance for yourself before you begin. It is necessary to ensure you sleep better and feel confident about your financial position.

Begin With Low Leverage: Whether you are a beginner or a habitual forex trader, it is always recommended to keep your investment low in the beginning.

If you are looking to begin forex trading, keep in mind the above-mentioned risk management strategies to start on the right foot.

Exclusively for Indo-Sri Lanka Chamber of Commerce members: Complimentary

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*Till December 2022

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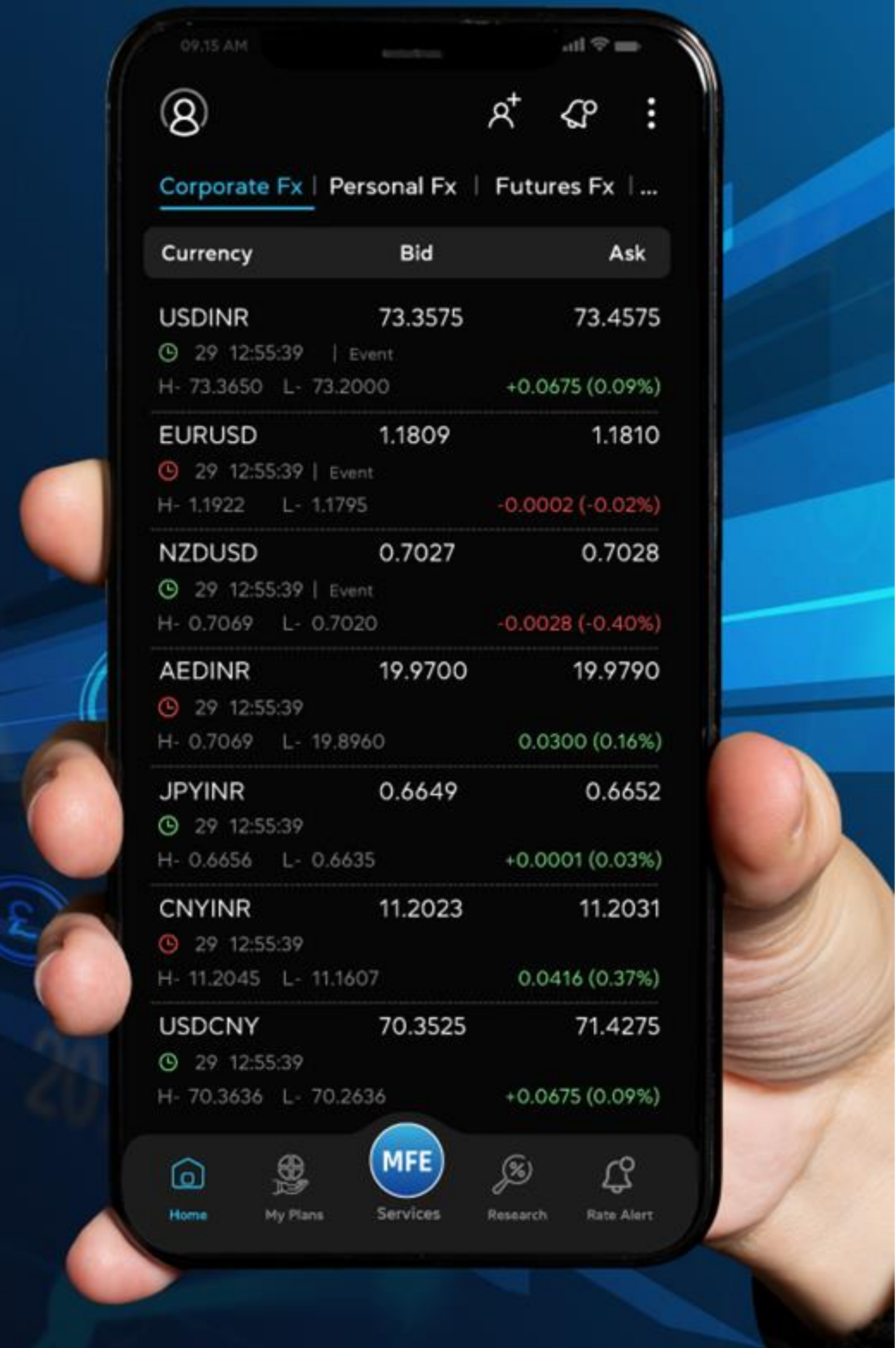

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