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

Forex Market Insights

Newsletter

Volume 22 → Aug 07th to Aug 13th 2022

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Welcome

Dear Stakeholders,

Taming rigid, multi-decade high inflation continued to be the focus of Central Banks around the world. After Fed and ECB, RBI and Bank of England increased their benchmark interest rates by 50 bps last week. Despite the IMF revising global growth projections downwards and rising risks of recession, RBI retained GDP growth projection for 2022-23 at 7.2%.

Geo-political worries (*increased uncertainties around US-China confrontation on Taiwan*) will keep financial markets nervous and boost demand for safe haven assets like US dollar, Swiss Franc, gold, etc. Emerging market currencies, including the Indian Rupee could face the heat. Broad-based recovery in global equites as well as a gradual cool-off in crude prices are positive developments, which could boost overall financial market sentiments.

In these extremely turbulent times, it makes prudent sense to stay conservative and keep forex positions reasonably hedged.

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

Key Takeaway Summaries

₹ INR

RBI raised repo rate above market expectations by 50 bps to 5.4%.

€ EUR

Euro's recovery was insufficient to bring it back to 1.0200.

£ GBP

Bank of England stated that UK's economy is almost certainly going to enter a recession.

¥ JPY

US$/JPY lowered in the beginning of the week and dropped to the 130.39 level.

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.4%	0.8%	7.01%	7.8%	$-31.02B

Events to WATCH

Aug 10, 17:00
M3 Money Supply

US$/INR ended the week at 79.23. The pair started the week at 79.18 and remained volatile. US$/INR is likely to consolidate in the range of 79.05 to 79.70 in the next week. On Friday, prior to the RBI policy decision, the pair gained 22 paise from the day opening at 79.16 and striking 78.94 in initial trade. The RBI raised the repo rate above market expectations by 50 bps to 5.4%, the third straight hike since May. With the latest hike, the repo rate crossed the pre-pandemic level of 5.15%. Ongoing foreign capital inflows into capital markets and declining crude oil prices resulted in appreciation of the local currency. Brent crude traded below $95 a barrel amid a global economic slowdown affecting demand for oil. The OPEC+ producer group agreed to increase its oil output goal by 100,000 barrels per day in September.

India's trade deficit widened to a record low of US$ 31.02 billion in July compared to US$ 26.18 billion in June. The US created far more jobs than expected last month, pushing unemployment rate a tad lower. Non-farm payrolls rose by 528,000 in July, more than twice the forecast of 250,000. The DXY accelerated to a new monthly high close to 107.00. No major economic data points are due for the rupee next week. The upcoming week is very important for the US starting with Core CPI, CPI(YoY) and Crude oil inventories on Wednesday followed by Initial jobless claim data on Thursday.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
2.50%	-0.9%	9.1%	3.5%	$-79.614B

Events to WATCH

Aug 10, 18:00
Core CPI(MoM)(Jul)

Aug 10, 18:00
CPI (YoY) (Jul)

Aug 10, 20:00
Crude Oil Inventories

Aug 11, 18:00
PPI (MoM) (Jul)

Aug 11, 18:00
Initial Job Claims

US$/INR volatility in the last 6 trading sessions has completely taken market participants by surprise. Earlier, when Rupee was continuously weakening, exporters were not hedging at all. Conversely, importers were frantically and desperately hedging at every level. The latest two-way volatility has made exporters refocus on forex hedging. Importers are recovering their breath.

On the daily candlestick chart, after a series of small bodied candles, we see a few long bodies as well as long shadows, indicating increased intra-day price volatility. A few price gaps formed in the recent past have filled up (red dotted horizontal lines). Some other price gaps are yet to be filled –blue, grey and orange horizontal lines. This suggests that normal trading is gradually resuming compared to Central Bank controlled trading of previous months. Momentum indicators (*RSI, MACD and Slow Stochastics*) are neutral. The previous dollar peak of 79.81 – 80.06 will act as a resistance region, while the latest dollar low of 78.49 could act as a short-term support. Our sense is for some period of range bound trading – from 78.50 to 80. It makes sense for exporters and importers to use an optimum mix of forwards and vanilla options rather than depending completely on obligatory forwards and some open positions. Conservative structured options (*low cost ones*) can also be considered.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.5 %	0.7%	8.9%	6.6%	€-26.3B

Events to WATCH

Aug 10, 11:30
German CPI
(MoM)(Jul)

The EUR/US$ started the week with a slight rise to reach the 1.0294 level and hovered above the 1.0200 level, but ended the week in red at 1.0181, although still confined in the 200-pip range set in mid-July. The EUR/US$ pair fell to its lowest point at 1.0140. The steep decline in US Treasury bond yields put pressure on the greenback on Thursday and initiated a chance for a decisive recovery in EUR/US$. The euro's recovery was insufficient to bring it back to 1.02. Due to a higher US dollar, the pair appeared vulnerable. Retail sales in Germany and the EU were negative in June, along with contracting manufacturing production in July. Germany will release final numbers for its July Consumer Price Index next week, a rise of 7.5% (YoY) is forecasted. The US added 528K more jobs than was forecasted. Following the release of this report, US rates increased, supporting the dollar globally.

The shared currency on the daily chart portrays the pair consolidating within the range of 1.0096-1.0278. Although the US NFP report underpinned the greenback, the EURUS$ stood, strengthened by bouncing off the daily low of 1.0141, regaining the 20-day EMA. Still, the major is subject to selling pressure, as the RSI moved the trend, aiming downwards, and crossed below its 7-day SMA, opening the door for further downside.

The first support would be the 20-day EMA at 1.0158. The breach below will further touch the bottom of the above mentioned trading range at 1.0096, which, once cleared, opens the way to fresh YTD lows below parity. On the upper side, the first resistance is 1.0200. A breach of that level will send the asset towards August’s 2 daily high at 1.0293 before touching the 1.0300 figure.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.75%	0.8%	9.4%	3.8%	£-9.747B

Events to WATCH

Aug 12, 11:00
Manufacturing Production (MoM) (Jun)

Aug 12, 11:30
GDP (YoY) (Q2)

Aug 12, 11:30
Trade Balance

Aug 12, 11:30
GDP (QoQ) (Q2)

Sterling tried to remain on front foot initially, especially with the Bank of England raising interest rates. Despite delivering the largest hike since 1995 of 50 bps (above market expectation of 25 bps), the pair couldn't sustain, as Bank of England stated that UK economy is almost certainly headed for recession. Strong US jobs data released on Friday also pushed the pair towards 1.20 levels. Worrisome statements from BoE might push the pair further downside and strong US job numbers would give boost to Fed for hiking interest rate more aggressively which may also create pressure on the pair. It's a quiet week on the economic event side for the UK in the beginning while at the end Industrial production and Manufacturing production of Jun are set to release along with GDP of Britain. A higher than forecasted reading should be taken as positive for the pair.

The Cable (US$/£ exchange rate) tried to remain bullish due to increasing of interest rates in UK but couldn't sustain due to lack of market confidence. 1.20 is a psychologically important figure and an area where we can see buyers. If we break down below 1.20, it's likely we could go down to 1.18. On the upside, 1.2280-90 seems to be good resistance. But the question is whether the pair will actually go there, as the UK economy is slowing. On the daily time frame both momentum indicators RSI and MACD indicate that the downtrend is not over yet for the pair.

¥ JPY

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

Events to WATCH

Aug 10,05:20
PPI (YoY) (Jul)

The US$/JPY pair initially lowered and dropped to the 130.39 level but then turned around to show high upward pressure from the 130 level, driven by headline US NFP data. The pair increased for the 3rd time this week, touching a fresh weekly high of 135.50. This increase was fueled by a quick 200 pip move from about 133.07. The positive employment data recharged assumptions for a higher interest rate hike of 75bps at the September FOMC policy meeting in light of aggressive statements made by many US Fed officials this week. Therefore, US-Japan rate disparity widened, which, along with a substantial rise in demand for the greenback, boosted the pair considerably higher. The risk-off sentiment continues to give little support to the safe-haven Japanese yen. US$/JPY started this week at 133.20 following a major bearish trend in the pair since Jul-14 from the 139.38 level. During the week, the pair settled at 130.29 (support region) on 2-Aug.

On Friday, after the NFP economic data, US$JPY price action showed a huge bullish-engulfing candle pattern, indicating buying pressure due to dollar bullishness. At the same time, the pair crossed the 50-day EMA at 134.84 and decisively tested the 20-day EMA at 135.06. It's worth noting that buyers are recollecting the momentum as shown by the RSI, about to cross the central line of the 50 mark. Traders also expect buying beyond the psychological mark of 135 would reaffirm the positive outlook and way for a further appreciating move for the pair. Strong support can be seen at 132.52 (*pink horizontal line*) followed by 131.49 (*red line*). The major resistance is at 136 (psychological mark) followed by 136.57 (*green horizontal line*). MACD convergence along with more than 250 points movement in the pair in the last trading session reflected strong bullish pressure on the pair.

Impact Of Currency Exchange Fluctuations On Imports And Exports

For any corporate dealing internationally, currency fluctuations change the possible transaction value, which in turn impacts their revenue numbers. A falling exchange rate increases home currency value, thereby making exports lucrative. In the instance of an appreciation in domestic currency or decrease in exchange rate, import of goods can be done at cheaper rates.

As global economies have inter-linkages, financial well being of one country impacts that of another. Globalisation has given umpteen choice to end consumers to seek what best suits them. A similar outflow of products to other countries has also helped increase revenue from exports. Export and import balance needs to be kept in mind to maintain the currency balance. Currency may devalue if imports are on a steeper rise over exports. Thus a country's economic performance is also measured by the value of its currency.

Trade balance

Excess of exports over imports results in a trade surplus which indicates growth in the economy, as there is more surplus funds at the hands of the consumers thus leading to more spending.

Alternatively, when imports are higher than exports, the country has a trade deficit. High demand for imports maybe in the form of capital expenditure like equipment and machines. These are productive assets as they will lead to higher production of goods more employment and demand. Both imports and exports should be growing for a healthy economy.

Convertible foreign exchange

Ideally in forex markets, currency value is determined, amongst other factors, by supply and demand of the currency pair. So for a free and fully convertible foreign currency, the economies will decide the natural equilibrium rate. But sometimes central banks intervene in the currency market. In developing economies, the forex rate is held down to encourage exports whereas rates are kept up to decrease inflationary pressure. Thus foreign exchange rate is said to be manipulated.

When the exchange rate falls for an exporter, the products will become relatively cheaper but the importer will have to pay more as currency price falls as now raw material costs have increased.

Conclusion

To ensure the impact of forex fluctuation is not affecting one's bottom line, it's important to hedge the forex risk. This calls for minimizing effects of fluctuation on exports and imports. There are several ways to hedge one's forex portfolio. The same should be discussed with forex advisors to ensure the portfolio is not exposed to volatility and is hedged appropriately.

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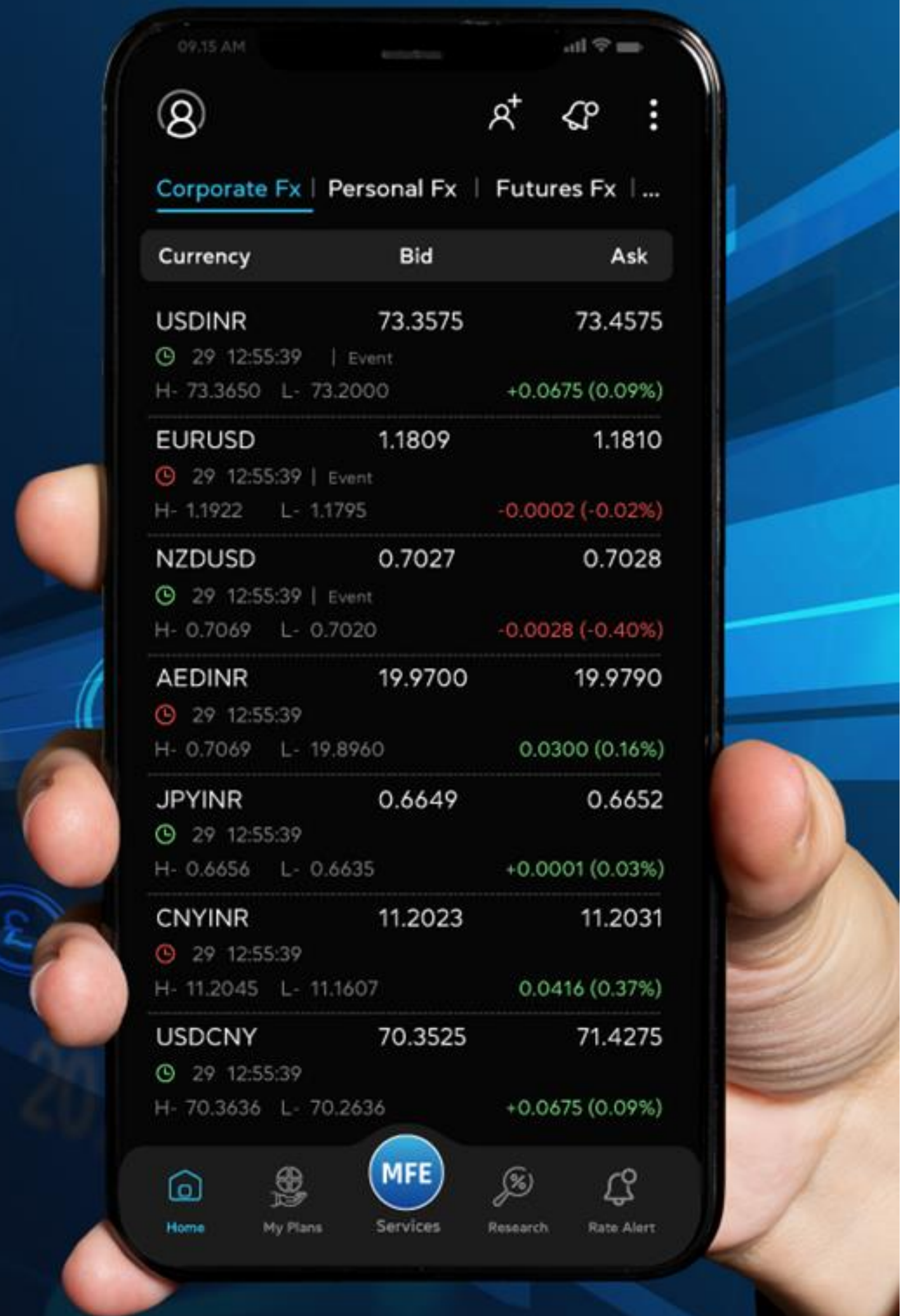

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