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 24 ~~Aug~~ Aug 21-27, 2022

CONTENTS

Welcome

Dear Stakeholders,

Russia held onto its spot as China's top oil supplier for a third consecutive month in July, with China increasing purchases of cheap supplies, while cutting shipments from rival suppliers such as Angola and Brazil. China's coal imports from Russia jumped 14% in July from a year earlier to their highest level in at least five years. Jackson Hole Symposium will be closely watched in the markets in the coming week in light of concerns on over tightening monetary policy amidst numerous challenges. EZ economic worries towards recession are increasing where markets are expecting positive cues from PMI numbers to be released next week.

More rate cuts are expected in China, but still there is doubt they will give any support to an economy severely damaged by a property crisis and strangling COVID-19 lockdowns.

As far as US is concerned, increase in real retail sales and a rebound in industrial production for July beyond jobs data release portrays that it is not yet in a recession. The rupee depreciated from a three-week high as it took offers to refresh intraday low near 79.70 during the initial Asian session. Indian rupee bets on softer oil prices and the latest positive signals from the RBI. In the coming week we have no major data scheduled, which in turn directs risk catalysts for fresh impulse.

Regards

Vijay Gauba
Additional Director General
Trade Promotion Council of India

Key Takeaway Summaries

₹ INR

Due to the heavy dollar bull rally entire week, the US$/INR ended at 79.7750.

€ EUR

Inflation in the Eurozone was confirmed at 8.9% YoY in July.

£ GBP

Sterling remained on the back foot from the start; pair lost nearly 100 pips on the first trading day of the week.

¥ JPY

The Japanese yen declined this week by close to 2.53% against the US dollar.

Myforexeye
Simplifying Forex

TPC 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
5.4%	0.8%	6.71%	7.8%	$-30B

Events to WATCH

The Indian rupee depreciated against the dollar this week, which only had 3 trading sessions due to various holidays. The US$/INR opened at 79.27 on 17-Aug and due to the heavy dollar bull rally entire week, the pair ended at 79.7750 on Friday. Comments from US Fed officials over the quantum of rate hikes weighed on market sentiments. The dollar index rose 0.22% to 108.10. Foreign fund outflows from Indian equities also let the rupee down. FIIs were net sellers in the capital market in the last 2 sessions as they offloaded shares worth Rs 1,700 Cr. On the domestic equity market front on weekly basis, the Sensex ended 0.04% lower at 59,646.15, while the Nifty ended marginally lower by 0.22% to 17,758.45. Oil prices edged higher extending a rally into the 3rd day, as participants weighed hopes for strong US fuel demand after a larger than expected drawdown in US crude stockpiles.

The US 10-year Treasury yield ended up at 2.97%, while the short-term 2-year US Treasury note also traded marginally higher at 3.23%. Indian benchmark 10-year government bond yield ended at 7.26%, up 2 basis points. The range for the US$/INR is likely to be within 79.10 to 79.97 in the next week. The upcoming week is important for the US beginning with New home sales on Tuesday and crude oil inventories on Wednesday followed by GDP (QoQ) and initial jobless claims on Thursday. No major events are scheduled for the rupee next week. The week saw the Rupee under pressure again, courtesy a surging dollar index and rising US bond yields.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
2.5%	-0.9%	8.5%	3.5%	$-79.614B

Events to WATCH

Aug 23, 19:30
New Home Sales (Jul)

Aug 24, 19:30
Pending Home Sales (MoM) (Jul)

Aug 24, 20:00
Crude Oil Inventories

Aug 25, 18:00
GDP (QoQ) (Q2)

Aug 25, 18:00
Initial Job Claims

Aug 26, 18:00
Core PCE Price Index (MoM) (Jul)

Asian currencies, including Chinese Yuan and Korean Won witnessed large declines and hence a Rupee weakening reaction was a natural extension. Evaluating the US$/INR daily candlestick chart, one notices a price up-gap (*red horizontal lines*) formed at 79.4775 (*17 Aug, 22*) and 79.58 (*18 Aug 22*). Price gaps usually fills up but there are various unfilled price gaps on the chart, underscored by different colored horizontal lines. The previous dollar peak of 80.065 is established as the first top and any dollar surge (*rupee weakening*) attempt will face double top resistance at that level. Momentum indicators of RSI, MACD and Slow Stochastics, after holding around the neutral territory for a while, are now gradually inching towards the overbought region.

Dollar support around 78.50 looks unlikely to be broken, while the 80 figure will continue to act as a resistance. Dollar exporters are recommended to increase their hedge ratios – prefer more of forwards and some vanilla/structured options to diversify risk. Dollar importers should use more of vanilla/structured options to hedge. Options volatility is low and hence option premium cost will be moderate. Use of obligatory forwards should be limited.

€ EUR

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

Events to WATCH

Aug 23, 13:30
Manufacturing PMI (Aug)

Aug 23, 13:30
Services PMI (Aug)

Aug 23, 13:30
S&P Global Composite PMI (Aug)

The EUR/US$ pair fell this past week to the bottom level of 1.0032 and is floating around the brink of parity again. The dollar had a strong start with risk-off flows, to later benefit from indications that the US may be able to avoid a sharp economic downturn. The 2nd quarter GDP was downwardly revised to 0.6% QoQ, from an initial estimate of 0.7%. Also, the German ZEW Survey indicated that Economic Sentiment dropped in August, while inflation in the EU was confirmed at 8.9% YoY in July. After the FOMC meeting minutes, positive US data gave a sharp push to the dollar. US decision-makers plan to keep increasing interest rates to curb inflation and consider raising rates beyond the neutral zone. The US job sector sounds healthy, amid business data showing firm growth.

Traders may get a clear idea next Tuesday when S&P Global will report initial estimates of the August PMIs for the EU and the US. Most indexes are anticipated to have declined further into the contraction region, indicating a sharp slowdown in the 3rd quarter of the year. EUR/US$ has extended its daily slide during the US session and touched its monthly low for this month 1.0032. In the absence of macroeconomic data releases, the dollar capitalized on safe-haven flows and continued to outperform its major rivals.

The shared currency is struggling to recover from the lows of the day so far and is back to a flat position in the third hour of Asian session. The single currency has travelled between a range of 1.0069 and 1.0092 in the last day of the week. In the longer run, the pair's downward view is expected to prevail as long as it trades below the 200-day SMA at 1.0859.

£ GBP

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

Events to WATCH

Aug 23, 14:00
Manufacturing PMI

Aug 23, 14:00
Services PMI

Aug 23, 14:00
Composite PMI

Pair lost nearly 300 pips during the week amid a major recovery in the dollar index because of hawkish Fed commentary, suggesting that a 75 bps rate hike in next month still remains on the table and which led GBP/US$ to its lowest level in a month to near 1.1800. Inflation rate hit double digit in UK for the first time in 40 years and stood at 10.1%; fueling a selloff in the pair. Release of such hot inflation numbers increased the chances of a 0.75% interest rate hike to 13% by BoE in September meeting. GBP traders now brace for another eventful week ahead because of plenty of events due on both sides. Manufacturing PMI and Services PMI of UK is scheduled in the start of week along with US Manufacturing PMI and US New Home Sales while core durable goods of US is set to release in the mid of week along with Q2 GDP of US which is expected to come at -0.8%.

Looking at the size of red candles and dollar strength we could see fresh lows for the pair. Overall it is a negative market for the pair but it has formed a double bottom on the daily time frame which indicates a change in trend and a momentum reversal from prior leading price action on daily charts. Breaking of double bottom could push the pair towards psychological level of 1.15 while on the upside, 1.2270-75 region will remain a strong resistance area. Momentum indicator MACD is trading in a neutral zone while RSI trading at 35 levels 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 23,,06:00
Manufacturing PMI (Aug)

Aug 23, 10:30
BOJ Core CPI (YoY)

The US$/JPY pair has surged rather significantly during the trading week to break above and marked the highest point of 137.23. Eventually, this market continues to witness turbulent behavior, but is ultimately very bullish. Multiple factors weaken the Japanese Yen and act as a tailwind for the pair during a modest pickup in greenback demand. In fact, the BoJ has repeatedly said that it will continue its ultra-easy policy settings. In comparison, recent US Fed officials' hawkish comments indicated that the US central bank continues to tighten its monetary policy further. However, the US central bank is still anticipated to increase its benchmark interest rates by at least 50 bps in September and 75 bps also looks like an option currently. Besides, the fresh buying advent on Tuesday helps expectation for a further short-term upward move for the US$/JPY pair. Traders now focus on the Preliminary Michigan US Consumer Sentiment Index along with the US bond yields.

The Japanese yen declined this week by close to 2.53% against the US dollar. The pair started the week at 133.47 and only moved in the uptrend followed by 4 consecutive green candles on the technical chart and ended at 136.83. The yen had fallen across the board as higher yields weighed on JPY that failed to benefit from risk aversion. The BOJ is sticking to its ultra-easy monetary policy in contrast to the global trend of tightening and urged the need for robust wage growth. Japan's core consumer price index (*CPI*) rose to an over 7-year high this month, amid high fuel price levels and a widening trade deficit. The catalyst was the recent Fed official's statement being more hawkish than originally thought. Technically, the pair is trading above 50-day moving average and on chart, the divergence in the MACD reflects some counter-reaction in the pair and RSI is giving mixed signals. Putting it together, the strong resistance is at 137.22 (*green line*) followed by the psychological level of 137.50 as the next level. Major support can be seen at 135.05 (red horizontal line).

Currency Risk – Part And Parcel Of International Business

Business dealing beyond national borders, incorporates an inherent risk of foreign currency. This can be hedged at the end of both the seller and the buyer. But optimally hedging should be done keeping in mind the inter-linked and fast evolving global foreign exchange market.

What is currency risk?

Currency risk is the risk which arises with the change in value of one currency with respect to another. This risk when left untouched, can wipe out all profits which a company starts to go international. Thus it can be a cost center for corporates when not managed or hedged. Foreign Currency Risk was the cause of the Asian currency crisis in 1997.

Managing foreign currency risk

Getting caught off-guard by the ever fluctuating forex market, can be devastating for any corporate. The need of the hour is to mitigate the currency risk. It requires advice from experts who assist in gaining a deep insight on possible implications of global events on trade which has foreign currency involved. To manage currency risk, one is required to hedge the risk.

Tools to hedge foreign currency risk

Financial wizards have developed several means and ways to manage currency risk. The following tools help in mitigating these risks.

Forward contracts – These are agreements made between two parties who agree to exchange one currency in exchange of another at a future date and at a price which is fixed today. It is an over the counter contract, thus the risk of honoring the contract is there. In India, this is mostly executed between a trader and a bank. These banks should take real time foreign exchange quote from the currency market (*brokers who execute big volume deals on behalf of clients*) to fix the spot rate. Along with spot rate, a premium is charged as per the contract expiry date.

Future contracts – In this, the investor agrees to buy or sell a currency in exchange of another on the expiry of the contract. An initial margin is paid which is adjusted on a daily basis to reflect the gain or loss, which is dependent on the closing price of the futures. This mark to market (*MTM*) account has to be replenished to maintain the margin. Though the currency future has low transaction costs and offers high liquidity, fluctuations are high making it highly risky.

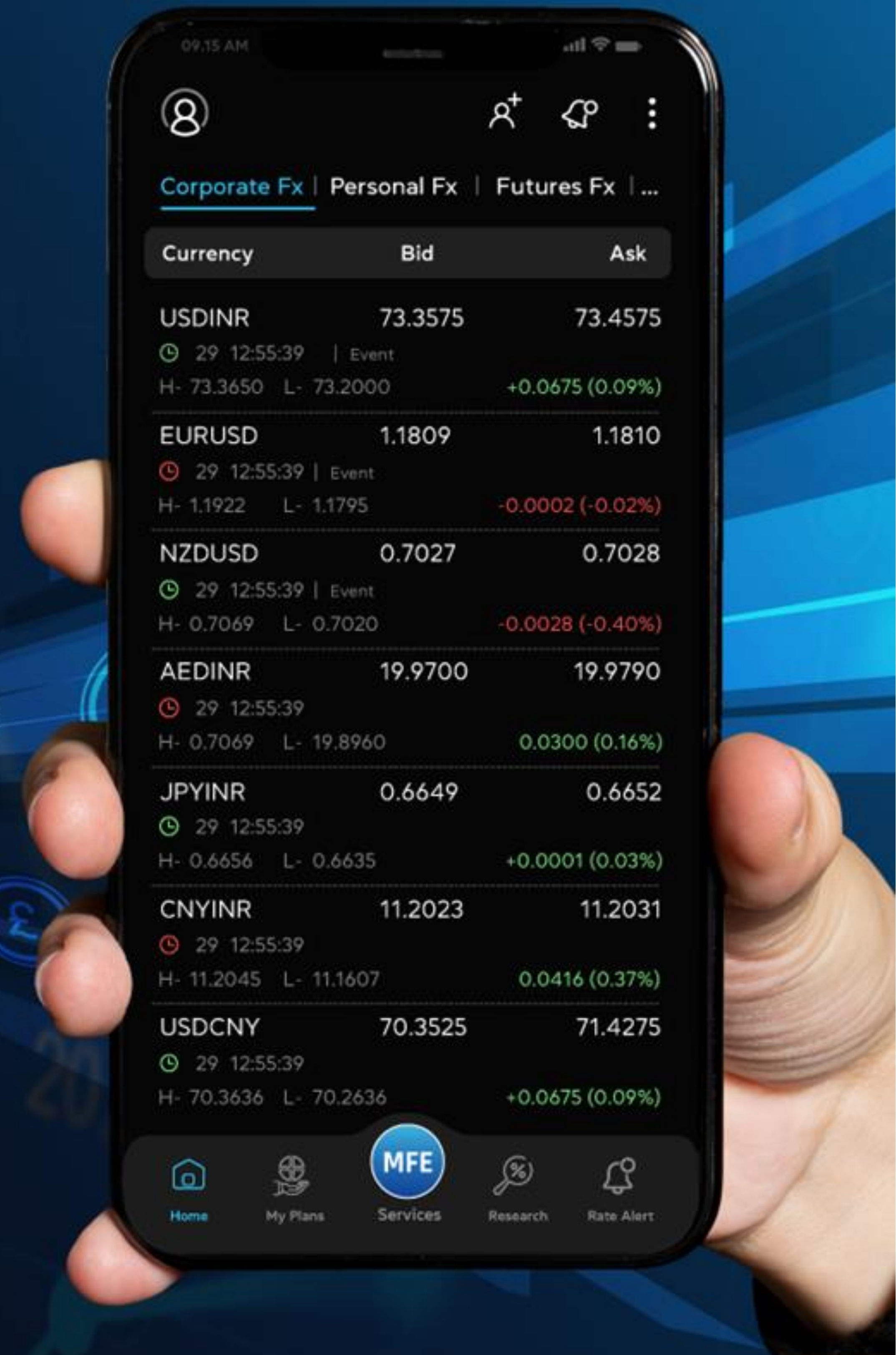
Options contract – In this the buyer of the option contract has the right but isn't obliged to buy or sell a particular currency on or before the expiry at the specified exchange rate. Along with the strike price (*rate at which the contract is executed*), in an option contract, the investor also has to pay an option premium which is a fixed cost like an insurance. Then depending on spot market, the investor can execute the option if the spot has moved adversely or participate in the market if spot is favorable to his position. Mostly speculators or traders use these option contracts.

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
Notified in the Foreign Trade Policy by Department of Commerce, Government 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