Myforexeye
Simplifying Forex

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

Forex Market Insights

Newsletter

Volume 23 → Aug 14-20, 2022

Welcome

Dear Members,

A memorable week – dollar index surged to its highest levels since Nov '02, sending major currencies to multi-year bottoms. Euro plunged to an abyss not seen after Dec'02, very close to the much talked about 'parity to dollar'. Global focus is gradually shifting towards fear of recession from the earlier worries of high inflation. Even though global commodity prices have cooled off significantly from their peaks, energy prices (*oil and gas*) continue to remain high. It's going to be a tough tight rope walk for global Central Bank policy makers.

In such an unprecedented and chaotic scenario, the rupee plunged to an all-time low of 79.375, despite RBI's persistent efforts to rein in volatility (*read rupee weakness*). The Central Bank's recent measures to enhance forex inflows are steps in the right direction.

It is extremely imperative to manage forex risk prudently to tide through turbulent times. Stay focused and may GOD bless us with wisdom.

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

CONTENTS

Key Takeaway Summaries

₹ INR

Indian market witnessed heavy buying of dollars (suspected to be for Govt defense purchases).

€ EUR

The EU will release the 2nd estimate of its Q2 GDP and final estimate of its July CPI.

£ GBP

Better than expected release of UK GDP and Industrial figures failed to impress market participants.

¥ JPY

The overnight sharp surge in Treasury yields of the US widened the US-Japan rate differential.

₹ INR

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

Events to WATCH

Aug 16, 12:00
WPI Inflation (YoY) (Jul)

Aug 16, 17:30
Trade Balance

Indian rupee started the week on 8-Aug at 79.35 against the US dollar, but the pair was highly volatile the entire week. The deviation of close to 35-40 paisa in a trading session on an average provided opportunities to both buyers & sellers. The pair ended the week at 79.6550. On Thursday, the Indian market witnessed heavy buying of the dollar (*suspected to be for Government defense purchases*) from 79.24 to 79.65 levels despite a fall in the dollar index and surge in Asian currencies. CPI eased to a 5-month low 6.71% in July from 7.01% in June. Retail inflation continues to remain above the RBI upper margin of 6% for the 7th consecutive month. The government has mandated the RBI to maintain inflation at 4% with a margin of 2% on either side. Oil prices have come down substantially after a long time from Russia's invasion of Ukraine and ensuing geo-political concerns.

Brent crude plunged more than 30% from its Mar high of close to $140 per barrel, to around $97 a barrel. However, the growing fear that the world's major economies are going to tumble into recession next year raises concerns. When economies slow, demand for energy naturally drops. The Indian 10-year bond yield inched lower and ended at 7.28% on Friday. It had fallen 8 bps in the last two sessions. US 10-year Treasury note dipped 5 bps to 2.84% and 2-year Treasury yield climbed slightly to 3.25% after slipping in the previous session. The upcoming week is important for the US with retail sales and crude oil inventories on Wednesday followed by initial jobless claims on Thursday. No major events are scheduled for the rupee next week.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
2.5%	-0.9%	8.5%	3.6%	$-79.614B

Events to WATCH

Aug 16, 18:00
Building Permits (Jul)

Aug 17, 18:00
Retail Sales (MoM) (Jul)

Aug 17, 20:00
Crude Oil Inventories

Aug 18, 18:00
Philadelphia Fed Manufacturing Index (Aug)

Aug 18, 18:00
Initial Job Claims

Aug 18, 19:30
Existing Home Sales (Jul)

Considering the volatility of the recent past, Rupee was relatively stable in this truncated week (Tuesday was non-trading) with a high low range of just around 50 paise. Despite volatility in the dollar index (*and correspondingly in €, £ and ¥*), our Rupee was steady. Last week, a 'Doji' was formed with long lower and upper shadows. Do recall that this was in continuation to the 'Evening Star' formed on the previous 3 weeks. In an extended uptrend, such candlestick patterns in succession indicate trend exhaustion and a possible reversal. Observe the upward moving trend line (*orange*) connecting US$/INR lows. Current levels are barely managing to hold above this trend line, a break of which could confirm more dollar downside. Weekly momentum indicators are overbought but gradually cooling off. Technically, previous dollar peak of 80.065 could be a short-term resistance.

Dollar exporters, who have been on the sidelines with low hedge ratios, should increase hedge ratios now. Use more of forwards and some vanilla options. Also explore conservative structured options to lower option premium cost. Dollar importers can breathe easy now and hedge using more of vanilla options and some forwards if costing/budget rates allow.

€ EUR

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

Events to WATCH

Aug 17, 14:30
GDP (YoY) (Q2)

Aug 17, 14:30
GDP (QoQ) (Q2)

Aug 18, 14:30
Core CPI (YoY) (Jul)

Aug 18, 14:30
CPI (YoY) (Jul)

The EUR/US$ pair surged this past week and marked the highest level of 1.0368 in over a month. It later moved downward to end at around 1.0260. Financial markets gained some interim positivity, despite prevailing concerns. High-yielding assets marched due to US inflation data. CPI rose by 8.5% YoY in July, lower than forecast. Technically, the US is already in recession, given that the GDP shrunk for two consecutive quarters. While the employment sector remains strong, 8.5% annual inflation is not motivating. At last, market participants are pricing in a 50 bps rate increase for September. The upcoming week will bring some first-tier events, but eyes will focus generally on potential recession risks. The EU will release the 2nd estimate of its Q2 GDP and the final estimate of its July CPI, while the US will report July Retail Sales, forecasted up by a modest 0.1%. Finally, the US Fed will report Minutes of its latest monetary policy meeting.

EUR/US$ continued to decline toward 1.0250 during American trading hours on the last day of the week. After the data released that the long-run inflation outlook rose to 3% in August from 2.9% in July, the dollar gained support against its majors, stressing on the pair. EUR/US$ came under pressure and was trading slightly below 1.0300 after four daily gains in a row yesterday, where the Fibonacci 50% retracement of the latest downtrend is located. In case the pair starts using that level as resistance, additional losses toward 1.0230 and 1.0200 could be witnessed. On the upper side, 1.0370 aligns as key resistance ahead of 1.0400 and 1.0450. Despite the knee-jerk, the continuation of the uptrend looks favored in the very short term where it is expected, the pair needs to breach the August high at 1.0368 along with the 6-month resistance line around 1.0380 in order to further move ahead to the next level of 1.0522.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.75%	-0.1%	9.4%	3.8%	£-11.38B

Events to WATCH

Aug 16, 11:30
Average Earning Index + Bonus (Jun)

Aug 16, 11:30
Claimant Count Change (Jul)

Aug 17, 11:30
CPI (YoY) (Jul)

Aug 19, 11:30
Retail Sales (Mom) (Jul)

After finishing the previous week deep in red, bulls succeeded and the pair rose by 0.5% this week, amid a down week for the American currency after softer than expected release of US inflation and falling bets for aggressive interest rate hikes by Fed in September. However, China's Covid lockdown worries kept supporting safe-haven dollar and better than expected release of UK GDP. Industrial figures also failed to impress market participants, as the pair couldn't sustain above 1.22 levels and ended the week at 1.2130. The UK is set to release its labour data along with US Industrial production and Housing starts of July month on Tuesday while UK'S inflation data is scheduled on the very next day which is expected to come 0.4% higher than the previous print of 9.4%. Thish could put more pressure on Bank of England to increase interest rates more aggressively. The pair will wrap up the week with Core retail sales of July month.

Sterling rallied a bit during the week, but again pair pulled back from 1.2275 levels. Looking at the trend in recent days market favours 1.20-1.23 region, as 1.20 levels are attracting lot of buyers while around 1.23 region we are seeing lot of selling. This trend could stay for some more time. Breaking of 1.20 levels could push the pair towards 1.18 region while on the upside breaking of 1.23 levels could open the doors for the next psychological level of 1.25. Pair ended the week around its 50 day moving average which is 1.2130 region. On the daily time frame, momentum indicators RSI and MACD are trading in a neutral zone.

¥ JPY

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

Events to WATCH

Aug 15,,05:20
GDP (QoQ) (Q2)

Aug 15, 05:20
GDP (YoY) (Q2)

Aug 15, 10:00
Industrial Production (MoM) (Jun)

Aug 17, 05:20
Trade Balance (Jul)

Aug 17, 05:20
Imports (YoY) (Jul)

Aug 17, 05:20
Exports (YoY) (Jul)

The US$/JPY pair has plunged during this week, piercing the 131.73 level. Yet, the pair back pedalled to show indications of life again, bouncing back enough to touch 135.58. The Yen reported a noticeable recovery immediately after lower US inflation data on Wednesday and has kept strengthening against the greenback. The market may continue to witness a lot of noise due to bond markets. After all, this had previously been all about the idea of the US Fed's interest rate hikes, while the Bank of Japan has been purchasing unlimited bonds to keep interest rates low. Besides, the US Fed has been rather tight on monetary policy, so this may be a perfect arrangement for the market to go higher. The 130 level below should give substantial support, and is likely to continue to witness buyers. Despite softer CPI data, US Fed members are looking for compelling evidence that inflation is cooling off. US$/JPY correction from 139.37 extended to as low as 130.38 last week but rebounded strongly since then, ending at 133.47.

A combination of factors undermines the yen and acts as a tailwind for the pair amid a modest pickup in the US dollar demand. Apart from this, a major divergence in the monetary policy stance adopted by the BOJ and the Fed offers additional support to the major. BOJ has repeatedly said that it will stick to its ultra-easy policy. In contrast, the recent hawkish comments on Thursday by several Fed officials indicated that the central bank remains on track to tighten its monetary policy, because inflation is still 4 times the tolerance level of 2%. RSI is at 45, and has recovered from the oversold area below 30. MACD Convergence is giving mixed signals followed by the positive candles in the last 2 trading sessions. The strong resistance is at 135.05 (*green horizontal line*). The major support is at 132.52 (*pink line*). If the pair gives the breakout below the 1st support level the next support can be seen at 131.73.

Myforexeye
Simplifying Forex

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

Correlation Between Foreign Exchange Market And Stock Market Movement

The stock exchange and interest rate are crucial factors of economic growth of any nation. The impact of interest rate on stock **exchange** offers valuable implications to monetary policy, risk management practices, financial securities valuation and government policy towards financial markets. Further, the share market and the foreign exchange market are vital elements of a financial system. This is because, forex and stocks are two of the most traded financial markets in the world. It is common for traders to look for correlations between the two markets that might help them to predict future price movements.

It is the stock market where shares are issued and traded either through exchange or over the counter markets. The two markets influence each other in many ways. In fact, on closer observation, one will find that all markets in the economy move in different directions depending on the movement of money. It is therefore difficult to determine the extent to which each market influences the other.

If one conducts a research on the market, it is clearly evident that - the **Sensex** and rupee movement share a strong and positive correlation. When the market goes up, rupee appreciation is a direct result and the converse is also true. Going a little beyond, you will find that Sensex and rupee are directly and indirectly affected by several similar factors that include outlook for the Indian economy, governance, trade deficit/surplus, foreign institutional investors (FII) inflows and outflows, **Forex Reserves** and monetary policies undertaken by Governments across the globe.

One of the various factors causing positive correlation between rupee and the Sensex is FII flows. As a direct consequence of FIIs pouring in money, the market rises. Since FIIs need Indian currency to invest in the **Indian market**, demand for the rupee goes up, in turn, boosting the currency. A stronger market leads to a better outlook for the rupee, leading to further inflows and thereby rupee appreciation.

This is a mutually beneficial positive cycle and the reverse too is possibility. For instance, in years when there are FII outflows, markets go down and rupee depreciates.

Bottom Line

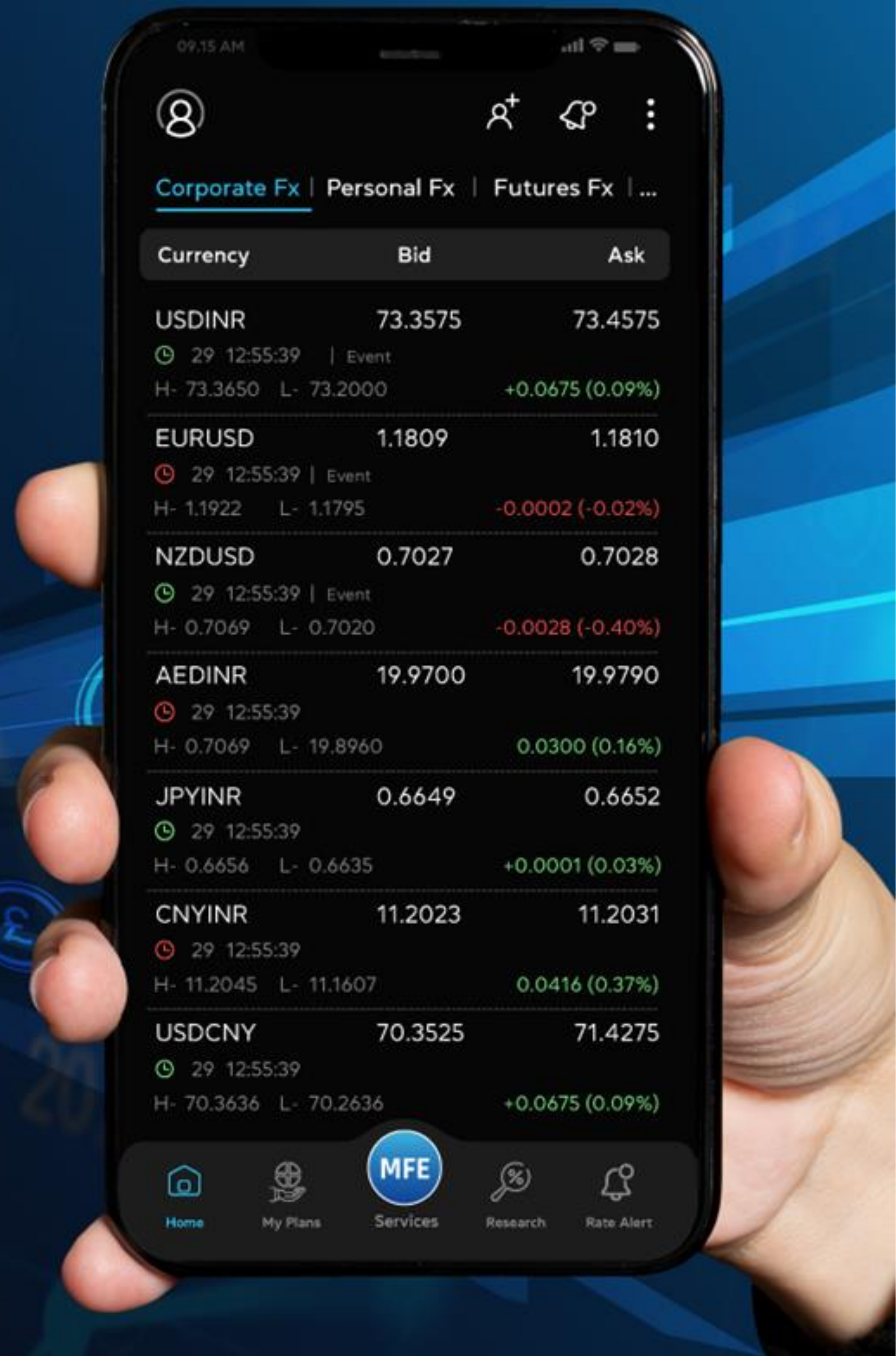
Market value of any firm can be significantly affected by the health of the national currency. Again, even investors' attention to the market can affect the forex market in a big way. Stock market performance is based on how much confidence investors have on assets being traded. If for any reason, investors start losing confidence in particular stocks, investments will start to fall. This leads to a larger perception that the economy might not be faring well. When investors pull out, they take their money with them, which has direct effects on **currency exchange markets**.

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