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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,

DXY index rallied to a fresh 20-year high last week at 109.99 impacted by US data, which left the DXY on track for a 0.5% weekly gain; even as it tried to recover from a knee-jerk sell-off and settled at 109.46 by the end of the week.

Mixed data releases of the last week ushered in a 75% chance of a third straight 75 bps rate hike in September. The EZ economic data releases last week signaled the region's inflation scaling a record high in August, while another set of numbers from the US showed that job openings had increased in July. Global equity funds attempted a huge sell off in the week ending August 31, on worries of continued rate hikes.

On the domestic front, last week was a highly volatile week for the US$/INR pair. Data from the IMF indicating that India overtook the UK to become the world's 5^{th} largest economy provided a big boost in confidence.

Regards

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Trade Promotion Council of India

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RBI looks ready to intervene to support INR by selling FX Reserves

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ECB policymakers indicated an aggressive monetary tightening that supported the Euro

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Pair hit a new low of 1.1499 since March 2020 when COVID-19 hit markets

¥ JPY

Hawkish sentiment from US Fed on hiking interest rates keeps the pair bullish.

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.4%	0.8%	6.71%	7.8%	$-28.68B

Events to WATCH

Sep 05 10:30
Nikkei Services PMI (Aug)

Sep 09,17:00
Deposit Growth

Sep 09,17:00
FX Reserves, US$

This week had mixed outcomes for Indian Rupee as it has been battling instability against the dollar. US$/INR opened trade at 80.07 in the previous week and was weak enough to go beyond the 80-level mark at some stages where the RBI was seen ready to intervene to support INR by selling its FX Reserves. In this endeavour, our FX Reserves have fallen by US$ 3.007 billion to US$ 561.05 billion. The market remained closed on 31st August on the occasion of Ganesh Chaturthi after which the rupee started to gain a little to reach 79.30.

IMF data indicating that the Indian economy overtook the UK to become the world's 5th largest provided a major boost in confidence. Coming to the economic events, we have a few key events in the coming week including ISM Non-Manufacturing PMI and ISM Non-Manufacturing Employment (*August*). In the middle of the week, we have Trade Balance (Jul) and finally US Initial Jobless Claims and Crude Oil Inventories. Market participants are also looking forward to Powell's speech scheduled for 8th Sep, as his speeches often give vital indicators on future monetary policy.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
2.5%	-0.6%	8.5%	3.7%	$-79.614B

Events to WATCH

Sep 6, 19:30
ISM Non-Manufacturing PMI (Aug)

Sep 6, 19:15
Services PMI (Aug)

Sep 7, 18:00
Trade Balance (Jul)

Sep 08,18:00
Initial Jobless Claims

Sep 08,20:30
Crude Oil Inventories

After the calm of last week, we saw good intra-day as well as inter-day volatility in the Indian Rupee this week. A weekly amplitude (*high low range*) of 82 paisa (*80.12-79.30*) is not something we usually see. First glance at the US$/INR daily candlestick chart shows a 'Double Top' formation – first top formed at 80.065 (*mid-July, 2022*) and the second top formed at 80.12 (*end-Aug, 2022*). In an extended uptrend, such a double top pattern indicates a resistance zone around 80.00-80.15 and a potential scenario for price reversal. Neckline of the double top is at 78.49 and this could be a critical support. Interestingly, there is a price gap (*orange horizontal lines*) around the neckline, which is yet to be filled up. There are other unfilled price gaps at lower US$/INR levels, which are highlighted by blue and grey horizontal lines. Momentum indicators of RSI, MACD and Slow Stochastic are neutral.

My sense is for a period of range-bound trades. 78.50 is a good support while levels around 80.05-80.15 could be a strong resistance. Play the range. Dollar exporters are recommended to increase their hedge ratios. Prefer more of forwards and some vanilla options or even structured options. Dollar importers should use vanilla options to hedge. US$/INR options volatility is low and hence option premiums will be cheap. At levels close to all-time Rupee lows, it is better to have flexibility of vanilla options than to get stuck with high obligatory forward rates.

EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.5 %	0.6%	9.1%	6.6%	€-24.618B

Events to WATCH

Sep 05, 13:30
Services PMI (Aug)

Sep 07, 11:30
German GDP (QoQ) (Q3)

Sep 07 14:30
GDP (YoY) (Q2)

Sep 08 17:45
Deposit Facility Rate (Sep)

Sep 08 17:45
ECB Interest Rate Decision (Sep)

The EUR/US$ hovered around parity for a 2nd straight week. The greenback outperformed all other major currencies, yet the EUR/US$ was the most resilient and refused to penetrate the multi-year low at 0.9898 and settled around 1.0000. ECB policymakers indicated an aggressive monetary tightening that supported the Euro. Eurozone CPI data showed inflation rose to 9.1% (YoY) and German CPI was up to 7.9% in August. US NFP data released on Friday indicated that average hourly earnings advanced by less-than-anticipated in August, while 315K new jobs were added, slightly above forecast. The unemployment rate increased to 3.7% as participation rate jumped to 62.4%. The ECB monetary policy meeting on September 8 should indicate its priority - curbing inflation or protecting weak growth.

The currency pair may be able to regain further if EU policymakers confirm a 75 bps rate hike. Market participants will be careful ahead of the event. In addition, the market participants will focus on US August ISM Services PMI and EU July Retail Sales. Finally, the EU will also report the final estimate of the Q2 GDP, foreseen constant at 3.9%.

EUR/US$ has marched upside above the 50-period Simple moving average on the four-hour chart and the Relative Strength Index indicator regained toward 50 yesterday. Although this does not project an upside momentum for the near-term, the bears seem to be cautious for now. On the upside, the psychological resistance lies at 1.0000 as per 20-SMA aligns and immediate second resistance at 1.0020 as Fibonacci 23.6% retracement of the latest downtrend; the breach of which leads to 1.0060 after the 100-period SMA. Conversely, downside Supports are at 0.9980 of 50-period SMA, then at 0.9920 (second support) and 0.9900 (*end point of downtrend and psychological level*). Further consolidation looks most likely for the near term and it is expected to maintain range bound within the 1.0100-0.9900, ahead of key ECB and FOMC events later in the month.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.75%	-0.1%	10.1%	3.8%	£-11.387B

Events to WATCH

Sep 05, 14:00
Composite PMI (Aug)

Sep 05, 14:00
Services PMI (Aug)

Sep 06, 14:00
Construction PMI (Aug)

GBP/US$ stayed on back foot last week, having lost more than 2% versus the dollar. The pair also saw a new low of 1.1499 since March 2020 when COVID-19 hit markets, fuelled by worries of slowing growth & inflation soaring into double digits. Dollar outlook remains positive, especially due to hawkish comments from Federal Reserve which pushed US 10 year treasury yields to 3.25%. It seems that there are less chances of rebound in the pair. Composite and Manufacturing PMI are scheduled at the start of week along with speech of BoE Member Dr Catherine L Mann. Further ahead, we also have Construction PMI of August, which is expected to come lower by 0.9 compared to the previous print of 48.9. On the US side we Fed Chair Jerome Powell is scheduled to speak, making this a very significant week.

Sterling remained in a bearish trend since the start of week as slowing British economy and hawkish stance from Federal Reserve pushed the pair towards its psychological level of 1.15. We might see short-term bounce as buyers could take long position at psychological region of 1.15, mainly due to the overextension of negativity, which could push the pair towards 1.20 levels. After that, the 1.23 level seems to be a good resistance. Looking at current volatility, the market could surprise traders with unexpected moves. On the daily time frame momentum indicator MACD trading in a neutral zone while RSI hovering around 28 which is considered an oversold zone.

¥ JPY

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

Events to WATCH

Sep 05, 06:00
Services PMI
(Aug)

Sep 08, 05:20
GDP (QoQ) (Q2)

Sep 08, 05:20
GDP (YoY) (Q2)

The US dollar marched up again during the week to pierce the 140 level. It's important to note that there is quite a bit of momentum underneath. A back-pedal to the 138.50 level would be ideal. Considering that the BoJ continues to print currency to control rising interest rates, it gives support US$/JPY to rise higher over the longer term. Traders have been dealing with low liquidity in the market as we are still in the middle of summer; thus the market may witness volume pick up and run higher again in the next two weeks. It's obvious that the market has far too much upward pressure. The flag measures an upward move to the 142.00 level, but whether or not the pair can mark the level anytime soon is not clear. The hawkish sentiment from US Federal Reserve and other central banks keeps the pair bullish.

US$/JPY hit a fresh 24-year high last week Friday and seems likely to have entered a consolidation phase. The Fed-BoJ policy divergence balances modest dollar weakness and continues to lend support. A modest US$ weakness may be restricting upside ahead of crucial US non-farm payroll. The pair was attracting some buying near the 139.85 level and jumped to a fresh 24-year high. It seems to have entered a bullish consolidation phase and was seen oscillating in a narrow band in the mid-140s during the early European session. Technically, the key resistance on the upside lies at 140.7, the second resistance at 141.19, the breach of which could lead the pair to last resistance of 142.15. Similarly on the downside the support levels are at 139.24 as per Fibonacci retracement of 61.8%, the second support at 138.28 & end point support at 137.79.

Foreign Exchange Risk Management Is Decisive: Why Is It So?

Forex trading is highly profitable if done in a calculative way. Corporates tend to face bottomline issues only when they are unable to adopt logical steps to avoid devastating effects of negative foreign exchange exposure. They must plan out simple risk management strategies to tackle foreign exchange volatility.

Foreign exchange rates fluctuate due to a number of factors such like economic fundamentals, monetary policy, fiscal policy, global economy, speculation, domestic and foreign political issues and many more. So how do you strategically manage forex risk management?

Rationalizing FX Risk Management

Foreign exchange exposure refers to responsiveness of a firm's cash flows to changes in exchange rates. In order to plan out Foreign Exchange & Risk Management strategy, it is important to understand the various types of foreign exchange exposure:

- Transaction Exposure
- Economic Exposure
- Translation Exposure
- Operating Exposure

Transaction exposure component of foreign exchange rates is referred to as short-term economic exposure. Transaction risk is the risk of an exchange rate changing between transaction date and final settlement date. It can result in either a gain or loss at the conversion stage.

Economic exposure refers to a long-term effect of transaction exposure. It occurs when firms are continuously affected by an unavoidable exposure to forex over the long term.

Translational risk is a major threat when conducting business in foreign markets. It occurs when your company has any assets and liabilities denominated in a foreign currency which may shift in value due to changes in exchange rate.

Operating exposure is caused by unexpected changes in exchange rates on a company's future cash flows from foreign operations.

Increase in Input Costs- The manufacturers also initially see the increase in input costs (*raw materials, labor, and utilities*) but eventually, this cost is passed on to the consumers by increasing the price of finished goods.

Conclusion

It is often tempting to defer a decision to implement foreign exchange risk management strategy, perhaps in the hope that rates may move in one's favor in the short term. Historically, it has been observed that currency markets have been extremely volatile and unpredictable. A conclusive strategy has been formulated and implemented to safeguard profits. Foreign exchange and risk management is critical for any corporate having forex exposure and an internal forex policy should be formulated to mitigate risks related to forex transactions.

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