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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 28 → Sep 19-23, 2022

Welcome

Dear Members,

US stocks ended the week in the red, falling to two-month lows as warning of an upcoming global slowdown quickened the investor's flight to safety at the conclusion of a turbulent week. Due to the economic pressure across the board along with Fed meeting next week where central bank is widely expected to raise rates by 75 bps. Some traders are betting on a 100 bps increase. Bank of Japan and Bank of England are also due to meet next week.

On the currency front, yen lost more than 20% of its value this year to reach a 24-year trough at 144.99 last week. The two-year US treasury yield increased to 3.92%, its highest level since 2007. The Indian government has amended the Foreign Trade Policy to allow international trade invoicing, payment and settlement in the Indian rupee, activating the mechanism announced by the Reserve Bank of India to facilitate trade in the domestic currency.

Under this arrangement, authorized banks in India are allowed to open special rupee Vostro accounts of correspondent banks of any partner trading country to facilitate trade in the Indian currency. In the near term, spot US$/INR is likely to trade in the range of 79.30 to 79.90.

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

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Key Takeaway Summaries

₹ INR

The Indian Rupee reached a high of 79.71 amid possibility of a 100 bps rise hike by Fed.

€ EUR

A 100 bps rate increase is anticipated, though 75 bps seems most likely.

£ GBP

Pound hit a 19-month low against Euro at 0.8772, as the ECB is seen as more aggressive in increasing rates.

¥ JPY

US$/JPY increased during the week, reaching a high of 144.97.

₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.4%	0.8%	7%	8.3%	$-27.98B

Events to WATCH

Sep 23 17:00
Deposit Growth

Sep 23 17:00
FX Reserves, US$

The US$/INR pair recovered its previous week losses to start the week at 79.60, as advances were restrained by importers' thirst for dollars. But in the next trading session, the pair surged to a one-month high i.e. 79.02 versus the dollar as higher-than-anticipated domestic inflation figures fueled hopes for a more aggressive rate hike by the RBI. Towards the end of the week, the rupee again started to fall significantly against the US$. On Thursday, INR was recorded to be as high as 79.71 due to the prospects of a more aggressive Federal Reserve rate hike path, including a possibility of a 100 basis point rise next week after hotter-than-expected US inflation data.

As a result, the two-year Treasury yield premium over the corresponding 30-year benchmark increased by 35 basis points, driving the yield curve inversion past the lows reached in August, to depths last seen in 2000. The coming week has a few key economic events. On 21 Sep, we have the Fed interest rate decision as well as Crude Oil Inventories and towards the end, we have initial jobless claims data. Market participants have their eyes on the coming Fed interest rate decision, which has the potential to change the US$/INR trajectory.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
2.5%	-0.6%	8.3%	3.7%	$-70.70B

Events to WATCH

Sep 20, 18:00
Building Permits (Aug)

Sep 21, 02:00
API Weekly Crude Oil Stock

Sep 21, 19:30
Existing Home Sales (Aug)

Sep 21,20:00
Crude Oil Inventories

Sep 21,23:30
Fed Interest Rate Decision

Sep 22,18:00
Initial Jobless Claims

This week, the Indian rupee depreciated sharply against the US dollar after the CPI figure of US came at 8.3%, which was higher than the expectation of 8.1%. This led the local unit to depreciate against the US$ to 79.8550 on Friday and end the week at 79.74. The dollar index gained strength against major currencies, with the Chinese Yuan emerging the worst performing currency vs the US dollar.

Since the beginning of July, US$/INR has touched a high of 80.12 (*an all-time high*) and a low of 78.49. US$/INR made multiple attempts to give the breakout above levels of 80.06, 80.12, 2-3 attempts to 79.91-93 – highlighted by the red ellipses. On the other side of the spectrum, the green ellipses highlight important support areas of 78.49, 78.93 and 79.30. US$/INR forwards premium declined substantially in the recent past to 2.81% p.a. which makes exporters a little hesitant to book long-term forwards. However, to protect the business benchmark, importers and exporters have to keep re-evaluating strategies to get benefit from the spot momentum in the market. Dollar importers are gradually getting some breathing space and, in all likelihood, should get better levels to hedge – target around 79.00 to restart hedging using forwards.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.25 %	0.8%	9.1%	6.6%	€-33.978B

Events to WATCH

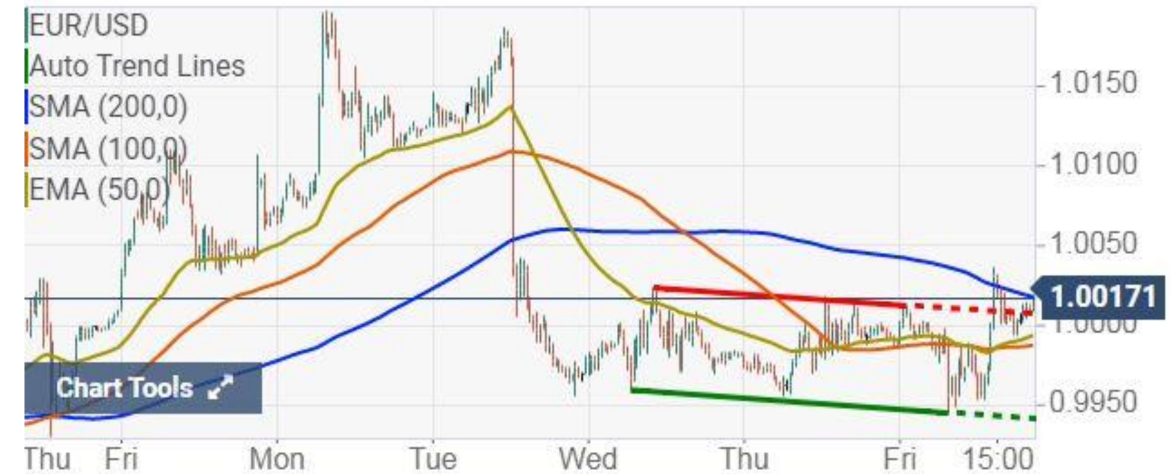
Sep 20, 11:30
German PPI (MoM) (Aug)

Sep 23, 13:00
German Manufacturing PMI (Sep)

Sep 23 13:30
Services PMI (Sep)

Sep 23 13:30
Manufacturing PMI (Sep)

The EUR/US$ pair advanced to its peak level of 1.0197 at the beginning of the week before falling the next day and ending the week at a low of 0.9945. Europe's attempts to curb the energy problem fell short against the dollar's strength. Although the energy crisis persisted, the currency managed to survive thanks to two developments. First, it appears that EU leaders are getting closer to a plan to subsidize consumption through a special windfall tax. Second, Ukraine has been making significant gains on the battlefield.



US Fed is now the focus of attention, with everything else taking a back seat. In August, the Core Consumer Price Index increased by 0.6%, twice the initial projections. A 100 bps rate increase was rumored to be coming, though 75 seems most likely as per traders, as a result of additional CPI indicators moving upward. On the economic calendar, the preliminary Purchasing Managers' Indexes (PMIs) from S&P Global stand out. In August, every indicator read below 50, indicating contraction. Rationing of gas would harm Europe's industrial engine. The services industry, though, could be more optimistic.

The shared currency ended the week flat. Even though the trend is clearly bearish, it has been able to remain above 0.9850/0.9900. As the euro managed to close above 1.0070, it could alleviate the negative pressure. The next level is the 1.0300 key resistance area that contains the 20-week moving average. On the flip side, support is located at 0.9910, followed by 0.9860 and 0.9730. In the US trading session the pair has gathered recovery momentum and climbed above parity during the end of the week. The dollar stayed on the defensive mode ahead of the mid-week-end flows and the soft inflation numbers from the UoM survey, allowed the pair to move higher. The EUR/US$ pair was continuously moving in a narrow bandwidth around the critical figure of 1.0000 amid the unavailability of any potential trigger that could direct a significant move. Generally, after falling towards an insecure situation, currencies take sufficient time to build a ground for crucial moves. Considering the unavailability of a decent pullback move, the asset is expected to deliver a downside break.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.75%	-0.1%	9.9%	3.6%	£-07.793B

Events to WATCH

Sep 22, 16:30
BoE Interest Rate Decision (Sep)

Sep 23, 14:00
Manufacturing PMI

Sep 23, 14:00
Services PMI

Sep 23, 14:00
Composite PMI

Sterling started well during the beginning of the week, but couldn't sustain for a longer period amid stronger-than-expected US inflation data released on Tuesday evening. It boosted market participants' bets that the Federal Reserve will need to stay aggressive in increasing interest rates. Weak retail sales data released on the last trading day led the pair to 37-year low level of 1.1351 as it stoked UK inflation and recession fears. Pound also hit a 19-month low against the Euro at 0.8772, as the ECB is seen as more aggressive in increasing rates. It's quite an important week for the pair on the economic side, though the UK will remain closed on Monday due to a bank holiday. As the most important BoE interest rate decision is scheduled on Thursday, and a 50 basis points hike is already fully discounted - a higher than expected rate is positive for the GBP, while a lower than expected rate is negative. Composite PMI is set to release at the end of week along with Manufacturing and Services PMI.

The British currency initially took off to the upside during the trading week but then collapsed again and fell nearly 200 pips during the week close to the 1.14 level. Ultimately, the market is going to see plenty of selling pressure, because the UK is in a serious conundrum going into the winter. The region of 1.14 is where pair rebounded last time but we saw 1.1351 levels on the last trading day. Traders could look for selling the pair on every rise in the near term as it is getting difficult to find the support for the pair on the charts. On the upside we could see a bounce towards 1.15 psychological level, breaking of these levels might open the doors for the next resistance at 1.1750 region. On the daily time frame momentum indicator RSI is trading at 33, which is considered to be an oversold zone and MACD is in neutral zone.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.1%	0.9%	2.6%	2.6%	¥ -2817B

Events to WATCH

Sep 20, 05:00
National Core CPI (YoY) (Aug)

Sep 22, 08:00
BoJ Interest Rate Decision

The US$/JPY increased during the week, reaching a high of 144.97. Investor enthusiasm for riskier assets is tempered by growing concerns about a deeper economic slowdown, which is advantageous for conventional safe-haven currencies. The offered tone around the US$/JPY pair is further enhanced by rumors that the BoJ may intervene soon to stop further free fall in JPY.

Investors have started prospecting a complete 100 basis point Fed funds rate hike at the September meeting. The September preliminary Michigan US Consumer Sentiment Index will be announced next. This will fuel demand for US$ along with US bond yields. However, traders can avoid making risky bets and choose to stay on the sidelines in anticipation of the important central banks' event risks that will occur next week. On Thursday, the BoJ meeting will be held after the Fed releases its policy decision. This will heavily influence the next direction of US$/JPY.

US$/JPY started the week at 142.11 and the daily chart portrays consolidation in the range between 140.00 to 144.99 for the last 2 weeks. Pair ended the week slightly higher at 142.90 level. The technical chart is indicating US$/JPY price action is overextended to the upside, while the Relative Strength Index, exited from the overbought region, crossed below its 7-day RSI's simple moving average, which projects sellers begin to gather momentum. So if US$/JPY sellers want to regain control, they need a decisive break below the 20-day exponential moving average at 140.64. MACD crossover is pointing downwards in bearish territory, which suggests selling pressure is mounting in the pair. Resistance can be seen at 144.96 (*green horizontal line*), which works as a strong hurdle. If the US$/JPY gives a breakout below 142.00 psychological level, the next support would be at 141.50 (*red horizontal line*).

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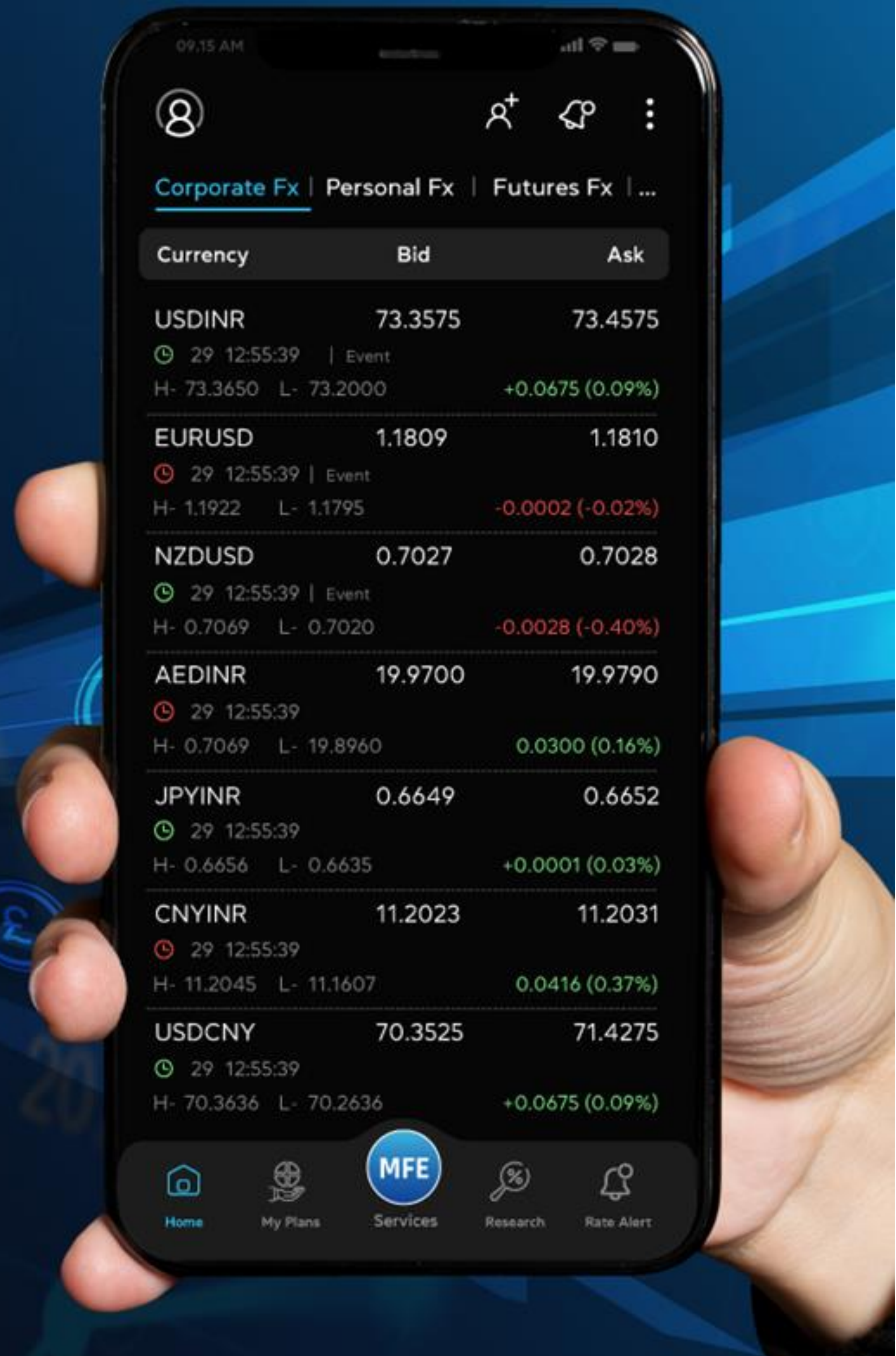

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