



## Forex Market **Insights**

Newsletter

Volume 27 Sep 12-16, 2022

# Welcome

Dear Stakeholders,

The death of Queen Elizabeth led to the BOE meeting getting postponed in the UK. The ECB raised rates by a record 75 bps on Thursday, signalling further hikes to fight inflation.

US benchmark 2-year treasury yields shot up to a 14-year high of 3.57%. Long-term yield stayed at 3.32%, below the 11-year high of 3.498% as market participants accepted the view that more interest rate hikes are required from the US Fed. DXY index didn't show much reaction to comments made by the Fed president], settling at 109.00 by the end of the week.

The major key data awaited is US inflation numbers for August to be released on Tuesday. On the currency front, the US\$/JPY inched higher up to 24-year high OF 144.98, whereas the GBP/US\$ pair hit a 37-year low of 1.1403. Coming to the domestic currency, US\$/INR remains in a range bound trade between 79.00 to 80.00 levels since last month. The last lot of Fed speeches starts from this weekend and will be important to watch for clear directions.

Regards

Mr Vijay Gauba  
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India

## Key Takeaway Summaries

₹ INR

The Indian rupee marked its biggest weekly gain on Friday when it tested 79.47.

€ EUR

The ECB hiked rates by 75 bps as predicted, taking the benchmark deposit rate to 0.75%.

£ GBP

Liz Truss announced that the UK will introduce a two-year energy price guarantee

¥ JPY

Officials elevated chances of possible intervention to stop the Yen's strong fall.

### CONTENTS

INR 2

US\$ 3

EUR 4

GBP 5

JPY 6

BLOG 7

## Events to WATCH

Sep 12 17:30  
CPI (YoY) (Aug)

Sep 12 17:30  
Manufacturing Output (MoM) (Jul)

Sep 12 17:30  
Industrial Production (YoY) (Jul)

Sep 15,17:30  
Imports (US\$)

Sep 15,17:30  
Exports (US\$)

Sep 15,17:30  
Trade Balance

Sep 16,17:00  
FX Reserves, US\$

The Indian rupee started at 79.71 against the dollar and the pair was volatile throughout the week. In initial trades, the rupee was under pressure and tested the level of 79.94 (*highest level of the week*) on Wednesday. It marked its biggest weekly gain on Friday when it tested 79.4725 and managed to close at 79.59, as the DXY plunged and oil prices headed for losses. The dollar index ended the week at 108.98 and oil prices rose above US\$ 91 per barrel on Friday. Foreign investors have bought about US\$ 350 million worth of Indian equities so far this month after US\$ 6.5 billion worth of purchasing in August. Meanwhile, oil headed for a back-to-back weekly loss, burdened by demand tensions, increasing stockpiles, and possibility of the Biden administration making a release from emergency reserves.



Crude has declined by nearly a third since its June high on concerns of a global slowdown. Over the last week, benchmark Nifty gained 1.63% or 287 points and Sensex rose 1.66% or 979 points. Positive rally in the stock market in India and comparatively lower Brent level may lead to appreciation in the local unit against dollar next week. That said, range for the pair is expected to be 79.05 to 79.95. Next week is data driven for the US, beginning with Core CPI and CPI (YoY) on Tuesday followed by PPI (MoM) and crude oil inventories on Wednesday along with initial jobless claims and retail sales (MoM) on Thursday. No major data is due for the rupee this week.

## Events to WATCH

Sep 13, 18:00  
CPI (YoY) (Aug)

Sep 14, 18:00  
PPI (MoM) (Aug)

Sep 14, 20:00  
Crude Oil  
Inventories

Sep 15, 18:00  
Core Retail Sales  
(MoM) (Aug)

Sep 15, 18:00  
Philadelphia Fed  
Manufacturing  
Index (Sep)

Sep 15, 18:00  
Initial Jobless  
Claims



After declining to a weekly low of 79.945, the Indian unit recovered smartly to close the week at 79.59 (*in line with the declining dollar index and recovering Asian currencies*). This time, for a change, let's analyse US\$/INR hourly candlestick chart. Since the beginning of July, US\$/INR has touched a high of 80.12 (*all-time high*) and a low of 78.49. The pair has made multiple attempts to break the top – levels of 80.06, 80.12, 2-3 attempts to 79.91-93 – highlighted by the red ellipses. Despite such efforts, the top at around 79.90 – 80.10 has held quite well, establishing a crucial resistance area. On the reverse side, observe the green ellipses, which highlights the key support areas of 78.49, 78.93 and 79.30. Separately, price gaps on the daily chart that are yet to be filled are highlighted by the orange, grey and blue horizontal lines.

All evidences for range bound trades to continue and it makes sense to play the range. Exporters who have sold forwards on previous recommendations are in the money now and should continue to increase their hedge ratios. Maintain the use of forwards. Dollar importers are gradually getting some breathing space and, in all likelihood, should get better levels to hedge – target 79.00-79.20 to restart hedging using forwards. Can use vanilla options to hedge if mandated to hedge at current levels.

## Events to WATCH

Sep 13, 14:30  
ZEW Economic Sentiment (Sep)

Sep 14, 14:30  
Industrial Production (MoM) (Jul)

Sep 15 14:30  
Trade Balance (Jul)

Sep 16 14:30  
CPI (YoY) (Aug)

Sep 16 14:30  
Core CPI (YoY) (Aug)

The EUR/US\$ pair inched higher and marked the level of 1.0113 recovering from 0.9863 (*lowest since December 2002*). The greenback dominated through the first half of the week but changed course on Wednesday due to central banks' noise. The ECB hiked rates by 75 bps as predicted, taking the benchmark deposit rate to 0.75%. Ahead of the ECB announcement, focus was on increasing energy prices, hitting households and businesses evenly. Germany will release final estimate of its August CPI on Tuesday, forecasted at 7.9% (YoY). On the same day, the US will report August CPI forecasted at 8.1% (YoY) compared to 8.5% in the previous month. Later in the week, the US will publish August Retail Sales and preliminary estimate of September Michigan Consumer Sentiment Index, while the EU will publish the final estimate of its August inflation data.

Notably, the US Fed enters blackout mode ahead of its monetary policy meeting on September 21. It is in a better position to curb economic challenges, eventually supporting the dollar further.

The Relative Strength Index indicator on the four-hour chart inched higher above 60, confirming the upside shift in the short-term outlook. EUR/US\$ traded a couple of pips above 1.0100, where the 200-period SMA is located. In case the pair starts using that level as support, it could target 1.0160 as per the Fibonacci 61.8% retracement of the latest downtrend and next is the psychological level of 1.0200. On the other hand, buyers could stay on the side-lines if EUR/US\$ fails to hold above 1.0100. In that scenario, 1.0050 is the Fibonacci 50% retracement could be seen as interim support ahead of 1.0100 psychological level, 100-period SMA.

Further upside the pair should meet the temporary hurdle at the 55-day SMA at 1.0152 on account of the 7-month resistance line, near 1.0200, an area also coincident with a minor up barrier at 1.0202. The pair should see its downside pressure mitigated once this region is cleared. In the longer run, the bearish view is expected to prevail as long as it trades below the 200-day SMA at 1.0760.



## Events to WATCH

Sep 12, 11:30  
Manufacturing  
Production  
(MoM) (Jul)

Sep 12, 11:30  
GDP (MoM)

Sep 13, 11:30  
Average Earnings  
Index +Bonus (Jul)

Sep 13, 11:30  
Claimant Count  
Change (Aug)

Sep 14, 11:30  
CPI (YoY) (Aug)

Sep 15, 16:30  
BoE Interest Rate  
Decision (Sep)

Sep 16, 11:30  
Retail Sales  
(MoM) (Aug)

Sterling put an end to its 3 week losing streak and staged a strong comeback from roughly four-decade low of 1.1403 hit during the first half of the week. Pair rebounded at the end of week as Dollar bulls shrugged off the mixed US labour market report for August, which lowered the probability of a 75 bps Sept rate increase. Newly elected British PM Liz Truss announced that UK will introduce a two-year "energy price guarantee also helped the pound gain versus the dollar. She explained that a typical household will pay no more than £2,500 a year on energy bills, translating into an annual saving of roughly £1,000 based on October prices. Manufacturing Production (MoM) of UK is scheduled along with GDP (MoM) at the start of week while unemployment rate of July will be released the very next day. Mid-week, we have inflation data of UK, which is again expected come at double digit (10.2%). Market participants will be eying the BoE interest rate decision (*expected to remain unchanged*) due at the end of week along with core retail sales (MoM).



After tumbling to a 37 year low close to 1.14 level during the start of week, pair got some buyers and reached above 1.16 levels at the end of week. The Federal Reserve is in fact going to continue to tighten monetary policy and inflation data of UK is due in the next week itself. The 1.15 level will continue to remain a good support. This area attracts a lot of attention, as it is a large, round, psychologically significant figure. It has previously been very supportive, while on the upside, the 1.1750 region seems to be a good resistance. Breaking these levels could open doors for more buying in the pair and lead it towards its 50 days SMA. Momentum indicators MADC and RSI are giving bullish signals as RSI trading near 36 on the daily time frame is considered an oversold zone.

# ¥ JPY

REPO RATE

-0.1%

GDP

0.9%

INFLATION

2.6%

UNEMPLOYMENT

2.6%

TRADE BALANCE

¥ -1437B

## Events to WATCH

Sep 13, 05:20  
PPI (MoM)  
(Aug)

Sep 13, 05:20  
PPI (YoY) (Aug)

Sep 14, 10:00  
Industrial  
Production  
(MoM) (Jul)

Sep 15, 05:20  
Trade Balance  
(Aug)

Sep 15, 05:20  
Imports (YoY)  
(Aug)

Sep 15, 05:20  
Exports (YoY)  
(Aug)



The US Dollar surged during the trading week to reach the 144.99 level but back-pedalled rather significantly. The US\$/JPY accelerated lower on Friday as Japanese officials elevated chances of possible intervention to stop the Yen's strong fall; as the currency inched to the lowest in 24 years against the US\$. The widening gap between monetary policies of the two central banks is the main reason for the Yen's fall. The US Fed is going to carry on tightening monetary policy, but the Bank of Japan continues to print Yen to fight rising interest rates, essentially buying unlimited bonds. Given enough time, the market may probably witness volatility. If we break down below the 140.00 level, that will lead to some correction & open up the chance of a move down to the 138.00 regions. If the pair surpasses the 145.00 level, it's possible that the market could continue to go higher, but the Japanese Yen desperately needs some type of pullback to offer value amid a market that has been out of control.

US\$JPY started the week at 140.10 and the pair made 4 consecutive green candles in a row this week. The Japanese yen has broken down to 144.99 against the US dollar (*as the yen hit the lowest in 24 years against the dollar*). However, Friday's sharp downfall might still be categorized as a corrective pullback amid extremely overbought conditions, especially after a significant rally of nearly 30% since the beginning of the year. That said, a big divergence in the monetary policy stance of the BOJ and the US Fed warrants some caution before assuring that the pair has topped out. After a sharp correction, pair can attract some buying near the mid-141.00s. On the technical chart, RSI is in overbought territory at the level of 70, indicating selling pressure on the pair and MACD is providing mixed signals. The candlestick trend is reflecting an evening star pattern due to a sharp decline on Friday. Strong resistance can be seen at 145 (*green horizontal line*). The first support is at the level of 141.50 (*red line*) and second prominent support is at 140.24 (*yellow line*).





# BLOG

## Effect Of Foreign Exchange Fluctuation On Cross Border Payments

### What is cross border payment?

A cross border payment refers to transactions which are operated in at least two different countries between individuals, corporates or financial institutions. These countries can be geographically sharing a border or far from each other. Daily volume of transactions for an MNC is huge making them rely on efficient **supply chains**. Also if payment is to be made to multiple foreign suppliers, then cross border transactions become important. So need for their automation is high.

Many countries have policies which involve processes to be followed while transacting across borders. For example, the European Union has a regulation wherein banks are to charge the same amount to cross border transactions as applied to domestic transaction where payments are in Euro. But if the currency is different, then foreign exchange rate is applicable.

With ever changing regulations and policies, and also evolving digitalization the cross border payment scenario is ever changing

Banks generally have fees which are not clearly visible or one has difficulty in tracing the payments. **SWIFT** has made payments fast, but effective payment processes and support are reasons why one chooses one bank over another.

Each time a payment is made or received, the transaction is exposed to foreign exchange risk. This transaction exposure has to be managed by leveraging digital technology. This ensures that real-time payments are made keeping in mind compliance and regulatory security. The technology has reduced transaction time to a few minutes if not seconds.

### Foreign exchange risk

Cross border payments being exposed to Foreign Exchange Risk calls for keeping abreast of the markets with which the deal is made.

But simply tracking of the economies of both nations is not justified now as the markets are more interlinked than ever before. Social media and news reporters have made the availability of

information faster. Thus an event in, say, Saudi Arabia will affect the movement of currency in Japan, even though they aren't directly connected to each other. Thus **Transaction Exposure** calls for a closely knitted understanding of the forex market along with other markets.

Timely tracking of currencies one is exposed to gives a better understanding of when and how to hedge to ensure forex risk is mitigated and costing is not affected. One needs to assign the forex treasury portfolio to advisors who would manage this **Foreign Exchange Fluctuation**.





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Currency	Bid	Ask
USDINR	73.3575	73.4575
29 12:55:39   Event		
H- 73.3650	L- 73.2000	+0.0675 (0.09%)
EURUSD	1.1809	1.1810
29 12:55:39   Event		
H- 1.1922	L- 1.1795	-0.0002 (-0.02%)
NZDUSD	0.7027	0.7028
29 12:55:39   Event		
H- 0.7069	L- 0.7020	-0.0028 (-0.40%)
AEDINR	19.9700	19.9790
29 12:55:39		
H- 0.7069	L- 19.8960	0.0300 (0.16%)
JPYINR	0.6649	0.6652
29 12:55:39		
H- 0.6656	L- 0.6635	+0.0001 (0.03%)
CNYINR	11.2023	11.2031
29 12:55:39		
H- 11.2045	L- 11.1607	0.0416 (0.37%)
USDCNY	70.3525	71.4275
29 12:55:39		
H- 70.3636	L- 70.2636	+0.0675 (0.09%)

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