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

Forex Market Insights

Newsletter

Volume 34 → Oct 29th to Nov 04th 2022

Welcome

Dear Stakeholders,

Last week data releases signaled a new record high inflation reading in Germany during September with the annual rate reaching 10.4%. Investors continue to price in a 75 bps hike in the coming week's FOMC meeting. Important data for last week includes Gross Domestic Product, inflation, and the EU's Economic Sentiment for France, Spain, Germany, and the Euro area, respectively.

Growth in France and Spain for Q3 came in line with the forecast, though they flashed recession signs as both countries trailed the second quarter readings. The major data awaited for next week are Euro zone inflation and the US official employment report which results in high volatility.

The ECB and the US Fed will continue to tighten monetary conditions, which is positive for both the Euro and the US Dollar. Interest rate differentials and peak objectives amid the current high inflationary outlook would favor the US Dollar. On the domestic front, US$/INR pair struggled to cross the hurdle of 82.40 wherein DXY index experienced a minor correction after failing to sustain above the critical resistance of 110.50.

Regards

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Key Takeaway Summaries

₹ INR

Posted a weekly rise on bets that US Fed will pivot to smaller-sized rate hikes from Dec.

€ EUR

Euro held steady as fresh statistics showed the economic downturn is getting worse.

£ GBP

Pair gained momentum under the new UK PM Rishi Sunak, and the winning run continued for a 3rd week in a row

¥ JPY

Pair is overbought, it is not surprising that the market could see a small pullback.

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.9%	-1.4%	7.41%	6.4%	$-23.872B

Events to WATCH

Oct 31 17:30
Infrastructure Output (YoY) (Sep)

Nov 01 17:50
Trade Balance

Nov 03 10:30
Nikkei Services PMI (Oct)

Nov 04 17:00
FX Reserves, US$

Nov 04 18:00
Deposit Growth

The Indian rupee was slightly changed against the dollar on Friday but posted a weekly rise on bets that the US Fed will pivot to smaller-sized rate hikes from Dec. The US$/INR started the week at 82.69 (25-Oct) followed by a weekly low of 82.14 (27-Oct) and managed to settle at 82.47 (28-Oct). The Indian 10-year government bond yield ended at 7.41% on Friday. The US 10-year yield was at 4.01%, down 20 bps so far this week, after data reflected US consumer and business spending slowed in the 3rd quarter, indicating a possible peak in inflation that could allow the US Fed to ease its stance on aggressive rate hikes. The Nifty advanced 0.28% to 17,786.80 at the close, and the Sensex ended 0.34% higher to 59,959.85.

Indian shares registered their 2nd straight weekly gain on Friday, boosted by automobile and energy stocks. RBI came up with an unscheduled policy meeting on 3rd Nov 2022- just after US Fed monetary policy decision. After hiking by 50 bps on 30 Sep 2022, it will be interesting to watch whether RBI comes up with a surprise rate hike or just discuss a reply to the government, explaining the reasons for its failure to contain inflation up to the threshold of 6%. Surely, volatility will prevail in the pair. However, if RBI comes up with any rate hikes, we could see a knee-jerk rise in the rupee, but eventually, it will depreciate.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.25%	2.6%	8.2%	3.5%	$-67.398B

Events to WATCH

Nov 01, 19:30
ISM Manufacturing PMI (Oct)

Nov 01, 19:30
JOLTs Job Openings (Sep)

Nov 02, 17:45
ADP Nonfarm Employment Change (Oct)

Nov 02, 23:30
Fed Interest Rate Decision

Nov 03,19:30
ISM Non-Manufacturing PMI (Oct)

Nov 04,18:00
Nonfarm Payrolls (Oct)

In a festival induced holiday truncated week, Rupee was quite stable around 82.14 – 82.79 despite reasonable volatility in the dollar index as well as in Chinese Yuan. Central Banks' actions, in taming currency volatility as well as in calming sky high inflation, along with continued geo-political worries were dominant themes.

Analyzing the US$/INR weekly candlestick chart, one can notice 3 consecutive weeks of sideways candles with a long upper shadow candle in between. In an extended uptrend, this could be the first sign of exhaustion. Comparing the US$/INR peaks of Jul22 and Oct22, there is a negative divergence in Slow Stochastic – prices have moved higher while the indicator has shown a downtrend. Observe the orange trend line in the price chart along with the blue trend line in the indicator chart (second sub-chart). The other two momentum indicators of RSI and MACD continues to hover around the overbought territory.

My sense is for a gradual cool-off in US$/INR. Exporters should maintain adequate hedge ratios and should not keep large unhedged positions in anticipation of more rupee weakness. Despite low forward premiums, forwards should be the preferred hedge instrument. Testing times for importers - vanilla options look to be the best bet as of now. Due to high volatility and uncertainty, option premiums could be marginally expensive. Nevertheless, at such high spot prices, better to have flexibility rather than rigidity of forwards.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
2.0%	0.8%	9.9%	6.6%	€-50.938B

Events to WATCH

Oct 31, 15:30
CPI (YoY) (Oct)

Oct 31, 15:30
GDP (YoY)

Nov 02, 14:25
German Manufacturing PMI (Oct)

Nov 03, 15:30
Unemployment Rate (Sep)

Nov 04, 14:30
Services PMI (Oct)

The EURUS$ pair gained for a second week in a row, ending the week at about 0.9960. The US Federal Reserve (Fed) is rumored to be about to decrease the pace of quantitative tightening, which is why the American Dollar (US$) started the week on the back foot and extended the previous week's loss. In the meantime, the battered Euro held steady as fresh statistics from Europe showed that the economic downturn is just getting worse. Things started to shift on Thursday after top-tier competition from Europe and the US left market participants unimpressed. With the European Central Bank (ECB) releasing its monetary policy decision on Thursday, central banks remained in the calm before the storm. The major three rates were raised by 75 basis points. Before the

US Federal Reserve's monetary policy announcement on November 2nd, the news shocked the financial markets. Europe will release its GDP numbers before the Fed, and it is anticipated that the EU economy expanded by 0.7% QoQ in the third quarter of this year.

Despite closing in an upbeat tone on Friday, the EURUS$ remains neutral-to-downward biased, as depicted by the daily chart. Traders should note that the EUR had risen in four of the last five trading days and stayed above the 50-day Exponential Moving Average. Nevertheless, on the only day that the EURUS$ climbed toward the 100-day EMA, it was rejected, and the pair tumbled toward the October 27 daily low at 0.9957. The Relative Strength Index oscillates in bullish territory, which suggests that buyers are gathering momentum. However, to shift the bias to neutral, EURUS$ buyers must conquer the 100-day EMA and 1.0100. And if the Euro clears 1.0200, a move towards the 200-EMA is on the cards. On the flip side, key support levels lie at the 50-day EMA at 0.9887. Once cleared, the following support would be the 20-day EMA at 0.9838, ahead of 0.9800, followed by October’s monthly low of 0.9631.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
2.25%	0.2%	10.1%	3.5%	£-7.080B

Events to WATCH

Nov 01, 15:00
Manufacturing PMI (Oct)

Nov 03, 15:00
Services PMI (Oct)

Nov 03, 15:00
Composite PMI (Oct)

Nov 03, 17:30
BoE Interest Rate Decision (Nov)

Nov 04, 15:00
Construction PMI (Oct)

GBPUS$ continued its revival pace from multi-decade bottoms at 1.0300 after a brief interval of recovery. The US dollar index continued to decline from more than two decades highs for the second week in a row as investors continued to book profits and reallocate positions in anticipation of the crucial Fed rate rise announcement. The cable pair gained momentum under the new UK Prime Minister Rishi Sunak, and the winning run continued for a third week in a row. But it remains unclear whether the currency pair will maintain its relief gain in the lead-up to the crucial macro events planned for the coming week. After the failure of his predecessor's fiscal plan, traders continued to await a new one. In the early half of the week, rumors circulated that PM Sunak and Chancellor Jeremy Hunt were considering tax rises and public spending reductions potentially worth GBP50 billion annually to close a budget gap. Key economic events for the upcoming week are Manufacturing PMI (Oct), Construction PMI (Oct), Services PMI (Oct), Composite PMI (Oct) and BoE Interest Rate Decision (Nov).

This is the third straight week where GBP registered a gain, added nearly 300 pips during this week. After a massive downtrend we are seeing a some relief rally for the pound. Looking at the charts rally might continue till 1.1750 while on the downside 1.1375-85 could play a role of major support for the pair as 50 days SMA is there breaking of these levels would put more pressure and might push the pair towards 1.10 levels. We believe that is the situation where you will continue to see a lot of volatility in the pound as Bank of England has a lot of work ahead, growth is going to be an issue in the United Kingdom as inflation is an issue, Energy is going to be an issue this winter as well. Overall picture seems to be negative for the British currency. On the daily chart momentum indicator MACD trading in a neutral zone while RSI is in slight overbought zone.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	0.9%	3.0%	2.5%	¥ -2094B

Events to WATCH

Oct 31, 05:20
Retail Sales (YoY) (Sep)

Oct 31, 05:20
Industrial Production (MoM) (Sep)

Nov 01, 06:00
Manufacturing PMI (Oct)

Nov 04, 06:00
Services PMI (Oct)

The US$JPY pair opened at 147.641 level and closed at 147.481. There has been back-and-forth movement in the US dollar throughout the week. Due to the uncertainty surrounding the global economy and, of course, all of the interventions coming out of the Bank of Japan, the market may continue to exhibit a lot of noisy behavior. Given that the pair is overbought, the market could experience a small pullback. The 145 appears to be resistant level and offering support at this time. The pair has bounced during the week from there. Although falling below that level would be detrimental, the overall trend would not necessarily change. It appears that the trend is well established, and it won't be long before we break over the 150 mark. The fact is that traders can pick up US dollars against a central bank that is currently printing limitless amounts of money. US Fed Interest Rate Decision is scheduled on Tuesday, traders will also focus on ISM Manufacturing PMI, ADP Nonfarm Employment Change, Initial Job Claims, and Nonfarm Payrolls.

The US$/JPY started the week at 147.641 and the daily chart shows the consolidation throughout the week. Again, the focus will be on taking over the psychological 150 level as it already surpassed last week. The pair may resume being hawkish again after a consolidation week and the correction could touch the bottom at the 50-day Moving Average of 144.175. The focus will be on the support level of 145.108 followed by the next support level of 140.35 in case of major recovery. The MACD line and signal line have created a divergence. MACD line seems taking support and may move towards the signal line which shows the hawkish behavior recommence. The pair ended the week at 147.481 showing price behavior is slightly downward extended. The Relative Strength Index has just turned to an upward direction below its 7-day RSI's simple moving average also indicating hawkish sentiment recommence.

Currency Volatility And How To Reduce Its Risk On Trading

Every wondered how trading leads to high profits and higher risks? When one is ready to take risk, the opportunities are umpteen for a trader to make most of it. Thus when the volatility is high, the opportunities are more. This holds true for any market – commodity, stock or currency or even for that matter bond. One needs to understand in depth the factors which influence these high fluctuation. Currency market is the highest volume market and open round the clock through five days of the week.

FX volatility is one of the greatest credit risks, especially to SMEs and MSMEs as it is often overlooked by them. Volatility in foreign exchange markets is due to inflation rate, interest rates, import and export levels, geopolitical stability, central bank monetary policy decisions and many other factors. Thus managing it effectively is important to protect the company’s bottom line.

What is currency volatility?

Currency volatility is basically a percentage change in return of a currency pair over a particular period of time. The larger the number, the greater is the movement of price over a period of time. There are several ways to measure volatility and so are there different types of volatilities. What has already occurred is known as historical volatility, while what the market participants think will happen is implied volatility. For currency market perspective, especially for currency options, implied volatility is of more importance as it captures the expectations of the market, the complacent sentiment makes it low whereas when there is fear in market sentiment, the implied volatility is high.

Technical methods to measure historical volatility

Several technical tools are used to measure the currency volatility. Bollinger band helps in evaluating the volatility of any currency to formulate strategies for predicting the currency movements.

Any change in the standard deviation, i.e. the difference of change in the bands measures the historical volatility. As the Bollinger bands expand, the historical volatility increases & vice versa as the bands contract, the historical volatility decreases. Average true range or ATR measures the historical volatility through the actual movements of a currency for implementing the trading strategies as it incorporates the price gaps. It basically measures the distance between any two points irrespective of the direction.

A better tool to help formulate strategy is where one understands overall risk of the currency portfolio. This is measured using Value At Risk (VaR) in which risk is described within a basket of currency pairs. To determine the risk on capital, the process of analyzing the returns of portfolio of currency pairs is essential. A change in one currency pair when measured through VaR indicates the quantum of money lost or gained with a specific movement of the portfolio.

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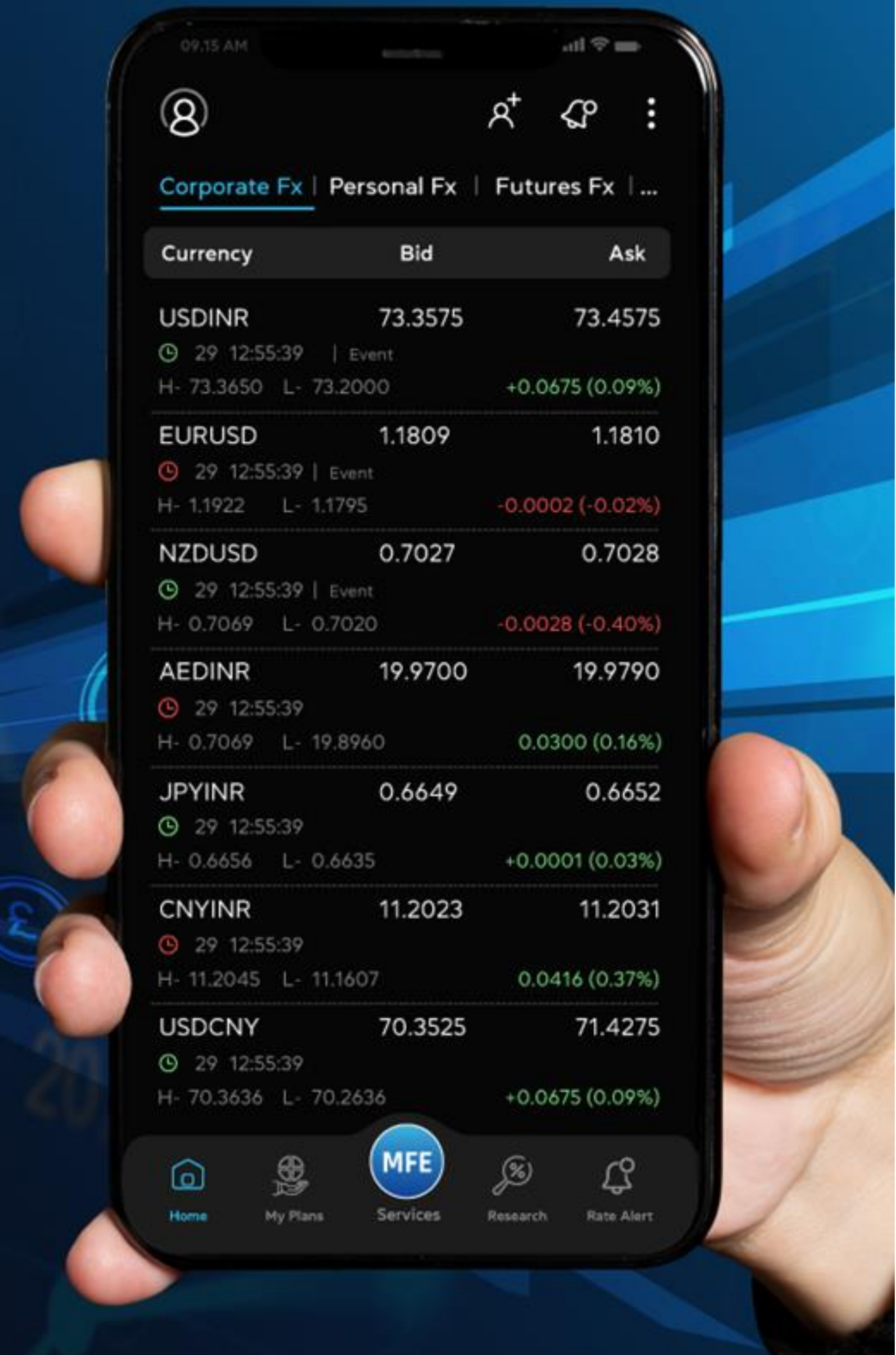

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