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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 Members,

Wall Street and global stocks slid continuously last week, with government bond yields and dollar holding near recent peaks, as higher-than-forecasted US inflation restricted a worst third quarter for world markets. In the first nine months of 2022, Wall Street struggled continuously for three straight quarterly declines, the longest losing streak for S&P at 3,585.62, while the Nasdaq at 10,575.62 ahead of the Great Recession and Dow's longest in 7 years.

The cable pair was driven to all-time lows of 0.8957 in the beginning of this week on a combination of dollar strength and government plans for tax cuts funded by borrowing. The DXY index, after hitting a 20-year high last week at 112.17 has risen about 17% this year.

European government bond yields fell, while Germany's 10-year yield was virtually flat at 2.118%, compared with Wednesday's peak of 2.352%, an 11-year high. US Treasury yields gained modestly. On the domestic front, like other emerging central banks, RBI also raised repo rate by 50 bps to 5.90% to maintain a gap between US and domestic rates to eliminate further losses in the domestic currency.

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

Key Takeaway Summaries

₹ INR

A 50bps rate hike was announced by RBI due to which the Rupee appreciated, trading at 81.16

€ EUR

Eurozone CPI increased by a record 10% in September as inflation hit double digits

£ GBP

UK government clarified they have no intentions to change the mini-budget

¥ JPY

Intervention by Bank of Japan had a significant psychological impact, supporting the greenback

₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.90%	-1.4%	7.0%	8.3%	$-27.98B

Events to WATCH

Oct 03 10:30
Nikkei S&P Global Manufacturing PMI (Sep)

Oct 03 17:50
Trade Balance

Oct 06 10:30
Nikkei Services PMI (Sep)

Oct 07 17:00
FX Reserves, US$

The week started off with the US$/INR pair trading high at 81.55 compared to its previous week's close at 80.99. The rupee stabilized on Tuesday in a constrained range of 34 paise and ended 81.58 versus the dollar. In early trade on Wednesday, the rupee lost 40 paise to reach a record low of 81.93 due to strengthening of the US dollar and a general investor risk aversion. In addition, downward trend in local equities and considerable outflows of foreign funds reduced investor interest. Investors were focused on RBI's monetary policy meeting outcome on Friday throughout the week.

The dollar index was also high at 114.58 initially but adjusted in a downward trajectory for the rest of the week, falling as low as 111.56 on Friday. On Thursday, the dollar index had the highest volatility, ranging at 114.78 for the high and 112.55 for the low. On Friday, a 50 bps rate hike was announced by the RBI, due to which the Rupee appreciated trading at 81.16 but for a very short time and again bounced back to close at 81.34. For the next week, some key events are Trade Balance, JOLTs Job Openings, ADP Non-farm Employment Change (Sep), ISM Non-Manufacturing PMI (Sep) and Crude Oil Inventories

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.25%	-0.6%	8.3%	3.7%	$-70.700B

Events to WATCH

Oct 03, 19:30
ISM Manufacturing PMI (Sep)

Oct 04, 19:30
JOLTs Job Openings (Aug)

Oct 05, 17:45
ADP Nonfarm Employment Change (Sep)

Oct 05,19:30
ISM Non-Manufacturing PMI (Sep)

Oct 07,18:00
Nonfarm Payrolls (Sep)

Oct 07,18:00
Unemployment Rate (Sep)

The Indian rupee is likely to remain volatile due to the strong dollar rally and risk aversion amongst cautious traders. RBI Monetary Policy Committee announced a 50 bps rate hike, after which interest rate rose from 5.4% to 5.9%. On the technical chart, the local unit started the week under pressure with a gap up opening at 81.55 on 26-Sep, compared to last week's close at 80.99 (23-Sep).

Over the week, the pair traded higher with US$/INR -hitting an time high at 81.95 (28-Sep), thus plunging 40 paise since the beginning of the week. INR still remains well placed in comparison to other Asian currencies like the Chinese Yuan and Korean Won. As the dollar index cooled off along with RBI MPC market activity, one can expect a retracement in the US$/INR pair next week on the downside. RSI is in the oversold region above 70 along with expected convergence in the MACD line and signal line.

As RBI defended the rupee in the last trading session with an immediate correction of (25-30) paise in the US$/INR led to the low of 81.16 (30-Sep-22). We expect the US$/INR trading range for the upcoming week will be (80.20-81.75).

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
1.25 %	0.8%	10.0%	6.6%	€-33.978B

Events to WATCH

Oct 03, 13:30
Manufacturing PMI (Sep)

Oct 05, 13:30
Services PMI (Sep)

Oct 06 14:30
Retail Sales (MoM) (Aug)

The EUR/US$ pair got off to a rough start this week, hitting a new 22-year low of 0.9535. However, the pair changed direction in the middle of the week, posting significant gains before settling at roughly 0.9780 level. According to official figures released on Friday, consumer prices in the Eurozone increased by a record 10% in September, as inflation hit double digits due to surging energy costs brought on by Russia's war in Ukraine. The ECB might be forced to pursue even more aggressive rate hikes now that both German and Eurozone CPI have risen to 10% on an annual basis, which in theory should be good for the euro. However, given the severity of the Eurozone's stagflation and importance of energy crisis, if the ECB embarks on an aggressive hiking cycle, the recession could worsen. Manufacturing PMI, PPI(YoY), Services PMI, and Retail Sales are a few crucial events in the forthcoming week that investors will pay attention to in order to chart the Euro in an upward direction.

The Euro fell during the week once more, although it also started to recover. It appears possible that the market is aiming for a quick comeback. Since there was a lot of buying near 0.95, that area appears to be a decent support for the pair. On the upside, the parity level would be a barrier because the 50-day moving average trades there. In the end, the market will be a little concerned because we were a little oversold. Although there may be a modest improvement, the European Union is still experiencing general difficulties, and the Federal Reserve is continuing to tighten policies on the other side, which could prove painful again for the pair. Momentum indicator MACD giving bullish signal while RSI trading in a slight oversold zone.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
2.25%	0.2%	9.9%	3.6%	£-07.793B

Events to WATCH

Oct 03, 14:00
Manufacturing PMI (Sep)

Oct 05, 14:00
Composite PMI (Sep)

Oct 05, 14:00
Services PMI (Sep)

Oct 06, 14:00
Construction PMI (Sep)

The British pound has had a very unpredictable week, after the release of the extremely controversial mini-budget. The market's unfavorable reaction to the mini-budget on sterling was compounded by the lack of liquidity during the Asian trading hours, resulting in a loss of nearly 500 pips for GBP/US$ in a few hours. GBP/US$ reversed course and climbed above 1.12 early on Friday after dropping to a fresh record low of 1.0340 at the start of the week. The British government's decision to cut taxes and increase public borrowing has sparked concerns that the country's fiscal strategy will lead to an unsustainable level of debt in the economy and a harsh gilt sell-off. On Friday, the annualized GDP growth for the second quarter was upgraded by the UK's Office for National Statistics from 2.9% in the flash estimate to 4.4%, maintaining the pair's bullish trend. Despite losing its bullish momentum just before the weekend, the pair nevertheless managed to close the week in the green zone. The UK government made it clear that they have no intentions to change the mini-budget, and some estimates indicate that any potential financial relief afforded to people by tax cuts and energy price limitations will be outweighed by rising mortgage prices. Key events for the next week are Manufacturing PMI (Sep), Composite PMI (Sep) and Services PMI (Sep).

Cable remained volatile around the 61.8% Fibonacci retracement, while tracing 40 pips nervous towards 1.1170 , after breaching crucial level of 1.1200 figure in the end of the week. Nevertheless, bears entered around the critical level of 1.1203 intraday high and moved the asset dipping towards its one day low, before regaining some ground. It is important to note that the sterling pound holds on to downward bias. In addition, the pair continues the trend till it breaches the crucial support of 1.1740 area to shift to a neutral stance, risks are asymmetric to the downside. Therefore, the GBP/US$ first support would be the 50% Fibonacci retracement at 1.1047, followed by the second support of 1.0884 of 38.2% Fibonacci retracement, and then the 1.0800 mark. Alternatively the resistance lies at 1.1239, the breach of which leads the pair to 1.136 followed by 1.1598 pivot levels. The daily simple moving average of 20 lies at 1.132 followed by 1.1719 as per SMA 50.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	0.9%	3.0%	2.5%	¥ -2817B

Events to WATCH

Oct 05, 06:00
Services PMI

The US$/JPY started the week with continuing advancement and marked the highest level of 144.904. The pair consolidated and ended the week at 144.748. The US dollar has gained ground against the Japanese Yen once more as a result of the general clamorous conduct that is still there. Of course, the recent intervention by the Bank of Japan has had a significant psychological impact. In either case, central-bank initiatives frequently fail over time, so we may witness the 145-level breach. If the pair does break over that level, the market enters a completely new realm. The market is still bullish, but it is also cognizant of how far US$/JPY has gone in such a short period of time. After all, the market opened the year at the level of 113. The 140 level below should be a strong support level, so if the pair were to decline below that level, we might experience a larger downturn. Investors will be focusing on the numbers of ADP NFP Change, ISM Manufacturing PMI, Japanese Services PMI, and Household Spending.

The US$/JPY started the week at 143.358 and the daily chart shows consolidation. The focus will be on the strong resistant level of 145.902, if it breaks the pair may mark new heights. We cannot rule out a decline in the pair as witnessed volatility in the previous weekly session. We may experience a major pullback if the pair goes below the major support of 140.35 level. The correction could touch the bottom at the 50-day Moving Average of 138.80. The MACD line and the signal line converge and may initiate a new trend. The pair ended the week at 144.748 showing price behavior is upwardly extended. The Relative Strength Index has started in an upward direction just on the top of its 7-day RSI's simple moving average thereby indicating buying pressure.

Managing Foreign Exchange Risk Is Essential For Hedging?

Foreign exchange risk is a financial risk which exists when a home currency is converted into another during the transaction. The unfavorable currency movements lead to a lower value of assets which are quoted in the domestic currency in the international markets. All corporates dealing with international markets are exposed to foreign exchange risks. Foreign exchange markets fluctuate due to many factors beyond the control of a company and thus these risks have to be incorporated while quoting prices to clients and suppliers overseas.

Factors such as the recent US China global trade war or geopolitical uncertainties due to UK Brexit or Russia-Ukraine war lead to high fluctuations in currencies and may trigger stop loss levels for high volume currency pairs. Thus dealing in currency is highly risky and calls for an expert who tracks forex markets on a regular basis to assist corporates to manage them. Revenues earned abroad will be affected with currency risks.

Though some risk aversion assets like Gold, Japanese Yen, Swizz Franc have seen an appreciation during such times, it calls for better foreign exchange risk management.

Why manage currency risk?

Managing currency risk helps protect cash flow, both inflow and outflow along with profit margins, which in turn helps assimilate financial budgeting and forecasting. Once cash flows are determined, it becomes easier to plan for the future and work around costing accordingly. With clarity around finances, the corporate is in a better position to understand borrowing capacity, especially when expanding from growth perspective. Every change in currencies, affects the balance sheet which affects the health of the corporate. Thus business benefits are many for effectively managing foreign currency risks.

How does one go about managing forex risk?

The first step towards managing forex risk is to create a foreign exchange policy within the corporate.

The corporate policy helps in understanding the risk which the company is ready to take along with key benchmark levels for all transactions. Once the cash flows is in place, the process of understanding which currency fluctuation will affect which portion of the balance sheet is important. Periodic reviewing of the operating cycle helps in pin pointing risk areas. While negotiating with clients (*buyer or seller*), risk exposure before execution of the transaction should be understood. Thus the level of hedging can be determined accordingly. Transaction risks occur due to time gap between commitment of the contract and actual cash flows. More often than not, these risks are easier to manage as they can be hedged using financial derivative instruments. Thus understanding the quantum to hedge is important. Formulating a corporate policy is easy but to review it periodically is key with ever changing forex markets.

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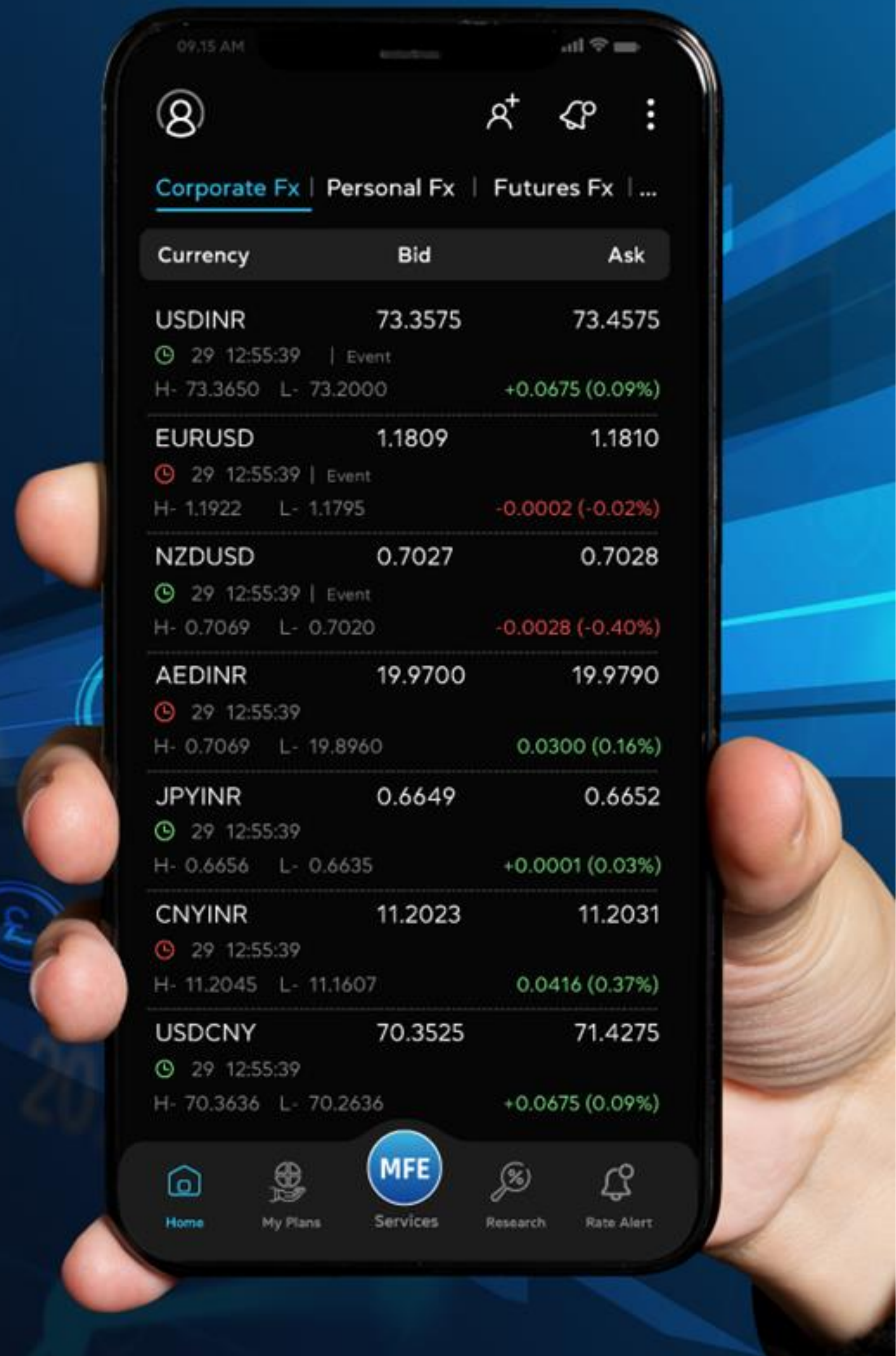

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