



Forex Market **Insights**
Newsletter

Volume 35 → Nov 7-11, 2022

Key Takeaway Summaries

₹ INR

US\$/INR forward premiums at 10-yr low with a 1-yr annualized premium of 2.25%.

€ EUR

EUR/US\$ plunged to 0.9729 before completing the week slightly lower than 0.9960 level.

£ GBP

Increased confidence over the new UK government & its fiscal policy fuelled GBP/US\$ rise

¥ JPY

BoJ is flooding the market with yen by purchasing an unlimited amount of bonds.

Welcome

Dear Stakeholders,

10-year Treasury yields refreshed to a one-week high to 4.22% before retreating to 4.15%. Notably, the US 2-year bond coupons rose to the highest levels since 2007. With the Fed maintaining its hawkish stance on monetary policy and lifting interest rates 75 bps, we believe the Central Bank of Mexico will match that pace of tightening next week. FOMC prefers to hike by 50 bps in December. But hot economic data could force the Committee's hand to once again go 75 bps.

Despite a brilliant Non-Farm Payrolls reading of 261k, US unemployment rate has increased to 3.7% and wage inflation data have shown the first signs of easing in the US labour market, which has tamed expectations of further aggressive tightening by the Fed and punished the US dollar.

Cable has shrugged previous losses up to 1.14 following the dovish hike by BOE 0.75% after having gone through one of its worst weekly performances. On the domestic front, Indian Rupee rose to the highest levels of 83.18, remaining vulnerable to global economic data releases. Firmer Treasury yields, and hawkish Fed bets keep market participants hopeful. Additionally, firmer oil prices resulting in a record deficit also impact the local currency.

Regards

Mr Vijay Gauba
Additional Director General
Trade Promotion Council of India

CONTENTS

INR 2

US\$ 3

EUR 4

GBP 5

JPY 6

BLOG 7

Events to WATCH

Nov 07 20:00
Trade Balance

Nov 11 17:30
Manufacturing Output (MoM) (Sep)

Nov 11 17:30
CPI (YoY) (Oct)

Nov 11 17:30
Industrial Production (YoY) (Sep)

Indian rupee remained under pressure against the dollar this week in the initial trades with no change in the key rate policy by RBI in the unscheduled meeting. However, in the last trading session, the local unit showed strength and recovered significantly to the level of 82.44. The US\$/INR forward premiums are at a decade low with 1 year annualized premium of 2.25%. After growing at double-digit rates for several months in a row, Merchandise exports in India have shown signs of moderation posting 2.14%, 1.6%, and 4.8% in the last 3 months, compared to (20-25)% in the Jan-Jun period. The US nonfarm payroll released better than expected at 261K vs 205K expected.



India's foreign exchange reserves climbed to \$531.08 billion in the week through Oct 28, touching their biggest weekly gain since Sep 2021, the RBI weekly statistical supplement stated on Friday. The US Fed managed to extend the market's anxiety rather than offer the relief many were expecting and throttled back on their inflation challenge. Chairman Powell and other Fed members speaking soon after the 4th 75 bps rate hike was announced were attempting to downplay expectations for further rate hikes. The 10-year Treasury yield jumped to 4.16%, up from 4.12% on Thursday. The 2-year yield rose to 4.65%, from 4.69% a day ago.

Events to WATCH

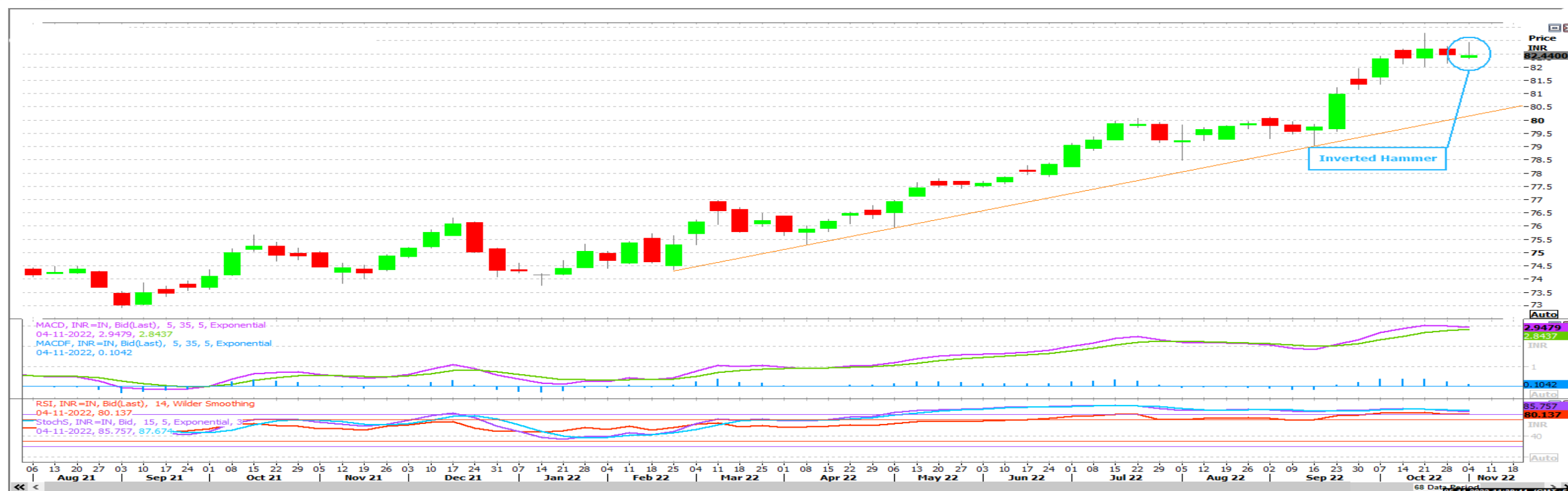
Nov 09, 21:00
Crude Oil Inventories

Nov 10, 19:00
Core CPI (YoY) (Oct)

Nov 10, 19:00
CPI (MoM) (Oct)

Nov 10, 19:00
Core CPI (MoM) (Oct)

Nov 10, 19:00
CPI (YoY) (Oct)



Another week of range bound trading with a high low range of 82.93 – 82.325, despite good volatility in the US\$ index and Chinese Yuan/Asian currencies.

On the US\$/INR weekly candlestick chart, an inverted hammer has formed. Also notice that on the week ending 21Oct'22 (week preceding last week), a long upper shadowed candle was formed. In an extended uptrend, such a hammer formation along with another long upper shadowed candle indicates confusion and could probably be the first sign of reversal. The momentum indicators of RSI, MACD and Slow Stochastics continues to be in the overbought territory, even though on the daily chart, they have started to cool off.

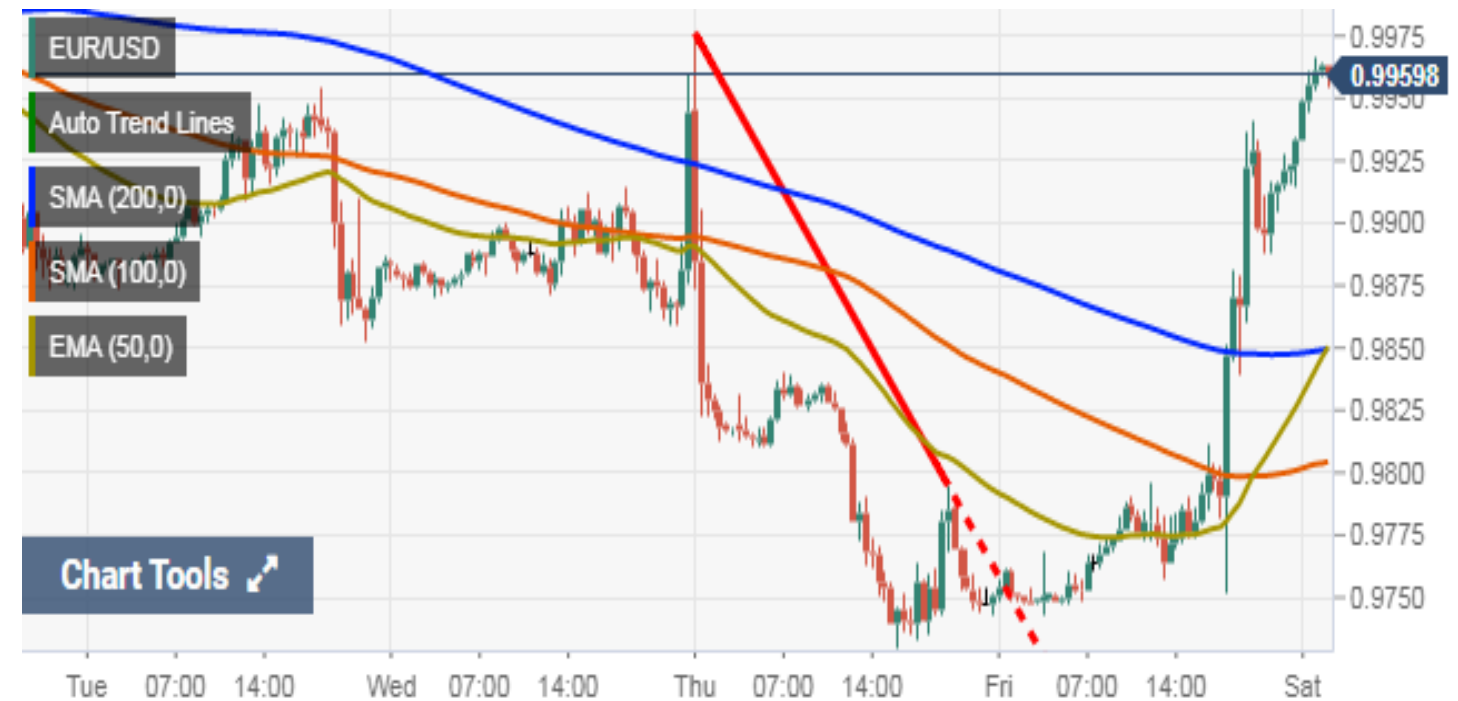
My sense is for a Rupee recovery. Focus should be on adhering to one's risk management policy. Exporters should continue to maintain adequate hedge ratios – levels close to all-time Rupee lows are extremely comfortable and one should capitalize. Exporters should not keep large unhedged exposures in anticipation of more rupee weakness. Dollar importers can take a breather – target spot levels around 82 figure. Vanilla options are the best hedging instruments now. Option volatility is marginally high and as such, option premium cost will be moderately expensive.

Events to WATCH

Nov 08, 15:30
Retail Sales (MoM) (Sep)

Nov 11, 12:30
German CPI (YoY) (Oct)

The EURUS\$ pair plunged to 0.9729 on Thursday before completing the week slightly lower than the 0.9960 level. Midway through the week, the US Federal Reserve (Fed) shocked market participants by adopting a hawkish monetary policy position. Jerome Powell, the chairman of the Fed, tempered expectations of a slowing rate of tightening and emphasized the aggressive course the institution has taken this year. After the US Nonfarm Payrolls (NFP) report was released on Friday, the EURUS\$ made another change in direction. In October, the US created 261,000 new jobs, while September's total was raised up to 315,000. In parallel, the unemployment rate rose from 3.5% to 3.7%. There won't be as many data



releases the next week, though the European Union will still disclose some noteworthy numbers. While the European Commission releases its economic growth forecasts, the region will disclose September retail sales. Germany will release the final readings of its October Harmonized Index of Consumer Prices at the end of the week.

EUR/US\$ has gone into a consolidation phase after having advanced to a daily high of 0.9940 earlier in the session. The pair remains on track to snap a six-day losing streak as the US Dollar struggles to preserve its strength despite the upbeat October jobs report. EUR/US\$ is facing interim resistance at 0.9800 which is the static level and the next resistance of psychological level is of 0.9820 following the 200-period SMA on the four-hour chart. A four-hour close above the latter could be seen as a bullish sign and attract buyers. In case the Relative Strength Index indicator rises above 50 on such development, the pair could extend its recovery toward 0.9860 as per the 100-period Simple Moving Average and 0.9900 resistance of psychological level. On the flip side, near-term support seems to have formed at 0.9740 - the static level - before 0.9700 support at psychological level, and the next support of Oct 13 low and static level support of 0.9630.

Events to WATCH

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

Nov 11, 12:30
GDP (YoY) (Q3)

Nov 11, 12:30
Trade Balance
(Sep)

Nov 11, 12:30
GDP (QoQ) (Q3)

As the Federal Reserve and the Bank of England made their monetary policy statements, the focus was entirely on the build-up surrounding expectations for a tightening of the global economy. The increased confidence over the new UK government and its fiscal policy served as the stimulus for the GBP/US\$ rise, which quickly dried out as the US Dollar and US Treasury bond yields both had extended recoveries. Initially, the market was paralyzed by risk aversion due to China's intensified Covid lockdowns and poor business activity, which helped the Dollar. Following GBP/US\$'s failure to maintain its position above the 1.1500 level on Wednesday, sellers started to come back, but the dollar experienced a rebound as a result of higher-than-expected data. The Bank of England increased policy rate by 75 basis points in accordance with the Fed. The British central bank cautioned that the economy would slip into a deeper recession. GBP/US\$ nursed its wounds on the final trading day of the week as it awaited US Nonfarm Payrolls (NFP) data. Weaker US wage inflation data seems to have accelerated the US\$ sell-off while pushing the GBP/US\$ back above 1.1300.



The British currency had another rough week, as we saw 1.1145 levels at one point, but the pair got buyers on last trading day and managed to close around 50 days SMA, which is 1.1365-70. As we saw a quick rally in last US session, it could stay for some time as pair was heavily oversold, which might push pair towards 1.15 levels. If it manages to sustain, we could see a move towards long-term resistance of 1.1750 while on the downside, if the two week low of 1.1145 gives away, then next support would be 1.1058 seen on 21st October, failure to defend that might trigger a sharp sell off. On the daily charts, RSI is trading in a neutral zone while MACD is giving bearish signals.

¥ JPY

REPO RATE

-0.10%

GDP

0.9%

INFLATION

3.0%

UNEMPLOYMENT

2.6%

TRADE BALANCE

¥ -2094B

Events to WATCH

Nov 08, 05:00
Household Spending (MoM) (Sep)

Nov 08, 05:00
Household Spending (YoY) (Sep)

Nov 11, 05:20
PPI (YoY) (Oct)



The US\$JPY opened the week at 147.481 and moved sideways, it reached its highest of 148.851 level and corrected to 146.646 at the weekly close. Due to the Federal Reserve meeting and the Friday jobs report, the US dollar has fluctuated wildly versus the Japanese yen over the trading week. Despite this, there remained a lot for the market to consider, the Federal Reserve may maintain its tight monetary policy for a longer term than anticipated. Of course, this helps the US dollar, but on Friday, the jobs report came in, and individuals are already attempting to "front run the Federal Reserve" when it comes to slowing down interest rates. It seems the market is attempting to establish some sort of range between the 145 level and the 150 level. The BoJ has always failed miserably when it intervened. They are flooding the market with unlimited yen by purchasing an unlimited amount of bonds. The longer-term direction in this market should still be higher, as the Federal Reserve continues to tighten monetary policy. Although we are probably overdue for a slight pullback, if for no other reason than exhaustion.

The US\$/JPY started the week with appreciation but the pair corrected 0.57% during the week. Again, eyes will be on surpassing the psychological 150 level in case dollar strengths. If the pair corrects further it could touch the bottom at the 50-day Moving Average of 144.792. The support level will be again at the 145.108 level in case of recovery. The MACD line was moving downward below and against the signal line, which shows more correction can be expected. MACD line may move further towards the baseline which may create a bearish sentiment. The pair ended the month at 146.646 showing price behavior is slightly downward extended. Relative Strength Index is in the downward direction below its 14-day RSI's simple moving average, also indicating bearish sentiment.





BLOG

What is Foreign Exchange Risk Exposure?

Foreign exchange risk or exposure refers to the financial risk associated with a transaction denominated in a currency alien to the base currency of the firm. It is also known as currency risk or the exchange rate risk which commonly arises in a case where a subsidiary of a multinational company maintains its books of accounts in a currency which is different from the currency in which the consolidated financial statements of the company are prepared. Thus, when such a financial record or statement is converted to the currency in which consolidated statements are prepared it involves foreign exchange risks. The basic essence that forms the basis of this risk is the fact that exchange rate is extremely volatile and dynamic.

Exchange rates keep changing minute to minute, which affects transactions associated with the exchange rate and leads to risk. Investors, businessmen and other participants in the foreign exchange market can't stay away from this risk but there are certain techniques to measure and deal with Foreign Exchange Risk. There are various forms of foreign risk exposures prevalent in the market and are faced every now and then.

TYPES OF FOREIGN EXCHANGE RISKS OR EXPOSURES

The various types of foreign exchange risks or

exposures faced by firms and businesses in the foreign exchange market are:

TRANSACTION RISK:-

It is the simplest and the most frequent form of risk that can be faced in the field of foreign exchange. The basic meaning of a transaction risk is the risk associated with the process of transacting business in terms of foreign currency. Thus, a transaction risk is the risk associated with the unanticipated change in the rates between the time when an enterprise enters into a transaction and settles it. This kind of an exposure pertains to an actual dealing taking place in business involving foreign currency.

ECONOMIC RISK:-

Economic exposure, also known as the forecast risk refers to the degree of a firm's market value that is affected by unforeseen exchange rate dynamics. Such factors can have tremendous effect on a firm's market share position, its future cash flows and above all its value. This is a kind of risk that is not specifically associated with foreign exchange only, an organization can be exposed due to a range of other factors.

TRANSLATION RISK:-

Translation exposure is a type of risk that is specifically

faced by multinational business houses having the subsidiaries of their business spread round the world. In such business organizations, financial statements are prepared in each subsidiary along with a consolidated set of financial statements begin prepared by the parent company in a pre-determined currency. Translation risk refers to the risk associated with translation of a financial statement prepared by a subsidiary in a currency different from the currency of consolidated set of statements this may lead to a change in value of cash and other assets affecting their representation and leading to misleading results.

CONTINGENT RISK:-

A contingent situation refers to a situation which may or may not arise. Thus, a contingent risk or contingent exposure is a risk that depends upon happening or non-happening of a particular event. It arises from the potential of an organization to face a not so expected economic or transnational risk that depends upon any contract or negotiation.



Contact Details



Ritik Bali
8860447723
advisory@myforexeye.com



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

Nikhaar Gogna
9818995401
editorial@tpci.in

***DISCLAIMER:** The information provided in this newsletter is for general informational purposes only. All information is provided in good faith, however we make no representation or warranty of any kind, express or implied, regarding the accuracy, adequacy, validity, reliability, availability or completeness of any information in this newsletter. Under no circumstance shall TPCI or Myforexeye have any liability for any loss or damage of any kind incurred as a result of the usage or reliance on any information provided on the in the newsletter. Your usage and reliance on any information on this newsletter is solely at your own risk.*