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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 Stakeholders,

China's business activity data after the lunar New Year break will project a guidance about the fitness of the world's number-two economy. China's reopening came aggressive after a three-year break. U.S. durable goods orders, home prices along with manufacturing and consumer confidence reports cautioned to concrete expectations of more Fed rate hikes and to kick out the year beginning stocks rally.

U.S. labour markets are growing rapidly and consumer spending is sustaining, while Europe's energy crisis has smoothened. Inflation remains sticky which could keep major central banks on their hawkish path. Preliminary numbers of inflation from Germany, France, Spain and Portugal are scheduled to release on Monday and Tuesday. Major attention will likely to stay on core inflation.

Traders got the message and revived challenges on the European Central Bank 2.5% rate moving higher. On the domestic front, currency was largely flat the entire week ignoring the decline in other Asian currencies against dollar as there was intervention by the RBI.

Thank You

Vijay Kumar Gauba

Additional Director General

Trade Promotion Council of India

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Key Takeaway Summaries

₹ INR

Rupee to remain under pressure this week also, trading mostly in a range of 82.70 to 82.85.

€ EUR

EUR/US$ came under extra bearish pressure and fell to a new 2023 low below 1.0550.

£ GBP

US$ gained momentum throughout the US session as a result of positive PCE inflation data, which led to the GBP/US$ pair dropping below 1.2000.

¥ JPY

The US$/JPY significantly increased its gains to break above the 135 level and closed at 136.492 level

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.50%	0.8%	6.52%	7.1%	$-17.75B

Events to WATCH

The Rupee remains to be under pressure this week also, trading mostly in the range of 82.70 to 82.85. It continuously gained on the first 3 trading sessions of the week reaching a new high every day. On Wednesday, the US$/INR pair made its weekly high of 82.8525 prior to the FOMC meeting minutes as market participants hoped the Meeting minutes to be on the Hawkish side due to strong & robust economic data released by the US which indicates that high money supply continues to persist in the economy. The FOMC meeting minutes released were not were Hawkish as it indicated a 25bps hike in March which was already discounted by the market.

Due to this, we saw a slight correction in the rupee as after the announcement of the FOMC Meeting Minutes the near-term treasury yield fell a little. The dollar strength is clearly visible as the dollar index was on an upward trend throughout the week, starting the week at 103.97 and ending the week at 105.23 making almost a one-month high. On Friday, the FX reserves data was released which depicted that previous week the RBI intervened in the market to sell almost 4 billion dollars in order to protect the rupee from depreciating. A few key economic events due for the pair in the coming week are Core Durable Goods Order(MoM)(Jan), Pending Home Sales(MoM)(Jan), ISM Manufacturing PMI(Feb) and India's GDP Quarterly(YoY)(Q3)

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$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.75%	2.9%	6.4%	3.4%	$-67.419B

Events to WATCH

Feb 28, 17:30
GDP Quarterly (YoY) (Q3)

Feb 28, 17:30
Infrastructure Output (YoY) (Jan)

Mar 01, 10:30
Nikkei S&P Global Manufacturing PMI (Feb)

Mar 03, 10:30
Nikkei Services PMI (Feb)

Tight range bound trades in US$/INR has become the norm. Since 6 Feb 23 the amplitude (high low range) has been a meagre 55.75 paise with a low of 82.34 and high of 82.8975. This is despite a more than 2% jump in the dollar index (and corresponding weakness in the Asian currencies).

On the daily US$/INR candlestick chart, observe the converging Upper and Lower Bollinger Bands (highlighted by the blue lines). Narrowing of the Bollinger Bands indicate reducing price volatility. Periods of low volatility is usually followed by a bout of high volatility. Notice how the bands had converged in end December early January and was subsequently followed by the rapid spell of rupee gains (high volatility) in January. If history is an indicator of things to come, another week of range trades will make for a strong case of increased currency volatility in March or April. Triple top resistance region of 82.90 – 83.29 (as established in previous research articles) continues to hold.

Dollar exporters should carry on with their efforts to increase their hedge ratios. Forwards to be the preferred hedging instrument. Should certainly look to diversify risk with some vanilla options. US$/INR volatility is close to its multi-month bottom and hence option premiums (costs) are going to be very cheap. Dollar importers have barely had any opportunity to hedge this month – they should use vanilla options to hedge rather than obligatory forwards.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.0%	0.1%	8.5%	6.6%	€-08.753B

Events to WATCH

Mar 01, 14:30
Manufacturing PMI (Feb)

Mar 02, 15:30
CPI (YoY) (Feb)

EUR/US$ finished the week down to a fresh low in February at ,1.0546.Following the release of US data revealing that PCE inflation grew at a faster rate than anticipated in January, EUR/US$ came under extra bearish pressure and fell to a new 2023 low below 1.0550. The Federal Open Market Committee (FOMC) released the minutes from its most recent meeting on Wednesday, which certainly tipped the scales in favour of the US Dollar. Although the meeting was held before to the announcement of the higher-than-expected Consumer Price Index (CPI) numbers, the publication was interpreted as being more hawkish than expected. Germany's Q4 Gross Domestic Product (GDP) was revised downward, and the annual rate of growth was reduced from 1.1% to 0.9%. The final S&P Global PMI estimates for all major economies will be released the following week, along with the January US Durable Goods Orders data. The US will release the February ISM Manufacturing PMI on Wednesday and the February ISM Services PMI on Thursday. Investors' attention is now on these upcoming economic data points.

The centre point of the depreciating trend since early February aligns as initial resistance at 1.0600. Once the major currency sustains above that level, it could extend higher level up to 1.0630 which is the static level of 20-period Simple Moving Average (SMA) on the four-hour chart and the breach of which will take the asset moving higher towards 1.0650/60 which is the upper-limit of 50-period SMA. On the flip side 1.0600 continues to act as support, bears could keep selling in the pair. If the trend continues, 1.0570 is the static level from December could be seen as next support on the downside and breach of which could lead the asset to hover around 1.0540 the lower-limit of the depreciating trend.

Resistance: 1.0600, 1.0630, 1.0650
Support: 1.0600, 1.0570, 1.0540

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.0%	0%	10.1%	3.7%	£-07.150B

Events to WATCH

Mar 01, 15:00
Manufacturing PMI (Feb)

The GBPUS$ pair continued to trade weakly for the majority of the week, but after Friday's dip, it ended in the red. The primary underlying idea in the past week was the policy divergence between the US Fed and the BoE, as well as geopolitical risks. The US Composite PMI Output Index, which measures the manufacturing and services sectors, rose to 50.2 from the previous print of 46.8 in January, which soared chances of a higher Federal Reserve peak rate (to about 5.50%) as the US economy continued to demonstrate strength. After the release of the first FOMC Minutes of this year, the continued upward trend in the US dollar received a further lift as participants admitted the need for future rate hikes and the tight US labour market will continue to push inflation higher. Markets anticipated two rate increases of 25 basis points each in March and May. The terminal rate forecast was raised to 5.25%–5.50% by several US banks' predictions of 25 basis point rate rises at each of the ensuing three sessions. The US$ gained momentum throughout the US session as a result of positive PCE inflation data, which led to the GBP/US$ pair dropping below 1.2000.

GBP/US$ pair breached strongly below 1.2000. The asset was ranging around 1.1940/50, down a hundred pips for the level it had a week ago. The weekly chart resembles that the pair attempting the 20-week moving average, as the asset couldn't regain above the 20-day moving average at 1.2120. GBP/US$ was continuously depreciating for the third consecutive day. It is expected that the major currency should close below the crucial support of 1.1940 of 100 daily moving average (DMA), next it could connect up to 1.1900 of 200 DMA which is the round figure on the way. Further downside could lead to 1.1841 which is 2023 low is the bears target. The cable pair has the resistance above the 1.2150 which is the static level and the breach of which could lead the pair to 50-day DMA toward 1.2200.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	-0.2%	4.0%	2.5%	¥ -1448B

Events to WATCH

Feb 28, 05:20
Retail Sales (YoY) (Jan)

Feb 28, 05:20
Industrial Production (MoM) (Jan)

Mar 03, 05:00
Tokyo Core CPI (YoY) (Feb)

Mar 03, 05:00
Jobs/applications ratio (Jan)

Mar 03, 06:00
Manufacturing PMI (Feb)

During the trading week, the US$/JPY significantly increased its gains to break above the 135 level and closed at 136.492 level, demonstrating renewed life. The pair may reach 137.50 level, which was a significant area of resistance, appears to be the next level. Right now, buyers entering the market on dips are most likely only a matter of time away, but traders will almost certainly need to look to shorter-term charts to make that trade. The Bank of Japan is still exerting every effort to keep interest rates low, so traders must pay close attention to the Japanese 10-year note. Since the 50 basis points mark is closely watched, the Japanese yen will probably continue to decline as a result. After all, the Bank of Japan will need to print that much money in order to purchase an infinite number of bonds. There is yet another reason to believe that the Federal Reserve will maintain its monetary policy given the fact that the most recent inflation figures have once again shown to be hotter than expected.

The US$/JPY opened at 134.164; traded upward and reached higher at 136.522 level during the week and closed at the 136.492 level with a 1.74% surge. If the pair moves downward it could fall to 50-day Moving Average of 133.35 levels. If the pair continues to move upward the resistance level must be at 137.50. The support must be at 129.803 level in case the pair depreciates. The MACD line continued moving upward parallel to the signal line; and seems moving further along with the signal line in the upward direction which may continue the divergence. The pair ended the month at a higher level compared to the previous week's close and the price behavior steered to trade in the upward trend. The Relative Strength Index continued moving upward to its 14-day RSI's simple moving average which continues indicating the pair to be bullish.

Challenges Of Forex Trading You Should Know

Forex traders often borrow a certain amount of money from brokers to control or maintain large currency trading positions with low capital. Many traders use margin-based leverage, which is expressed in a ratio such as 100:1. For example, you can trade one standard lot of $1, 00,000 with a margin of $1,000. This ratio can go up to as high as 400:1 with a margin of 0.25%. However, one should carefully look at leverage levels to maintain safe and steady profits. As a basic rule for beginners, the potential loss should ideally be less than or equal to 3% of trading capital. With experience and exposure, one can frame their risk strategy according to their trading practices. Therefore, traders sitting on extremely leveraged positions and with inadequate savings should be careful. Negligent moves can bring huge losses to your capital, resulting in another one of the forex failure.

Trilogy of Risks: When a forex trader considers expanding a particular currency portfolio, one must think at the macroeconomic level. The currency exchange rate is highly volatile, depending on the government policies, agreements, political conditions, economy, and geopolitical events. The first risk in the trilogy is Interest Rate Risk**.** The forex prices can change depending on the country's interest rates spike or fall.

The next risk is transactional risk. The longer the difference between starting the trading and settling a contract, the bigger will the Transaction Risk be due to the time difference. Finally, the inherent risk from brokers or dealers in volatile market conditions is Counterparty Risk which refers to the broker may not be able to adhere to contracts at the settlement time.

Unregulated And Limited: Although the forex market has high trading volumes, there is no international regulatory body that manages currency trading worldwide. In the USA, CFTC and NFA regulate forex trading. In India, authorities such as RBI and SEBI regulate forex trading. However, there is only limited scope for forex trading in India as only seven currency pairs such as US dollar, INR, EURO, and UK Pounds are legal to trade in India. The base currency for trading in India also needs to be INR.

Disadvantages of Forex Trading

Following are the major disadvantages that you may encounter in forex trading:

High Leverage – High Risk
No Centralized Exchange
High Volatility And Uncertainty
Low Transparency
Scam And Spam Risks
Operational Risks
Country Risks

Conclusion

Given the complexities in the forex market, it is very important to have the right guidance and stay updated with current happenings and announcements.

It's true that forex trading presents significant hurdles, but with cautious speculation and research into the investment and trading markets, you may stay secure and generate steady profits

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