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TPCI 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,

UK Prime Minister Rishi Sunak commented about his discussion with the US and EU on worries ahead of the US Inflation Reduction Act in the midst of concerns which could make European markets hopeless. Worries persist in Europe that the US subsidies (US$369 billion) for electric vehicles and other clean technologies could lead the corporates based on the continent to a downside.

After the employment data was released from the US and Canada, it increased the chances of hike in interest rate hike by the Fed and thereby pressurising the equity markets. Borrowing costs globally have increased at a faster pace compared to the previous year as the Fed has increased its interest rates by 450 bps from zero while the ECB has hiked the EZ's interest rates by 300bps.

Europe's other parts and many developing economies have increased the interest rates even more . However, price inflation is still on the higher pace which is driven by further rate hikes. Housing prices in several major markets are expected to decline further this year. While India's housing market will remain tough in the face of rising interest rates.

Thank You

Vijay Kumar Gauba
Additional Director General
Trade Promotion Council of India

Key Takeaway Summaries

₹ INR

The rupee recovery continued to prevail this week it mostly traded in a range of 81-85 to 82.05.

€ EUR

During the week, the pair fell sharply in the starting, but later recovered and gained a little by closing at 1.0639.

£ GBP

Sterling gained strength due to positive UK monthly GDP data, which indicated that the economy expanded by 0.3% in January.

¥ JPY

The US$/JPY fell 15 pips from its three-month high as a result of the GDP data from Japan, which came in lower than anticipated.

INR

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

Events to WATCH

Mar 13, 17:30
CPI (YoY) (Feb)

Mar 14, 12:00
WPI Inflation (YoY) (Feb)

Mar 14, 18:00
Trade Balance

The holiday on 7th Mar on the occasion of Holi made it a 4-day trading week. The rupee recovery continued to prevail this week as it mostly traded in a range of 81-85 to 82.05. There were 2 key events that took place this week, the very first event was the Fed Chair Powell's speech on 7th March wherein he stated that due to the strong economic data released in the Feb month the US economy seems to be on a re-accelerating path and interest rates were likely to increase more than the market expectations and this decision will mostly be data driven. After this hawkish speech the dollar gained against all the major currencies as well as against the rupee making a weekly high of 82.285.

Dollar index also gained to trade above 105-levels and US 2Y yields also surged past 5% for the first time since 2007 in the next trading session. The second key event happened on Friday was the most awaited US labor data figures which depicted slower wage growth and thus, indicated towards easing of inflationary pressures. Now, the probability of 50bps rate hike drops to 40% which was earlier 70% after the speech. The US inflation data which is due in the coming week on 14th Mar will give more clarity on Fed's decision to increase the interest rates.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.75%	2.7%	6.4%	3.6%	$-68.289B

Events to WATCH

Mar 14, 18:00
Core CPI (MoM) (Feb)

Mar 14, 18:00
CPI (YoY) (Feb)

Mar 15, 18:00
Retail Sales (MoM) (Feb)

Mar 15, 18:00
Core Retail Sales (MoM) (Feb)

Mar 16, 18:00
Building Permits (Feb)

Mar 16, 18:00
Philadelphia Fed Manufacturing Index (Mar)

After staying up in the range of 82.35 – 82.95 for a quite good period it was the second straight week where Importers got a opportunity to hedge their liabilities as pair made a low of 81.62 during the week and traded most of the time below 82 levels. In this week, Rupee closed almost unchanged around 81.96 compared to the previous week close . US$/INR daily candlestick chart show a few interesting things.

Two down gaps are formed in US$/INR previous week: from 82.81 to 82.7525 (27Feb-28Feb) – red horizontal lines, and from 82.5325 to 82.3575 (2Mar-3Mar) – black horizontal lines. Price gaps in US$/INR usually fills up. Simple Moving Average pair of 89-day (orange line) and 144-day (blue line) comes near to 82.20 and 81.62 respectively. This pair has been an important indicator of US$/INR support region. Neckline (pink dashed line) of the triple top of 82.95 – 83.29 is around 81.20. My sense is that the region of 81.20 – 81.60 is going to be an important short-term support and there could be another dollar attempt to fill the gaps mentioned above. Dollar importers getting a chance to hedge their liabilities.

They should continue hedging their short-term liabilities using forwards at spot around 81.50-81.70. Vanilla options should also be used to hedge in order to diversify risk. Dollar exporters have had multiple chances to hedge as we had recommended from time to time. They can lie low for a while. If dollar exporters are mandated to hedge, use vanilla options instead of obligatory forwards. Option premiums have gone up a bit but they are still relatively cheaper.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.0%	0.0%	8.5%	6.7%	€-08.753B

Events to WATCH

Mar 16, 18:45
ECB Interest Rate Decision (Mar)

Mar 16, 18:45
Deposit Facility Rate (Mar)

Mar 16, 18:45
ECB Marginal Lending Facility

The EUR/US$ pair started the week by opening at the level of 1.0623. During the week, the pair fell sharply in the starting, but later recovered and gained a little by closing at 1.0639. The weekly range of the pair was 1.07-1.052. The pair started the week with modest gains as the pressures from inflation weighed on retail sales. Retail Sales MoM (JAN) of Eurozone came at 0.3% as opposed to the predicted 1%. EUR/US$ volatility was highest on the second day after hawkish comments made by Fed Chair Jerome Powell. The pair lost more than 50 pips after the speech which stated the quickening of the rate hikes to contain the U.S. inflation. It made a 2-month low of 1.0524, but managed to stabilize on the last trading day. Following the release of the Unemployment rate of February which came 3.6% against the forecast of 3.4% and Average hourly earnings (MoM Feb)that came 0.2% against the forecast 0.3% , the dollar declined broadly after the mix NFP data showing 311K jobs added into the economy, which helped the EUR/US$ pair rise on Friday. The ECB interest rate decision, Germany Final Inflation, ECB Lagarde's Speech and U.S. CPI will be watched closely.

The shared currency appreciated further during the end of the week and touched a 1.0700, the top since February 20. Even though the stronger-than-expected NF growth, the US dollar index has slipped by more than 0.70% and US treasury yield have inched lower. The jobs report portrayed a hike in the Unemployment Rate fo the month of February . The asset struggled a temporary resistance at 1.0600 befor touching 1.0620, where the 50-period Simple Moving Average (SMA) on the four-hou chart is located. On the four-hour chart the close above the latter, could lead the pai to target around 1.0660 which is breaking the ascending trend line and there afte comes the psychological and static level resistance of 1.0700.On the flip side th support lies at 1.0570 where the 20-period SMA on the four-hour chart is located. Th breach above the level could lead the pair to touch the dynamic support at 1.053 which is the static level and the third support comes around 1. 0500 which is th psychological level.Resistance: 1.0600, 1.0620, 1.0660 Support: 1.0570, 1.053 1.0500.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.0%	0%	10.1%	3.7%	£-05.861B

Events to WATCH

Mar 14, 12:30
Average Earnings Index +Bonus (Jan)

Mar 14, 12:30
Claimant Count Change (Feb)

The cable pair started the week in red, but it displayed a positive trend since the mid of the week. GBP/US$ pair made its weekly high of 1.2113 prior to the increase in the US unemployment rates and the initial jobless claims data that came negative for the dollar. The positive US nonfarm payroll data gave some extent of support to the dollar. On Tuesday, the cable pair had high volatility because of the probability that the Federal Reserve would tighten monetary policy even more to tackle excessively high inflation. This caused the sterling to lose ground against the dollar. However on the other side, the sterling gained more strength due to the positive UK monthly GDP data, which indicated that the economy expanded by 0.3% in January. This shows that the British economy is resilient, which might lead the Bank of England to raise interest rates due on 23rd march.

We seen a continuous recovery in the pair after touching Year till date low of 1.1801 during the week, mixed US job report released on Friday also aided the pair to move in a upward direction. For losing the bullish momentum pair needs to comfortably break 1.1900 region as 200 days moving average is hovering there and lot of Market participants pays close attention towards 200 days SMA afterwards 1.1800 would play a role of major support which is a YTD low while on the upside if bulls could hold their momentum it might reach 1.2200 region and afterwards 1.24470-75 which is a long term resistance for the pair. On the daily time frame momentum indicator MACD giving bullish signal while RSI trading near to 47 levels which is considered to be an neutral zone.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	0.0%	4.3%	2.4%	¥ -3497B

Events to WATCH

Mar 16, 05:20
Trade Balance (Feb)

Mar 16, 10:00
Industrial Production (MoM) (Jan)

US$PY started the week with a rise and reached 137.915 but fell significantly in the latter 2 trading sessions. The US$/JPY increased after Fed Chair Powell stated that strong data will likely necessitate the central bank raising interest rates more than anticipated. The greenback stopped rising after Fed Chairman Jerome Powell's second day on Capitol Hill, putting US$/JPY under slight pressure. The US$/JPY fell 15 pips from its three-month high as a result of the release of GDP data from Japan, which came in lower than anticipated. On Friday, the Bank of Japan maintained its current bond-yield curve control policy. Although Haruhiko Kuroda kept policy settings the same at his last meeting as governor of the BOJ, Kazuo Ueda, the incoming governor of the BOJ, stated that the central bank must maintain its ultra-easy policy until there are indications that inflation has sustained above the BOJ's 2% target. The upcoming BOJ meeting which will be Ueda's first as chair will be closely watched by the market, which might result in the leg's momentum.

The US$/JPY opened at 135.827; traded higher compared to the previous week's close and marked the high at 137.915 level during the week but plunged in the latter two trading sessions to 134.114 by 0.53% and ended the week at the 135.110 level. If the pair continues to trend downward it could fall to the 50-day Moving Average of 133.406 level. The support must be at the 133.605 level in case the pair depreciates further. If the pair moves upward the resistance level must be at 137.50. The MACD line has crossed over the signal line to the downward and seems moving far from the signal line to expand the divergence which shows weakness in the dollar. The pair ended the month at a lower level compared to the previous week's close and the price behavior is steered to trade in the downward trend. The Relative Strength Index has moved down to its 14-day RSI's simple moving average which shows weakness to the pair.

BLOG

Characteristics And Functions Of The Foreign Exchange Market

Functions of the Foreign Exchange Market

The foreign exchange market is the most liquid financial market in the world with a daily trading volume of over $6 trillion, wherein the buying and selling of foreign currencies are not restricted to any geographical area. The forex market consists of a global network of financial centers and has no physical location or one centralized exchange. It operates for five days a week and 24 hours a day wherein currency is traded electronically, the value of which is dictated by the fluctuating foreign currency exchange rates.

Transfer Function

The most basic and prominent function that the forex market serves is the transfer of funds that involves foreign currencies from one country to another to settle payments arising from international trade. This consists of converting one country's currency into another since the trade happening beyond the domestic boundaries witnesses the utilization of foreign currencies for payment and not home currencies. Bank drafts, transfers, and bills of foreign exchange are the instruments used to facilitate the transfer function.

Credit Function

One of the necessary functions facilitated by the forex market is to promote cross-border trade through national and international credit. The import and export industry's trade cycle is relatively long, wherein expedited payments for the shipped goods are absent, creating a challenge of access to required capital. In the case of importers, it allows for the acquisition of larger orders, possession of goods through timely payment against import bills, which would have been delayed or prolonged due to the waiting period associated with selling the goods and obtaining money from the transaction.

Hedging Function

Utilizing hedging for foreign risk management against forex risks is another crucial function that the forex market serves. Any corporation or individual might encounter forex losses on their forex transactions due to the fluctuating exchange rates with movements that do not favor the parties involved. Thus to protect the bottom line of companies and ensure enhanced safety from forex exposures, the correct hedging strategies involving the right hedging tool are employed. Forward contracts are one popular way of hedging wherein the buying and selling of currencies happen at a predetermined foreign exchange rate at a specific date in the future.

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.

Many of your Forex and trade finance needs and filling the gap of the unmet demands in terms of credit and financial guidance to MSMEs and larger corporates. Team of experienced professionals and consultants well versed in the field of forex and trade finance, we provide streamlined forex solutions for one's convenience and at their disposal.

There are plenty of digital platforms and e-commerce businesses today that offer forex central updates, news, reports, etc., to help you support your research further and make the right decision while trading.

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