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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

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Welcome

Dear Stakeholders,

Worried about the banking shares, top power brokers including U.S. Treasury Secretary Janet Yellen, Fed Chair Jerome Powell and JPMorgan CEO Jamie Dimon joined together to present an unmatched rescue deal on Thursday. The lenders have said, they had also borrowed up to $109 billion from the U.S. Fed combined with an additional funding of $10 billion from the Federal Home Loan Bank on Thursday.

The rescue package announcement came within a day after Swiss bank and Credit Suisse concluded an urgent central bank loan of up to $54 billion to support its liquidity. U.S. data showed that banks have pursued a record $152.9 billion in emergency liquidity from the U.S. Fed recently. Additionally U.S. consumer sentiment for March slid for the first time in four months. ECB hiked 50bps on Thursday, focusing on containing inflation despite some market participants requesting for a rate hike pause till the banking confusions cease.

Presently markets have priced in a 25bps rate hike by the US Fed during the next week meeting. On the domestic front, Indian rupee fell up to 82.80 levels last week and is trading within a narrow range since the start of the year, between the 80.50-82.50 ranges.

Thank You

Vijay Kumar Gauba
Additional Director General
Trade Promotion Council of India

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Key Takeaway Summaries

₹ INR

US$/INR started the week opening at 81.75 and by the end of the week it fell to 82.52.

€ EUR

The EUR/US$ finished the week on a positive note at 1.0680 recovering from the weekly low of 1.0534..

£ GBP

BOE interest rate decision, which is expected to rise by 50 bps, and the UK CPI data will also be out in the upcoming week.

¥ JPY

US$/JPY made its 4-week low on Friday, as it reached the 131.556 level, as a result of lower yields and a decline in U.S. stock prices.

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.50%	0.8%	6.44%	7.1%	$-17.43B

Events to WATCH

This week saw an unexpected fall in rupee amid the ongoing banking crisis in the US & European economy as it started the week opening at 81.75 and fell to end the week at 82.52. After the SVB and Signature bank this time it is the Credit Suisse bank, a European bank in which materialistic evidence for another collapse were found, which ultimately intensified concerns towards a global banking crisis. This news was out on Wednesday after which the concerns started to grow in the market and as always at the time of crisis every market participant rushed towards the safe-haven currency i.e. dollar which resulted in the increased dollar demand as in the very next trading session it opened at 82.80 also making a weekly high.

The dollar index also went up to trade around the 104.50-levels which was previously trading around 103.30 levels. The clouds of fear started to clear out soon as the Credit Suisse bank will now borrow a loan of around 54 billion dollars from the Swiss national bank to restore liquidity after a decline in its shares and bonds. After this news came out we started to see recovery in the rupee as on Thursday it closed at 82.73 and on Friday it opened higher at 82.50 because the dollar demand fell as fears of crisis cooled-off. The future view also remains the same of rupee recovery. Few key events for the upcoming week are Existing Home Sales (Feb), Fed Interest Rate Decision, Building Permits and New Home Sales (Feb).

$ USD

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

Events to WATCH

Mar 21, 19:30
Existing Home Sales (Feb)

Mar 22, 23:30
Fed Interest Rate Decision

Mar 23, 17:30
Building Permits

Mar 23, 18:00
Initial Jobless Claims

Mar 23, 19:30
New Home Sales (Feb)

Mar 24, 18:00
Core Durable Goods Orders (MoM) (Feb)

The Indian Rupee plunged more than 0.6% during the week due to turmoil in the markets over bank failures in major economies, As we mentioned in our previous week's reports gaps in US$/INR usually fills and we could see rupee weaken in both the gaps in the pair formed from 82.81 to 82.7525 (27Feb-28Feb) and 82.5325 to 82.3575 (2Mar-3Mar) filled this week.

Rupee gains could be seen in the upcoming days as risk assets got some relief following bank rescues in the U.S. and Europe. Triple top formation continues to dominate the chart by taking into consideration the previous peaks 82.94 – 83.29 area, it seems to be a good resistance region and 89 days moving average is hovering near 81.65-70 regions.

Our sense is of the rupee strengthening in the upcoming days. Exporters got many chances to hedge their inwards, if missed they can still sell at current levels near (82.50-55), while Importers can target to hedge near 82.00 levels if mandatory to hedge importers can go for the options for hedging near term exposure.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.5%	0.0%	8.5%	6.7%	€-08.753B

Events to WATCH

Mar 21, 15:30
German ZEW Economic Sentiment (Mar)

Mar 24, 14:00
German Manufacturing PMI (Mar)

The EUR/US$ finished the week on a positive note at 1.0680 recovering from the weekly low 'of 1.0534. On Monday, the sharp fall in yields on US Treasury bonds weighed heavily on the US$, allowing EUR/US$ to maintain its bullish momentum. During the whole week, the pair was extremely volatile, It made the weekly high of 1.0755 in the third trading session. The pair, however, staged a downward correction after reaching 1.0755, as Wall Street's main indexes managed to recover from opening lows on hopes of contagion from the collapse of Silicon Valley Bank remaining contained. A sudden rise in the dollar index above 104.50 as a lot of people turned to safe haven for investment, after the sudden fall in European bank shares due to crunch of funds in Credit Suisse bank. The European Central Bank raised interest rates by 50 basis points, providing some support to the euro. The dollar index fell on Friday, after slowdown in demand for the dollar and a growing sense of calm as banks and authorities took steps to ease banking sector pressure. Fed's monetary policy decision and German ZEW Economic Sentiment (Mar) will be watched closely by the market.

EUR/US$ has extended its recovery toward 1.0650 in the US session overnight ahead of the dollar remaining under bearish pressure surrounded by slipping US T-bond yields. Despite, the fear in the market scenario, restricting the assets appreciating mode into the weekend.EUR/US$ drawback below 1.0660 the static level after touching that level in the early European session. The break of above hurdle will touch up to 1.0680 the 200-period Simple Moving Average (SMA) on the four-hour chart comes as the next resistance. On the four-hour chart if the pair close above 1.0680, could lead the asset to touch 1.0700 the psychological level and 1.0730 is the static level aligns as the next resistance. On the other side, first support is lies at 1.0620/30 area, where the 50-period and the 10-period SMAs comes respectively. Further the breach of the above support levels could lead the pair to target 1.0600 and aligns the 1.0530 which is the psychological level, static level respectively and 1.0530 the static level could be seen. Resistance: 1.0660, 1.0680, 1.730. Support: 1.0620, 1.05600, 1.0530.

£ GBP

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

Events to WATCH

Mar 22, 12:30
CPI (YoY) (Feb)

Mar 23, 17:30
BoE Interest Rate Decision (Mar)

Mar 24, 12:30
Retail Sales (MoM) (Feb)

Mar 24, 15:00
Services PMI

Mar 24, 15:00
Composite PMI

Mar 24, 15:00
Manufacturing PMI

The cable pair had a good week's start. It declined over the following two trading days before showing signs of recovery once again and finished the week in the green. On Wednesday, the sterling showed a strong weekly loss due to the increase in the dollar index as investors rushed towards safe haven currencies because of the materialistic evidence found against the credit Suisse banks that it will collapse due to liquidity crises following the fall of SVB and Signature bank of US. In the last two trading sessions, the pair showed some strength as authorities and banks took a stand to reduce pressure on the banking sector, the Swiss National Bank intervened by providing a $54 billion loan to Credit Suisse. This caused relief among the investors, decreased demand for safe haven currencies. On the other side, investors now anticipate that the Fed will raise rates by 25 basis points at its policy meeting, which is set for next week. As this news has already been discounted in the market, the main focus is on the BOE interest rate decision, which is expected to rose by 50 bps, and the UK CPI data will also be out in the upcoming week.

The Sterling regained the upper hand versus the American currency despite the tensions in global banking sectors and gained over 150 pips during the week pair. Bulls have taken the charge after touching YTD low of 1.1801 on 8th Mar 2023 and looking at the momentum if pair comfortably crosses 1.22 region there would be no surprise it could touch the 1.2450 levels which is a long term resistance for the pair while on the downside pair is getting support near 1.2000 psychological level breaking of these levels could push the pair towards 200 days moving average near to 1.1890-95 region. On the daily time frame momentum indicator MACD giving mixed signals while RSI is hovering near 55 levels which is considered to be a slight overbought zone.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	0.0%	4.3%	2.4%	-¥-898B

Events to WATCH

The US$/JPY pair opened the week lower at 135.11. The pair struggled to gain due to bearish market sentiment after US authorities took action to limit the consequences of the sudden collapse of Silicon Valley Bank, markets priced in that the Fed will slow its interest rates hike. On the second trading day, BOJ Minutes were released, which stated that an extremely dovish policy stance was absolutely necessary to maintain inflation at or near 2%. This supported the upward movement of the pair. It was because of the liquidity crunch in Credit Suisse bank. The yen rose broadly in the last two days, as a result of lower yields and a decline in U.S. stock prices. The pair made its 4-week low on Friday, as it reached the 131.556 level. Haruhiko Kuroda, the BoJ's incoming governor, stated earlier this week that the current -0.1% interest rate could be reduced further into negative territory. Fed's Interest rate decisions will be eyed closely. The pair is expected to be impacted by the increasing acceptance that the Federal Reserve will adopt a less hawkish stance at its upcoming meeting.

The US$/JPY opened at 135.110; traded downward compared to the previous week's close and marked the 4-week low at 131.556 level during the week; plunged by 2.41% and ended the week at the 131.856 level. If the pair recovers it could rise to the 50-day Moving Average of 134.10 level. The support must be at the 129.803 level in case the pair depreciates further. If the pair moves upward the resistance level must be at 135.004. The MACD line continued moving down below the signal line 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 behaviour is steered to trade in the downward trend. The Relative Strength Index continued moving down to its 14-day RSI's simple moving average which shows weakness to the pair.

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 instruments used to facilitate 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 forex risk management is another crucial function. 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 bottom lines of companies and ensure enhanced safety from forex exposures, correct hedging strategies 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.

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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