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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

Volume 55 → March 26 to April 1, 2023

Welcome

Dear Stakeholders,

Global stock markets swooned on Friday as fear about contagion among banking shares of lenders such as Deutsche Bank, with the flight from risk supporting the dollar and pushing bond yields lower. Market sentiment collapsed ahead of a sell-off in Deutsche shares, which tumbled to as much as 15%, as its credit default swaps, reflecting the cost of insuring debt against the risk of non-payment, inched to their highest in more than four years.

This week, the US treasury Secretary attempted to calm the fears about the strength of US lenders and the economic outcome of a potential lending crunch if depositors flee smaller banks. Huge demand for safe-haven assets, and challenges that the Fed will soon control its policy tightening cycle due to the banking worries or disturbance, slipped the two-year US. Treasury yield, down about 3.5 bps to 3.7709%.

The Fed hiked its major interest rate by 25 bps to a range of 4.5%-4.75% on Wednesday last week. On the domestic front, US$/INR rupee fell by 4 paise to 82.24 on Friday in the midst of a stronger dollar globally and losses in domestic equities.

The Fed president commented, the interest rate cycle has reached close to its peak. After which the dollar index tremendously fell to make a seven-week low of 101.91.We could see some more rupee recovery in the coming future since riskier assets had some recovery following the European and US bank crisis.

Thank You
Vijay Kumar Gauba
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Trade Promotion Council of India

CONTENTS

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Key Takeaway Summaries

₹ INR

At its closing on Friday, the rupee ended up closer to its opening on Monday at 82.475

€ EUR

ECB President Lagarde sticks to their preceding rate hikes decision and increased the bps by 0.50%, bolstering the pair's strength .

£ GBP

Sterling started the week on a positive note by opening at 1.2202. The pair gained rapidly and made a 7-week high of 1. 2343.

¥ JPY

The Yen got some support from the CPI data that came down to 3.3% compared to its previous month's reading of 4.3%.

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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

The Indian rupee witnessed a volatile week as it flipped directions and fell, swiping its weekly gains due to the heightened risk sentiments over the situation of the banking sector in the US and Europe. Rupee opened flat at the beginning of the week at 82.54, even after more than a $3 billion deal struck between UBS and Credit Suisse over last weekend to save the banking sector. With the Federal Reserve's much-expected rate hike of 25 basis points and an assurance that further rate hikes might be coming to an end, the rupee did see some strengthening in the middle of the week at 82.25. But it could not sustain the range much longer as the dollar index was trading higher around 102.60 on Friday after a seven-week low of 101.91

At its closing on Friday, the rupee ended up closer to its opening of Monday at 82.475, cleaning up the gains it made in the mid-week. It seems that investors were uneasy about their risk exposures moving into the weekend, as the movements in the global market show that the concerns over the banking issues are not yet over. Some important events in the upcoming week are Pending Home Sales (Feb), GDP (QoQ) (Q4), Initial Jobless Claims, and Core PCE Price Index.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5%	2.7%	6%	3.6%	$-68.289B

Events to WATCH

Mar 28, 19:30
CB Consumer Confidence (Mar)

Mar 29, 19:30
Pending Home Sales (MoM) (Feb)

Mar 29, 20:00
Crude Oil Inventories

Mar 30, 18:00
GDP (QoQ) (Q4)

Mar 30, 18:00
Initial Jobless Claims

A holiday on 22nd Mar made it a 4-day trading sessions week. The rupee again saw some recovery in this week as after touching 82.80 and filling the unfilled gaps at those levels it came down slightly to start the week flat at 82.55.

The Fed also did a small rate hike by 25bps to avoid any further banking crisis, this news didn't had much impact as it was already discounted by the market. The real impact came from the Dovish comments from the Fed President Powell which indicated that their interest rate cycle has reached close to its peak. After which the dollar index tremendously fell to make a seven-week low of 101.91.We could see some more rupee recovery in the coming future since riskier assets had some recovery following European and US bank crisis.

Moreover, the previous highs of 82.85-83.29 sill seems to be a significant resistance level. Also the MACD(blue line) and signal line (orange line) are currently close to each other but most probably the MACD line will cross and come under the signal line indicating the selling region.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.5%	0.0%	8.5%	6.7%	€-30.600B

Events to WATCH

Mar 27, 13:30
German Ifo Business Climate Index (Mar)

Mar 30, 14:30
CPI (YoY) (Mar)

Mar 30, 17:30
German CPI (YoY) (Mar

EUR/US$ started the week by opening at 1.0686, consecutively rising in the next trading sessions, making a high of 1.0912. The banking financial crisis eased as a result of government actions over the weekend, and this led to a decrease in the value of the US dollar during the first half of the week. The Union Bank Of Switzerland acquired Credit Suisse for $3.25 billion, prior to the United States Fed's decision, and investors gained confidence and moved into the high-yielding Euro. ECB President Lagarde sticks to their preceding rate hikes decision and increased the bps by 0.50%, bolstering the pair's strength . EUR/US$ reversed from its multi-day high on Thursday, making a low of 1.082 as the majority of US data was quite strong and Treasury bond yields stopped further declines. On Friday investors' risk appetite was weighed down by concerns about the health of the banking sector, which caused the Euro to fall nearly 1% making a low of 1.0712, further separating it from the seven-week highs reached on Wednesday. The upcoming data on German Ifo Business Climate Index and German CPI(YOY)will be closely watched by the market participants for further cues.

The share currency breached down the upside regression channel and on the 4 hour chart the Relative Strength Index (RSI) indicator depreciated slightly below 60 after having remained firm in overbought territory last week Thursday, implicating that bulls have moved to the sidelines. On the flip side, 1.0820 is the Fibonacci 23.6% retracement of the recent upside, 20-period Simple Moving Average (SMA) forms as immediate support. In case the asset breaches below that level and begins considering it as resistance, the downside level could extend toward 1.0760 of Fibonacci 38.2% retracement and 1.0720 is the 50-period SMA. First resistance lies at 1.0850 the static level ahead of 1.0900 the psychological level, static level and 1.0930 is the multi-week high posted on last week.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.25%	0%	10.4%	3.7%	£-05.861B

Events to WATCH

Mar 31, 11:30
GDP (YoY) (Q4)

Mar 31, 11:30
GDP (QoQ) (Q4)

Sterling started the week on a positive note by opening at 1.2202. The pair gained rapidly and made a 7-week high of 1. 2343. The pair's growth was boosted by the CPI data, which came higher around 10.4% against the forecast of 9.9%. And also, from the dovish comments made by Fed Chair, Powell, that there will be lower and lesser rate-hikes, to prevent liquidity-crunch problem. As expected, Fed raised its interest rates by 25 basis points. The dollar index fell and made a 7-week low of 101.91. On Thursday, BoE raised its interest rates by 25 bps to 4.25% and pointed that further policy tightening in order to control the inflation in future. The cable pair was also favoured by Brexit optimism, as the Brexit Bill was passed by House of Commons. But sterling erased its earlier gains on the last trading session, as Manufacturing and Services PMI came lower than expected and due to dollar recovery. BoE's FPC Meeting Minutes, US Core PCE Price Index and Jobless claims will be eyed closely this week for further cues.

The pair started the week on a positive note by opening at 1.2202, slightly above its previous closing, 1.2172. During the whole week, the pair gained and made a 7-week high of 1.2235. As per the daily chart of the sterling, we can see a level of 1.2415 acting as a resistance (orange line) for the pair, and a major support (pink line) level at 1.1807. The candle formation is above EMA 50, which indicates the bullishness of the pair. The MACD (blue) line is can be seen moving towards the Signal(orange) line, if the bearish crossover happens, the downtrend of the pair is predicted in near future. This action is confirmed by RSI(Purple line) marching downwards towards Signal(yellow) line, signifying the bearish trend of the pair in short-term outlook. If the pair is able to stabilise above the 1.2270/80 area and return to the rising channel, it will likely encounter resistance at 1.2300 (psychological level, static level), and 1.2345. (Thursday high).

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	0.0%	3.3%	2.4%	-¥-898B

Events to WATCH

Mar 31, 05:00
Tokyo Core CPI (YoY) (Mar)

Mar 31, 05:20
Retail Sales (YoY) (Feb)

US$/JPY started the week lower at 132.47, as investors responded to the acquisition of credit Suisse bank by Union Bank Of Switzerland, causing the dollar weakness. During the whole week, the pair followed the downward trend and ended the week in red. As market participants were waiting for the fed's meeting on Wednesday where the fed declared a 25 basis points rate hike as expected. But the dovish comments by Powell for future rate hikes, caused the DXY to fall. In the last trading session, the pair touched its lowest level at 129.64, since February 3. The Yen got some support from the CPI data that came down to 3.3% compared to its previous month's reading of 4.3%. Despite the reading is above its inflation target of 2 %. On the other side, the fall in US treasury yields also caused the pair to decline. In addition, a new wave of global risk appetite amid ongoing worries about a heavy banking crisis and upcoming recession risks gave the yen an additional lift and pushed the US$/JPY pair down. The upcoming BOJ governor speech will be closely eyed by the market participants.

The US$/JPY opened at 131.856; traded downward and marked the low at 129.642 level during the week; plunged by 0.86% and ended the week at the 130.718 level. If the pair recovers it could rise to the 9-day EMA of 132.45 level. The first support must be at the 129.803 level again and the second support must be at 128.084 in case the pair depreciates further. If the pair moves in an upward trend the resistance level must be at 133.004. The MACD line continued to follow the downward track below the signal line which shows weakness in the dollar. Again, 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 continued moving down to its 14-day RSI's simple moving average which shows pressure on the selling side.

BLOG

FX Volatility: Is It The Right Time To Practice Dynamic Hedging?

What is Dynamic Hedging?

Dynamic hedging is a foreign exchange risk management strategy that allows businesses and individuals to readapt their hedging positions to evolving market conditions by providing flexible solutions to protect investments from exchange rate risks. As the FX markets evolve, this strategy allows the hedging rates to correspondingly readapt. Thus, international businesses exposed to FX volatility can hedge their exposures at rates that are closer to current exchange rates.

Exotic FX Options: Tool for Dynamic Hedging

Exotic options are different from plain vanilla options in terms of how payoff is determined and when the option can be exercised. These are more complex and usually trade in the over-the-counter (OTC) market.

Types of Exotic options that can be used for dynamic hedging in forex risk management include the following:

Chooser Option: It allows the investor to choose whether the option is put or call at a certain point in option's life. This can be used when sudden news arrives such as event release, political upheaval, etc., that can influence the exchange rate movement.

Compound Option: It gives the right, not the obligation, to buy an option at a specific price on a predetermined future date. In other words, the underlying in a compound option is an option contract. Four types of compound options are: call on call, put on put, call on put and, put on call.

Barrier Options: These are similar to plain vanilla options but only get knocked-in (activated) or knocked-out (extinguished) when the exchange rate hits a preset level.

Benefits

•Help preserve profit margins

In comparison to static hedge, dynamic hedge helps businesses, dealing in international markets, preserve their profit margins. Let us suppose that an exporter, who is selling goods overseas in foreign currencies, is facing continuous exposure to exchange rate fluctuations. Now, he has two options:

1.Hedge-in-advance: The exporter hedges in advance their estimated sales volume, after setting their product prices according to a target exchange rate, for a defined period of time that might be a few months or an year. This strategy promises steady margin but if the exchange rate fluctuates, it might be difficult to readapt the prices and can lead to loss of competitiveness.

2.Dynamic Hedge: The exporter hedges the accumulated sales at the end of each day, after setting the price at daily exchange rate. This way, the exporter has hedged all of its exposure at the current exchange rate with a minimal differential with the target exchange rate. Also, the profit margin is preserved by adjusting the prices according to exchange rate movements.

•Cost aware

Dynamic hedging reduces the hedge ratio when cost of hedging is high and increases hedge ratio when cost of hedging is low. In other words, this strategy takes on currency exposure when the cost of hedging exceeds the hedging benefits or the gains from not hedging could make up for currency movements.

•Better risk-and-reward results

Dynamic hedging has proved to provide superior results from a risk and reward perspective as it takes current exchange rates into account, as well as long term mean-reverting patterns

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