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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 62 → Apr 23 to Apr 29, 2023

Welcome

Dear Stakeholders,

Following a week where first-quarter profit announcements appeared to steal the show from a relatively light economic calendar, the main benchmarks in the US ended mixed. Thursday's report on jobless claims showed increasing weakness in the labour market, signalling a possible rate hike by the Fed in May.

After two weeks of little rupee gains, this week we witnessed some pressure on the rupee. The first three days of the week saw regular dollar bids and the rupee gave up the 82 mark, declining to a weekly low of 82.245. It regained its composure and recovered a bit in the last two trading sessions to close at 82.1475.

As investors considered the possibility of another interest rate increase from the European Central Bank in May, the rates on European government bonds increased. Due to rising food and beverage prices, annual UK consumer price growth in March decreased less than anticipated to 10.1% from 10.4% in February. In March, core consumer price inflation remained above the Bank of Japan's 2% target.

Chinese stocks declined as conflicting economic data and reports that the US may impose additional investment restrictions on China dampened optimism. In the first quarter of 2023, China's GDP increased by 4.5% compared to the 3.0% growth rate of the previous year.

Thank You

Vijay Kumar Gauba
Additional Director General
Trade Promotion Council of India

CONTENTS

Key Takeaway Summaries

₹ INR

A slight rough week for the Rupee as it lost its strength quickly to breach and trade above the 82-levels.

€ EUR

EUR/US$ lost strength as its winning streak came to an end, finishing the week with only slight losses at about 1.0988.

£ GBP

The pair started the week lower at 1.2402 compared to its previous week's close.

¥ JPY

The US$/JPY started the week on a positive note by opening at 133.80. During the week the pair made a high of 135.13.

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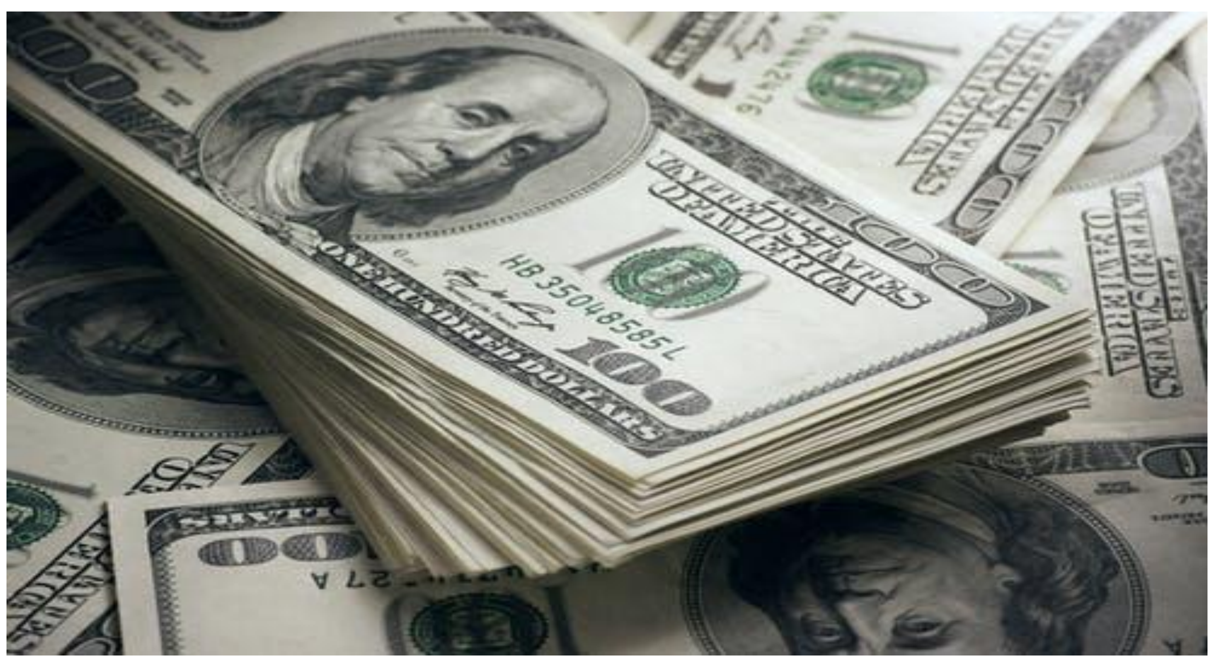
₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.50%	0.69%	5.66%	7.8%	$-19.7B

Events to WATCH

It has been a slightly rough week for the Rupee as it lost its strength quickly to breach and trade above the 82-levels. It started the week at 81.89 and since then it appeared to be continuously on an upward trend making a weekly high of 82.23. The continuous Dollar strength which was seen throughout the week was supported majorly due to the increasing expectation of interest rate hike of 25bps by the Fed on their upcoming meeting on May 3rd. Though, the US inflation rate was constantly declining from the previous year but the declining pace was not as expected and currently it is 5% which means it is still away from the Fed's potential target of 2%. The dollar index strengthened this week making almost a 2-week high of 102.25.



The US 2-year yields also gained to 4.21% as the expectation for the rate hike rise. On the last trading session of the week we saw the US$/INR spot as well as the dollar index cooling-off and sliding down to end the week at 82.10 and 101.67, respectively. The future view still remains for the rupee recovery as most probably it will be the last rate hike by Fed in 2023 and much dollar strength is not expected. Few key economic events for the upcoming week are New Home Sales (Mar), CB Consumer Confidence (Apr), Core Durable Goods Orders (MoM) (Mar), GDP (QoQ) (Q1) and Initial Jobless Claims.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5%	2.6%	5%	3.5%	$-70.54B

Events to WATCH

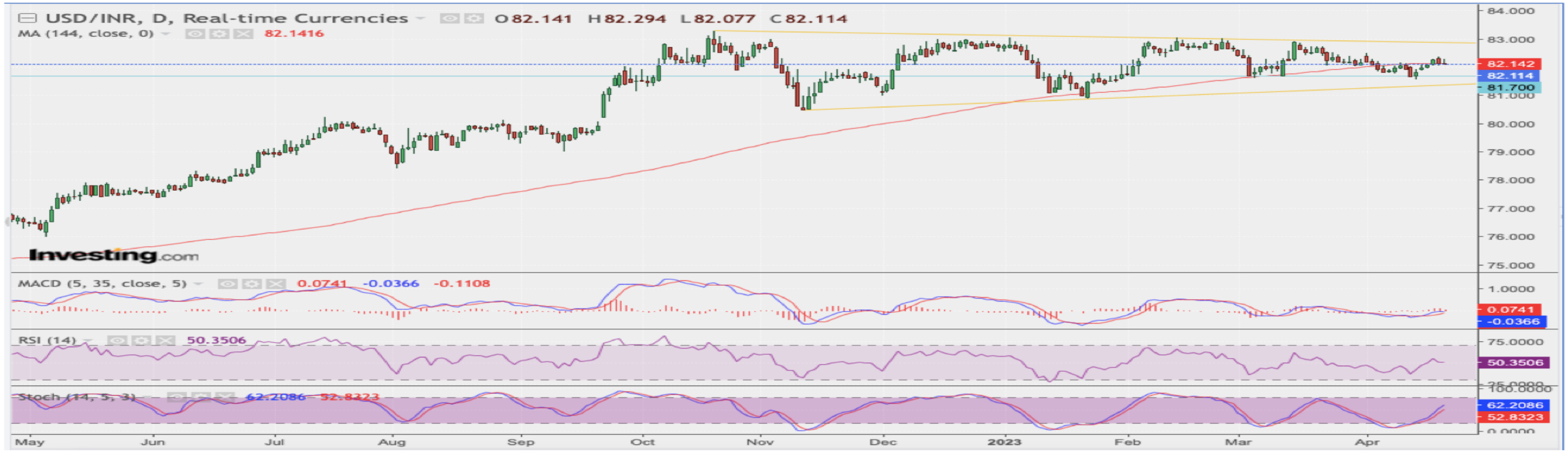
Apr 25, 19:30
New Home Sales (Mar)

Apr 25 19:30
CB Consumer Confidence (Apr)

Apr 26, 18:00
Core Durable Goods Orders (MoM) (Mar)

Apr 27, 18:00
GDP (QoQ) (Q1)

Apr 27, 19:30
Pending Home Sales (MoM) (Mar)



After two weeks of little rupee gains, this week we witnessed some pressure on the rupee. The first three days of the week saw regular dollar bids and the rupee gave up the 82 mark, declining to a weekly low of 82.245. It regained its composure and recovered a bit in the last two trading sessions to close the week at 82.1475.

Analysing the US$/INR daily technical chart for clues for future direction. Weekly volatilities of 0.5%-0.75% has ensured the momentum indicators of RSI, MACD and Slow Stochastics to turn neutral. Rupee seems to be trading around the 144-day Simple Moving Average (red line) as its fulcrum. Observe the two converging trendlines (yellow lines), connecting the US$/INR peaks and bottoms since Oct'22, indicating that Rupee has been trading in a broad range for the past 6 months. These converging trendline suggests support region around 81.30-40 and resistance areas at 82.70–82.90. US$/INR lows of Mar'23 coincided with the lows of Apr'23, around 81.60-81.70. This could an important interim support region.

As long as the board range holds, it makes sense to play the range. Would strongly recommend the use of vanilla options. US$/INR options volatility is quite low and such options would come cheap. A good hedge strategy is to use an optimum mix of forwards and vanilla options. Those who can do structured options should use conservative ones selectively. Spot levels around 81.60-81.70 are good for dollar importers to hedge for short term. Dollar exporters can target spot levels around 82.20-82.30 to hedge.

€ EUR

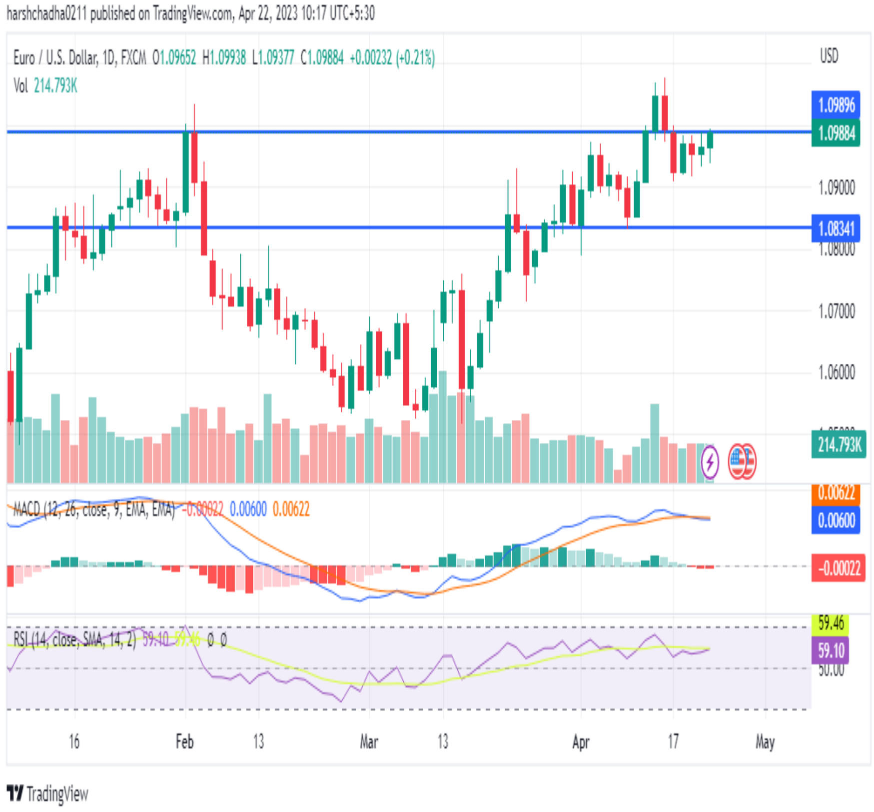
REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.5%	0.0%	6.9%	6.6%	€4.608B

Events to WATCH

Apr 24, 13:30
German Ifo Business Climate Index (Apr)

Apr 28, 11:30
German GDP (QoQ) (Q1)

EUR/US$ lost strength as its winning streak came to an end, finishing the week with only slight losses at about 1.0988. As US$ maintained gains spurred by concern from the previous Friday, the pair declined the most on Monday and made a weekly low of 1.0909. A prospective recession was once again on the table due to sluggish macroeconomic statistics for the United States and hawkish Fed officials' comments. As a result, the pair spent the whole week holding at well-known levels as the Euro was unable to extend gains on its strength. Data released on Thursday, including US unemployment claims, housing figures, and the Philadelphia Fed Manufacturing Index, painted a bleak picture and encouraged flows towards safety, except the U.S. dollar, which caused the dollar index to drop to 101.63 level. Recession fears in the U.S. were eased after the release of upbeat manufacturing and services PMI, providing some strength to the dollar. But Euro recovered as the greenback was unable to sustain its gains towards the end of the session. Germany and U.S. GDP, PCE Price Index, and Durable Goods orders of U.S. and HICP preliminary estimates of Germany will be in the spotlight.



Although bullish conviction looks to be waning following the significant increase over the past three to four weeks, EUR/US$ has managed to recover off trend line support at 1.0935, with bulls temporarily regaining control from bears. Therefore, it does make some sense that the Euro will continue to draw a lot of interest. This market will pay close attention to the European Central Bank and the fact that it is maintaining steady in its decision to battle inflation. Initial support for important technical levels is at 1.0935, followed by 1.0875. The highs from 2023 between 1.1075 and 1.1170 are the first resistance to be taken into account. MACD giving bullish signal while RSI trading near to 58 levels which is considered to be above neutral and shows a overbought region. The 200-period Simple Moving Average (SMA) is situated. If the latter is broken on the four-hour chart, the pair may target 1.0974, which would break the rising trend line, before hitting the psychological and static level resistance of 1.1000.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.25%	0.1%	10.4%	3.8%	£-04.805B

Events to WATCH

The pair started the week lower at 1.2402 compared to its previous week's close. During the first half of the week, the sterling receives a fresh lift due to UK CPI data which indicated that the British inflation stayed above 10% in March as the expectations were 9.8%. To deal with the inflationary pressure BOE is expected to be more hawkish. However, on the other side, the dollar struggled to gain because of the softer economic data. The U.S. labour market data on Thursday came bearish indicating that more people are filing for unemployment claims. The fed's beige book report also showed that the economic condition in a recent week has cool down but still, the inflation is high. So, there is a chance that the Fed will increase the interest rate at least once more. At the end of the week, the dollar got some support due to the data release showing that S&P Global Composite PMI increased to 53.5 from 52.3 in April, indicating that the US private sector's business activity rose at a faster rate than anticipated in early April. For the upcoming week top tier US and UK data will be closely watched.

This was the eight straight week where sterling ended on a positive side but we observed a sideways trading in the pair as range was only 125 pips between high and low which generally remains near to 200 pips or more in a week in GBP/US$. Now focus will shift on the macroeconomic and policy divergence between the US and the U.K. in the week ahead. A return to 1.25 levels would signal a bullish trend for the pair which could test towards the resistance levels of 1.2635-40 and afterwards 1.27 while on the downside 1.2325 seems to be a first support levels and afterwards 1.2195 as 100 days moving average is there. On the daily time frame momentum indicator MACD giving mixed signals and RSI trading around 57 which is considered to be an overbought zone.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	0.0%	3.2%	2.6%	-¥-755B

Events to WATCH

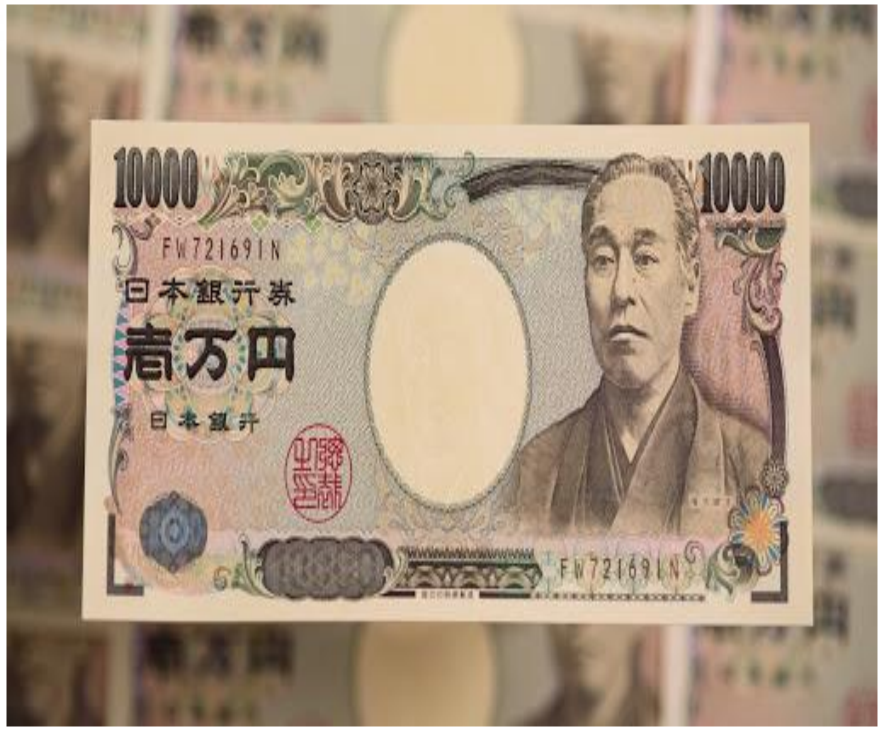
Apr 25, 10:30
BoJ Core CPI (YoY)

Apr 28, 05:00
Tokyo Core CPI (YoY) (Apr)

Apr 28, 05:20
Retail Sales (YoY) (Mar)

Apr 28, 05:20
Industrial Production (MoM) (Mar)

Apr 28, 08:00
BoJ Interest Rate Decision



The US$/JPY started the week on a positive note by opening at 133.80. During the week the pair made a high of 135.13. The Japanese Yen was among the poorest performers as government bond yields increased globally. The US 10-year yield ended the week at 3.55%, which was the highest weekly closing since early March but was still quite low. The US dollar originally gained during the trading week, but it swiftly gave back gains as a result of the several currency pairs' continued unstable behavior. The market is still striving to predict whether or not the US dollar will maintain its strength or if it will start to wane. On the other side the Japan Consumer inflation held steady above central bank target, putting pressure on Bank Of Japan to shift away from its ultra loose monetary policy stance later this year. The Bank of Japan will hold Kazue Ueda's first monetary policy meeting the following week. The policy stance is anticipated to remain unchanged for now. According to current projections, the Yield Curve Control could change as early as June.

This was the second consecutive week where US$/JPY ended on a positive note but it closed near to the levels where it started the week at 134.10. This kind of choppy trading we saw in other currency pairs also as market is still trying to determine whether or not the American currency is going to show strength. As we are trading near to 50 days moving average it could attract the lot of buyers but if we break down these levels doors would be open for 132 region while on the upside first major resistance is at 135 levels afterwards 137.85-90. On the daily time frame momentum indicators RSI and MACD giving mixed signals.

BLOG

PRE-SHIPMENT CREDIT IN FOREIGN CURRENCY (PCFC)

Meaning: PCFC

Pre-shipment credit is any loan or advance granted or any other credit provided by the bank to an exporter. This is for the purpose of financing the purchase, processing, manufacturing or packing of goods prior to shipment. Dealers are permitted to avail Pre-shipment Credit in Foreign Currency (PCFC) with an intention of making the credit accessible to the exporters at an internationally cutthroat price. This is contemplated as an additional advantage beneath which credit is issued in foreign currency in order to assist the purchase of raw material after attaining the primary export orders.

Advantages of Applying for Packing Credits

1.Choice of Currency- This facility may be extended to convertible currencies like US dollars, UK Pound, Japanese Yen, EURO, etc. To grant exporters greater operational flexibility, banks extend PCFC in one convertible currency with respect to export order invoiced in the other convertible currency. For instance, an exporter can benefit PCFC in dollars as against an export order which is invoiced in Euros. Here, the exporter will have to bear both risk as well as the cost of cross-currency transaction.

2.Repayment is Effortless- Financial institutions generally extend the packing credit counter confirmed export orders or LOC that is issued by bank of the foreign buyer. Most of the time in order to repay the loans, the proceeds of the export orders are initially utilized. It therefore makes the loan completely liquid as the repayment schedule is implicit in the completion of the export orders.

3.Comes with Adaptability- Packing credits comes with ease and adaptability. Financial institutions can offer funds either in the home currency or convertible foreign currency (E.g. Dollar, Pound and Euro). Further, banks also give exporters an option to repay debts with the proceeds of another export order given that they are commercially exchangeable and the rest of the exports orders are from the same importing country.

4.Compensated Rate of Interest- No country wants its exports to be limited but would look out for ways to boost it and become more competitive in the foreign market. This is why export houses get finances available at nominal rate to take advantage of such facilities. Financial costs are included in the cost of the product and countries have therefore framed policies which ensure exporters can easily take packing credits at a lower rate than the prime lending rate.

5.Funds ensured For Entire Process- Financial institutions extend credit for the entire process- right from procurement of raw materials to the conversion into finished goods to storage into warehouses and finally packaging. This type of credit therefore includes all the manufacturing costs and other costs that make the goods worthy to be exportable. It is a full time credit that can be expended for any purpose and leads to export of goods.

Conclusion

Thus, PCFC can be applied by the exporters to meet their production needs from the banks but the only consideration that one has to keep in mind is compliance with the strict provisions. The entire process of availing credit may seem cumbersome as it demands regular verification of reports and statements. Nevertheless, to cut short the difficulties, it is advisable that exporters consider taking Advisory services for foreign exchange and trade finance. Experts of such company can offer timely support to meet the credit demands of the exporters.

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