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Simplifying Forex

Trade Promotion Council of India
Notified in the Foreign Trade Policy by Department of Commerce, Government of India

Forex Market Insights

Newsletter

Volume 59 → Apr 02 to Apr 08, 2023

Welcome

Dear Stakeholders,

The week marked the end of the first quarter of 2023, as well as the end of the Indian and the Japanese fiscal years 2022–23. Japan's stock market saw a rise as the worries over the financial instability in the international banking sector took a step back and the possibility of the U.S. Fed cutting off its monetary tightening policy helped to lift sentiments. The CPI for Tokyo declined for the second straight month in March and went above the BOJ's 2% inflation target. The rupee strengthened as a result of speculation about capital inflows and a slight improvement in risk sentiment.

Chinese stocks rose on positive economic data and affirmative remarks from Beijing increased investor confidence in the outlook for the country's economic growth. China's GDP is expected to grow by 5.2% this year, according to the IMF, while global growth will slump to below 3.0%.

While concerns about financial instability decreased, stock prices in Europe increased. BoE Governor Andrew Bailey stated that the current issues in the banking sector will not change the focus of the central bank on inflation. U.S. major indices gained significantly, and also the Treasury yields rose. Value stocks slightly outperform growth stocks in terms of gains, while small-caps outperform large-caps. U.S. core PCE came in at 4.6% vs. consensus projections of 4.7%, giving the market some good news before the weekend.

Thank You.

Vijay Kumar Gauba
Additional Director General
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Key Takeaway Summaries

₹ INR

The rupee strengthened as a result of speculation about capital inflows and a slight improvement in risk sentiment

€ EUR

The pair advanced for four consecutive days before losing some ground just before the weekly close.

£ GBP

The sterling continued to hold its strength against the dollar, as it started the week on a positive note at 1.2219.

¥ 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%.

TPC Trade Promotion Council of India
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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

Apr 03, 10:30
Nikkei S&P Global Manufacturing PMI (Mar)

Apr 05, 10:30
Nikkei Services PMI (Mar)

Apr 06, 10:00
Cash Reserve Ratio

Apr 06, 10:00
Interest Rate Decision

Apr 06, 10:00
Reverse REPO Rate

Following the end of the fiscal year 2022–23 and also the end of the month, the Indian rupee stronger this week. In comparison to its close of 82.475 against the US dollar last Friday, the rupee opened at 82.36 on Monday, despite weak Asian indicators. The rupee strengthened as a result of speculation about capital inflows and a slight improvement in risk sentiment. The rupee opened higher, mirroring widespread dollar losses caused by easing concerns about the ongoing banking crisis. This boosted the local currency early Tuesday, reaching 82.15 as the US dollar fell and domestic equities rose, reflecting rising investor confidence. Because of rising oil prices, weak non-deliverable forwards, a steady US currency, and high US treasury yields.

The Indian rupee depreciated versus the US dollar on Wednesday. The value of the Rupee decreased as a result of a strong dollar and rising crude oil costs. It was a four-day week for the Indian market, as Thursday was closed on account of Ram Navmi. Due to expected inflows tied to the fiscal year's conclusion and strength in the regional stock markets, the rupee strengthened on Friday, closing at 82.17 against the US dollar. Even though Asian currencies lost some of their earlier gains, the Indian rupee might have gained because corporations sold dollars before the fiscal year's conclusion. Some key events in the week ahead are ISM Manufacturing PMI (Mar), ISM Non-Manufacturing PMI (Mar), Initial Jobless Claims, and the Interest Rate Decision.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5%	2.6%	6%	3.6%	$-68.289B

Events to WATCH

Apr 03, 19:30
ISM Manufacturing PMI (Mar)

Apr 04, 19:30
JOLTs Job Openings (Feb)

Apr 05, 17:45
ADP Nonfarm Employment Change (Mar)

Apr 05, 19:30
ISM Non-Manufacturing PMI (Mar)

Apr 07, 18:00
Nonfarm Payrolls (Mar)

Apr 07, 18:00
Unemployment Rate (Mar)

We again experienced a holiday-shortened week for the second time in a row as the market were closed on 30th on the occasion of Ram Navmi. As expected this week also rupee slightly strengthened to make a weekly low of 82.08. The cool down in the banking crisis fears lowered the safe-haven demand which resulted in falling of the dollar index to trade below the 102.50 levels.

If you analyse the US$INR daily candlestick chart, the Simple Moving Average pair of 89-day (yellow line) and 144-day (Purple line) comes at 82.23 and 81.99 respectively. On the higher side 82.85 still remains to be a significant resistance level. The MACD indicator shows that the MACD line (Blue line) has crossed and come under the Signal line (Orange line) signifying the oversold region or the buying point, though both the lines are pretty close to each other.

Exporters had their time. Now it is the importers turn to hedge their positions, they can start by hedging very short-term exposures at current levels as we expect the Rupee to recover more so they increase their pace below 82-levels.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.5%	0.0%	6.9%	6.6%	€-30.600B

Events to WATCH

Apr 03, 13:30
Manufacturing PMI (Mar)

Apr 05, 13:30
Services PMI (Mar)

Apr 05, 13:30
S&P Global Composite PMI (Mar)

EUR/US$ gained for the second consecutive week and opened at 1.0759. The pair advanced for four consecutive days before losing some ground just before the weekly close. On Tuesday, a deal backed by the US regulator for First Citizens BancShares to buy Silicon Valley Bank helped alleviate concerns in the banking sector which supported the pair's growth. As investors then started investing in riskier high-yielding assets like EUR/US$. In mid-week, the pair weakened a little, as the dollar showed some recovery and was around the 102.44 level. But the upward movement was supported by the weakening of the dollar, as it fell around the 101.67 level on Thursday. German CPI came higher around 0.8%, the GDP of the U.S. declined by 0.1% to 2.6% and the Initial Jobless Claims of the U.S. came higher around 198,000 than the expectation of 196,000. After regaining the weekly high of 1.0925 early on Friday, EUR/US$ maintains a defensive position and closed at 1.0842. The Eurozone inflation came to 6.9% lower than expected. German Manufacturing PMI, ISM Manufacturing PMI (U.S.), JOLT's job openings, and U.S. Non-farm Payrolls will be eyed for future cues.

The shared currency appreciated further during the week after starting at 1.0770 and touched at 1.0926, the top since February 03. The week gave a bullish momentum to the shared currency pair, looks like a resistance in the 1.0900/1.0910 region, validating that level as a major resistance. On the four-hour chart, the Relative Strength Index (RSI) gauge decreased towards 60, signalling a loss of bullish momentum. The EURUS$ is now under additional selling pressure because prices were unable to remain above the 1.09 number after reaching an overbought region. To cross 1.0926 (static level, March 23 high) and reach 1.1000, the EURUS$ needs to move above 1.0900/1.0910 and use that level as support. The EURUS$ lost momentum on Friday and fell below 1.0900 after making significant advances on Thursday. Eurozone inflation figures didn't cause a significant market response. The pair's short-term technical forecast indicates that bullish momentum will slow down and a decline below 1.0786 could lead to further losses. If the Euro weakens against the Dollar after breaching a support at 1.0786, a support at 1.0540 still stands and appears to be a key support.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.25%	0.1%	10.4%	3.7%	£-05.861B

Events to WATCH

Apr 03, 14:00
Manufacturing PMI (Mar)

Apr 05, 14:00
Composite PMI (Mar)

Apr 05, 14:00
Services PMI (Mar)

Apr 06, 14:00
Construction PMI (Mar)

The sterling continued to hold its strength against the dollar, as it started the week on a positive note at 1.2219. The pond gained because of the hawkish comments by the BOE governor that their monetary policy decision will focus more on inflationary pressure and will not be influenced by the ongoing banking crisis. On the other side news regarding First Citizen Bancshares Inc acquiring Silicon Valley Bank from FDIC Cheered investors at the beginning of the week. The global policymakers intervened to ease market worry regarding the spread of the banking crisis, causing further weakening in safe-haven assets. The pair paused its uptrend in the second half of the week as the US treasury bond yields showed some recovery. However the greenback fell due to the negative US jobless claim and GDP Q4 data. During the last trading day, the Core PCE Price Index fell to 4.6% on an annual basis in February from 4.7% in January. Although the immediate reaction resulted in the US Dollar losing some of its power, the GBPUS$ rate remained below 1.2400. For the upcoming week, the economic data and speeches by BOE and Fed policymakers will be closely watched by the market.

This was the third straight week where bulls remained heavy on the bears which helped the pair to end the month of March with strong gains. Pair was up by more than 300 pips during the month and closed near to 1.2340. Looking at the momentum bulls are eying on 1.26 levels but this is the third time since mid-December pair couldn't go above 1.2425-30 region, this seems to be a strong resistance breaking of these levels could push the pair towards 1.26 region while on the downside 100 days moving average hovering near 1.2125 levels where pair could get the support comfortably breaking of that region might push the pair below 1.20 region and then towards YTD low 1.1802. On the daily time frame momentum indicator MACD giving mixed signals while RSI is trading around 58 which is considered to be an overbought zone.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	0.0%	3.3%	2.6%	-¥-898B

Events to WATCH

Apr 03, 05:20
Tankan Large Manufacturers Index (Q1)

Apr 03, 05:20
Tankan Large Non-Manufacturers Index (Q1)

Apr 05, 06:00
Services PMI (Mar)

Apr 07, 05:00
Household Spending (YoY) (Feb)

US$JPY started the week at 130.718,reached a high of 131.759,the same day .This was due to decreasing concerns about the collapse of Deutsche Bank and continuing assurances of financial stability from US regulators. As Governor of the Bank of Japan Haruhiko Kuroda defended easy-money policies, the pair fell to a low near 130.404 the following day. The quote traces the recent decline in US Treasury bond yields and the US dollar amid shaky market confidence. Despite contradictory statements from BOJ officials, the pair profited on the risk-on environment and rising US Treasury bond yields, on Wednesday reaching a high of 132.890. Even though concerns about a second forced shutdown may have subsided, there is still a chance of a global credit crisis, which put pressure on the US$JPY on Thursday. BOJ Deputy Governor Shinichi Uchida stated that the Bank of Japan will use statistics, particularly trend inflation, to determine monetary policy. The US$JPY ended the week at 132.830 on Friday, up 0.11 percent from the previous session gained by 2.48 percent over the past four weeks. JPY tankan manufacturing index, U.S. Nonfarm Payrolls reports will be closely watched by traders for further cues.

The US$JPY opened at 130.718; traded upward and marked a high at the 133.596 level during the week; surged by 1.62% and ended the week at the 132.830 level. If the pair continued to move upward, it could trade above the 9-day EMA of 132.25. We can expect some resistance at the 133.596 level and consider the 135.116 level as the next resistance in case the pair appreciates further. If the pair depreciates for some reason, the support must be at the 129.803 level. The MACD line has changed the course of the pair to move upward and crossed over the signal line, which has introduced some strength to the pair. The pair ended the month at a higher level compared to the previous week's close, and the price behaviour may drive a consolidation. The Relative Strength Index surged and moved above its 14-day RSI's simple moving average, which shows pressure to sell the yen.

Currency Risk – Part And Parcel Of International Business

What is currency risk?
Currency risk is the risk which arises with the change in value of one currency with respect to another. This risk when left untouched, can wipe out all profits which a company starts to go international. Thus it can be a cost centre for corporates when not managed or hedged. In late 1990s, the Foreign Currency Risk was identified during the Asian currency crisis in 1997 which led to the financial markets crash.

Tools to hedge foreign currency risk
Forward contracts – these are agreements which are made between two parties who agree to exchange one currency in exchange of another at a future date and at a price which is fixed today. It is an over the counter contract thus the risk of honouring the contract is there. In India, this is mostly executed between a trader (an importer or an exporter) and a bank. Along with the spot rate, a premium is charged as per the contract expiry date These contracts once entered are to be honoured and thus when there is not much clarity on when the money would be received or paid, a window Forward Contract serves well. Banks usually charge a margin for executing these contracts.

Future contracts – now these are quite similar to a forward contract but these are traded over the exchange so the counterparty risk is not there. These also have an expiry date which is when the contract would mature. These cannot be customized and can be executed only for major currency pairs. These are cash settled in local currency - Rupee. In this the investor agrees to buy or sell a currency in exchange of another on the expiry of the contract. An initial margin is paid which is adjusted on a daily basis to reflect the gain or loss which is dependent on the closing price of the futures. This mark to market (MTM) account has to be replenished to maintain the margin. Though the currency future has low transaction costs and offers high liquidity, the fluctuations in the currency market is high making it highly risky.

Options contract – these contracts offer to tackle the open risk associated with a futures contract. In an option contract as the name suggests, the investor has the option to execute the transaction. If the contract is favourable on expiry, then it's executed, else not. In this the buyer of the option contract has the right but isn't obliged to buy or sell a particular currency on or before the expiry at the specified exchange rate. Along with the strike price, in an option contract the investor also has to pay an option premium which is a fixed cost like an insurance.
Then depending on spot market, the investor can execute the option if the spot has moved adversely or participate in the market if spot is favourable to his position. Mostly speculators or traders use these option contracts.

Hedging currency risk – a must
Thus in international business one is into, the foreign exchange market has an impact on them as the currency risk arising out of Foreign Currency Fluctuation can prove to be detrimental for the business. One should understand the implications of the currency market as an advice or two from a forex expert will prove fruitful in gaining deeper insight.

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