Myforexeye
Simplifying Forex

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

Forex Market Insights

Newsletter

Volume 61 → Apr 16 to Apr 22, 2023

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Welcome

Dear Stakeholders,

The week began with a Monday holiday in parts of Europe and the United States and also a local holiday in India on Friday, exhibiting a four-day trading week in respective nations. The CPI for the US dropped to 5% YoY, while core inflation remained at 5.6% YoY. The FOMC minutes included staff predictions of a "mild recession" this year. The dollar index, which compares the value of the dollar against its six major peers, dropped to a roughly one-year low of 100.78 this week.

The rupee hasn't gained as much as the dollar index has weakened so far, which signalled the RBI intervention for buying dollars, which became evident when the FX Reserves data was out on Friday evening, which showed that the RBI intervened to buy around 6 billion dollars.

As recession concerns decreased, stocks in Europe increased. Investors increased their holdings of European government bonds as they considered the possibility of further ECB policy tightening. Despite the Bank of England's prediction of a recession in the first quarter, the UK economy appeared to be on track to outperform it. The GDP remained unchanged from January to February.

Over the course of the week, Japanese stocks rose. In relation to the U.S. dollar, the yen dropped from around JPY 132.2 at the end of the previous week to roughly JPY 132.5 on Friday. After a choppy week, Chinese stocks were neutral. The People's Bank of China will intensify stimulus measures to help the economy. The government's rough 3% growth objective in the CPI for this year has increased expectations.

Thank You
Vijay Kumar Gauba
Additional Director General
Trade Promotion Council of India

Key Takeaway Summaries

₹ INR

US$/INR started the week opening at 81.87 and ended at 81.83 after making a new low of 81.75.

€ EUR

EUR/US$ rose for the fourth week in a row, retaking 1.1000 and reaching 1.1075, the highest level since March 2022.

£ GBP

The cable pair started the week on a negative note at 1.2411 after the strong US labour market report.

¥ JPY

US$/JPY started the week by opening at 132.14, consecutively rising since last three trading sessions, making a high of 134.04.

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.50%	0.69%	6.44%	7.8%	$-19.7B

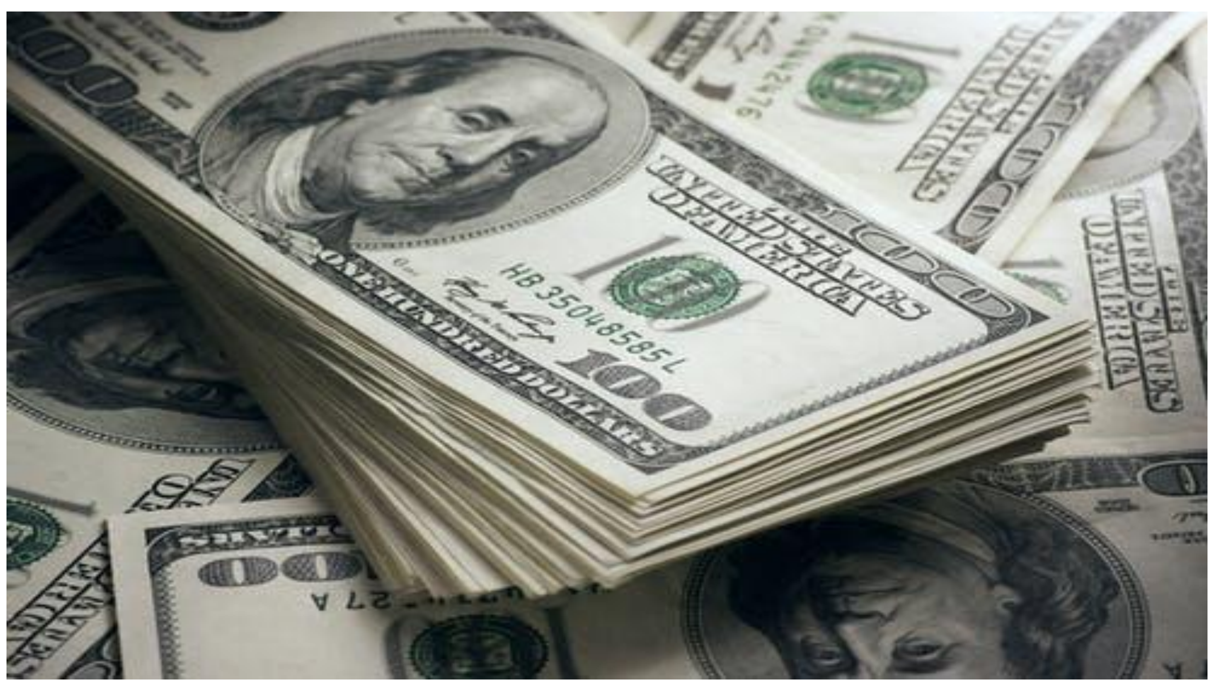
Events to WATCH

Apr 17, 12:00
WPI Inflation (YoY) (Mar)

Apr 21, 17:00
Deposit Growth

Apr 21, 17:00
Bank Loan Growth

A holiday shortened week showed a slight rupee recovery. US$/INR started the week opening at 81.87 and ended at 81.83 after making a new low of 81.75, a level which was last seen in the initial days of March. This week India as well as US CPI numbers were released. Indian CPI came out to be lower than the expectation which was not very surprising as RBI Governor in the previous meeting while pausing the interest rate hike said that inflation is not a worry whereas US inflation also reduced by 100bps to 5% but it is still away from the fed's target of 2% so there are chances that we might see a 25bps rate hike in the May meeting.



With one more rate hike by the Fed there are expectation for rate cuts also towards the end of 2023. After the inflation number release the Dollar Index fell to 100.80 which is roughly a one-year low. Comparing the US$/INR and dollar index levels, the rupee hasn't gained as much as the dollar index has weakened so far which signalled the RBI intervention for buying dollars, which became evident when the FX Reserves data was out on Friday evening, which showed that the RBI intervened to buy around 6 billion dollars. Some of the key economic events for the upcoming week are Building Permits (Mar), Philadelphia Fed Manufacturing Index (Apr) & Existing Home Sales (Mar).

$ USD

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

Events to WATCH

Apr 18, 18:00
Building Permits (Mar)

Apr 19, 20:00
Crude Oil Inventories

Apr 20, 18:00
Philadelphia Fed Manufacturing Index (Apr)

Apr 20, 18:00
Initial Jobless Claims

Apr 20, 19:30
Existing Home Sales (Mar)

Another quiet trading week for the Indian Rupee in yet another holiday truncated week. US$/INR traded around the 82 figure + - 15paise throughout the four trading days. It was predominantly a neutral bias with minor intra-day volatility. For the second consecutive week, US$/INR closed below the 82 mark.

Despite closing below the long term upward moving support trend line (green colour) and the 144-day Simple Moving Average (red colour), Rupee has been unable to make fresh gains. The dollar support around 81.70 is working well. Another trendline (orange colour) connecting the dollar lows of Nov’22 and Jan’23 comes around 81.50. There are multiple indications to suggest that the region around 81.50 – 81.70 could be an important short-term support. Critical medium term support regions are the previous dollar lows of 80.88 and 80.51. Momentum indicators (RSI, MACD and Slow Stochastics) are around the neutral/oversold regions.

Dollar importers should start hedging their immediate term liabilities around 81.70. Do a mix of forwards and vanilla options. Rangebound moves have ensured that US$/INR options volatility remains low and hence vanilla options are quite cheap. Dollar exporters to target spot levels above 82.10-20 to resume hedging. Use forwards as the primary risk hedging instrument. Should use some vanilla options as well as conservative structured options to diversify risk.

€ EUR

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

Events to WATCH

Apr 18, 14:30
German ZEW Economic Sentiment (Apr)

Apr 19, 14:30
CPI (YoY) (Mar)

Apr 21, 13:00
German Manufacturing PMI (Apr)

EUR/US$ rose for the fourth week in a row, retaking 1.1000 and reaching 1.1075, the highest level since March 2022. The pair gains were supported by the dollar weakening due to the CPI data of the U.S. which came lower to 5% against the expectation of 5.2%. The FOMC meeting minutes, which were released on Wednesday, also cause the US dollar to fall as it showed that policymakers expected a mild recession to start later this year. The absence of solidarity in the Euro could be seen as the rally of the pair was only supported by the dollar's weakness. Due to a bearish PPI data release, the dollar index fell to 100.80, a one-year low level. However, European data met expectations, supporting the common currency. As anticipated, retail sales in the Eurozone decreased by 0.8% in March. In the meantime, ECB policymakers kept up with their hawkish predisposition to control the higher inflation. On Friday, a weariness sign was spotted in pair because of hawkish remarks from Fed's Waller. The April ZEW Economic Sentiment (Germany), Eurozone CPI, ECB's MPC Meeting, and U.S. Philadelphia Price Index will be eyed for further cues.

The shared currency appreciated further during week and touched at 1.1075, the top since April 2022. The Euro initially declined over the week, but it quickly reversed around and began to regain momentum. The pair broke a resistance at 1.10, and managed to move towards the next target it to hit 1.1140. The dollar's decline as a result of the U.S. CPI data coming in lower than expected (5.2% to 5%) helped the pair gain ground. As investors leave the market ahead of the last US data releases of the week, the pair's near-term technical picture reveals overbought circumstances. The range for the near term is 1.0832 to 1.1076. Look for the selling to potentially continue through the primary bottom at 1.0832 if 1.0925 fails as support. The Relative Strength Index (RSI) indicator on the four-hour chart soared around 80, indicating overbought circumstances, as EUR/US$ broke out of the ascending regression channel.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.25%	0.1%	10.4%	3.7%	£-04.805B

Events to WATCH

Apr 18, 11:30
Average Earnings Index +Bonus (Feb)

Apr 18, 11:30
Claimant Count Change (Mar)

Apr 19, 11:30
CPI (YoY) (Mar)

Apr 21, 12:30
Retail Sales (MoM) (Mar)

Apr 21, 14:00
Manufacturing PMI

Apr 21, 14:00
Services PMI

Apr 21, 14:00
Composite PMI

The cable pair started the week on a negative note at 1.2411 after the strong US labour market report released on Good Friday, which increased the expectation of the fed rate hike, and caused the dollar to gain. But after the inflation data of the US, the expectations for further rate hikes came down as CPI data (March) on Wednesday showed an annual inflation rate that came lower to 5 % than the expectation of 5.2%. This caused the dollar index to fall nearly it's one year low at 100.80. Whereas on the UK side, the GDP data showed a 0% growth in February. Even though UK inflation is still at 10.0%, the UK Treasury and the BOE expect the economy to avoid a recession this year, giving the Pound some support. In the meantime, the hawkish comments by Fed's Waller on Friday caused the pair to fall below 1.2500 and helped the dollar to recover some of its weekly losses. For the upcoming week, the important US and UK data will be closely watched as the Fed and BOE remain Data dependent for further action.

Despite a two big red candles during the start and end of the week, pair remained unbeaten and ended the week on a slight positive side. This was the fifth straight weekly gain for the pair. Looking at the momentum and continuous Bull Run in the pair it could test the levels of 1.27 if pair comfortably stays above the 1.26 levels while on the downside target is seen around 1.2300 round figure breaking of these levels could push the pair towards 1.2175 as 100 days moving average is there. On the daily time frame momentum indicator MACD giving mixed signals while RSI is trading near to 55 which is considered to be an overbought zone slight pullback is expected.

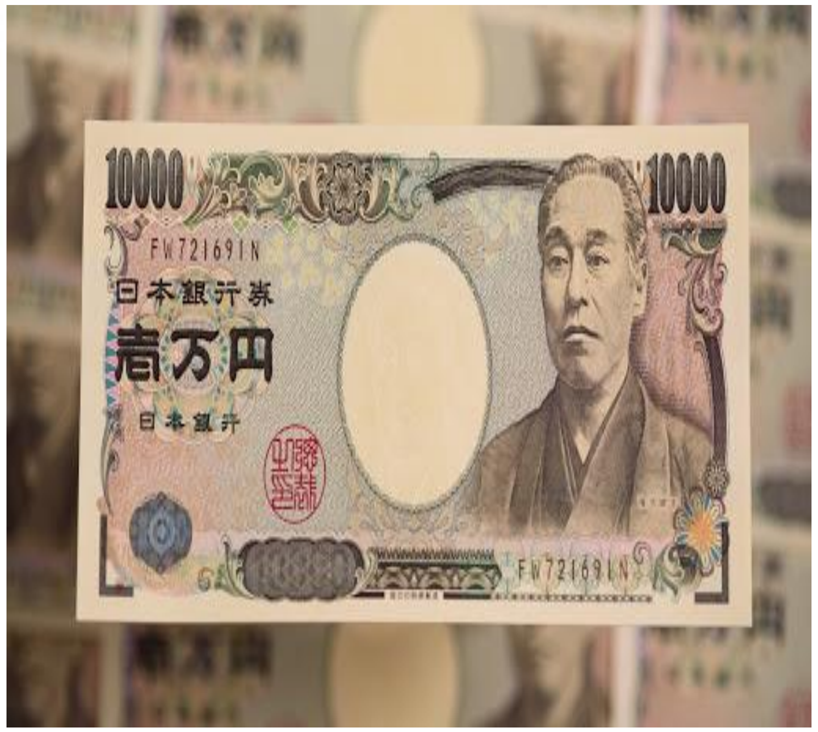
¥ JPY

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

Events to WATCH

Apr 20, 05:20
Trade Balance (Mar)

Apr 21, 05:00
National Core CPI (YoY) (Mar)



The US$/JPY started the week by opening at 132.14, consecutively rising since the last three trading sessions, making a high of 134.04. The governor of the Bank of Japan, Kazuo Ueda, acknowledged that there was a lot of uncertainty regarding the economic outlook, but he also promised to collaborate closely with the government and steer monetary policy. The Yen pair also tracks a small recovery in US Treasury bond yields, which is Kazuo Ueda's defense of the ultra-loose monetary policy. The Dollar Index fell to a one-year low of 100.82 on Thursday after US CPI data came lower than expectations which made participants anticipate that there would be no further rate hikes from the Fed stance. The US$/JPY ended the week at 133.73 by making a high of 133.83 from its previous day's close of 132.55 as bets on further rate hikes from the Fed again increased to 85% in response to the speech of the Fed's policymakers indicating the call for further rate hikes in May. Data Events on Japanese PPI (March) and Household confidence in the upcoming week will be closely watched by market participants.

The US$/JPY opened at 132.147; traded upward, and marked a high at the 134.048 level during the week; appreciated by 1.22% and ended the week at the 133.754 level. If the pair depreciates, it could fall below the 9-day EMA of 132.834. The minor support must be at the 130.718 level again, and the second support must be at 128.084 in case the pair plunges. If the pair moves in an upward trend, the resistance level must be at 137.915. The MACD line continued to move in an upward direction along with the signal line, which shows weakness in the Yen. The pair ended the month at a higher level compared to the previous week's close, and the price behaviour is steered to trade in a sideways path. The Relative Strength Index continued moving upward to its 14-day RSI's simple moving average, which shows pressure on the Japanese currency.

Challenges Of Forex Trading You Should Know

Major Challenges in Forex Trading

Unlimited Leverage: Forex traders often borrow a certain amount of money from brokers to control or maintain large currency trading positions with low capital. Many traders use margin-based leverage, which is expressed in a ratio such as 100:1. For example, you can trade one standard lot of $1,00,000 with a margin of $1,000. This ratio can go up to as high as 400:1 with a margin of 0.25%. However, one should carefully look at leverage levels to maintain safe and steady profits. As a basic rule for beginners, the potential loss should ideally be less than or equal to 3% of trading capital.

Trilogy of Risks: The first risk in the trilogy is Interest Rate Risk**.** The forex prices can change depending on the country's interest rates spike or fall. The next risk is transactional Risk. The longer the difference between starting the trading and settling a contract, the bigger will the Transaction Risk be due to the time difference. Finally, the inherent risk from brokers or dealers in volatile market conditions is Counterparty Risk which refers to the broker may not be able to adhere to contracts at the settlement time.

Unregulated And Limited: Although the forex market has high trading volumes, there is no international regulatory body that manages currency trading worldwide. In the USA, CFTC and NFA regulate forex trading. In India, authorities such as RBI and SEBI regulate forex trading. However, there is only limited scope for forex trading in India as only seven currency pairs such as US dollar, INR, EURO, and UK Pounds are legal to trade in India. The base currency for trading in India also needs to be INR.

Top 4 Reasons Why Forex Traders Lose Money

Poor Discipline and Planning: Never allowing losses to control your emotional intelligence is the first step to establish discipline in forex trading. The goal is to accrue large gains by letting off small and consecutive losses. With customized risk management strategies and expected ROI plans, one can plan their trading day to mitigate common downfalls, thereby accomplishing more.

Unhealthy Relationship with Market: Aggressive trading without following or understanding the market can wipe out your portfolio to the lowest point possible. Having scenario analysis and following reactive strategies for every market fluctuation can alleviate the risk and mitigate unexpected losses.

Lacking technical knowledge: Before becoming a forex trader, it is necessary to gain the understanding and language relating to the currency market. With multitude of trading apps and forex courses available online with custom schedules, it has never been easier. Technical knowledge and hands-on experience give you exposure to the market.

Low Money Management and Unrealistic Expectations: Knowing how to trade with the right strategies and having less risky asset allocations can improve your money management. Having unrealistic expectations of getting rich in seconds of exchange rate fluctuations leads to crippling losses.

Conclusion

Success lies beyond risks and challenges. It's true that forex trading presents significant hurdles, but with cautious speculation and research into the investment and trading markets in the current environment, you may stay secure and generate steady profits.

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