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TPCI Trade Promotion Council of India
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Forex Market Insights
Newsletter

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Welcome

Dear Stakeholders,
As attention centered on the most active week of quarterly earnings reports for the season, US stocks experienced mixed returns. Nearly half of the S&P 500's significant gains were accounted for by gains in just four stocks: Microsoft, Apple, Amazon and Facebook parent Meta Platforms. In the midst of the turbulence leading up to the Fed’s policy meeting the following week, where another quarter-point rate hike is generally anticipated, U.S. Treasury yields slightly fell.

The Eurozone economy remained stagnant in the first quarter and grew less than anticipated. With a slight improvement over the last quarter of the previous year, GDP increased by 0.1%. Japan's stock markets rose over the course of the week as a result of the BoJ's support for the market, which signaled a continued dedication to its ultra-loose stance by maintaining its monetary policy, including its framework for controlling the yield curve. The core CPI increased by 3.5% year over year, far above the BoJ's inflation objective and beating expectations.

The Indian Rupee recovered this week after facing a bit of a pressure in the previous week. Opening at 82.11, it had gained to a weekly high of 81.61 before consistent dollar bids pushed it higher towards the 82 mark again. The Indian unit ultimately closed the week at 81.84.

The Shanghai Stock Exchange Index increased by 0.67%, while the blue-chip CSI 300 declined by 0.09%. Demand for manufactured goods remained poor despite a rise in exports and manufacturing output as businesses tried to recover from the pandemic-caused recession last year.

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

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Key Takeaway Summaries

₹ INR

It started the week at 82.09 but throughout the week the rupee gained almost 0.26p to close at 81.83.

€ EUR

Before heading into a long weekend, the EUR/US$ rose above 1.1000 and reversed its daily declines.

£ GBP

The pair started the week on a positive note by opening at the 1.2442 level.

¥ JPY

US$/JPY began the week at 133.930 and reached a high of 134.730 as concerns about a banking crisis in the US were revived.

₹ INR

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

Events to WATCH

May 1, 17:00
Federal Fiscal Deficit (Mar)

May 5, 17:00
Deposit Growth

May 5, 17:00
Bank Loan Growth

May 5, 17:00
FX Reserve

US$/INR reversed its trend and was back on the track of Rupee recovery. It started the week at 82.09 but throughout the week the rupee gained almost 0.26p to close at 81.83. This week on Tuesday, the banking fears were again back in the picture after First republic bank confirmed declines in its deposit by 100 billion dollars which resulted in its shares failing nearly by 50%, also the UBS bank which had recently bought the Credit Suisse bank reported almost 52% drop in its first quarterly income. After the banking fears regained its ground the dollar index gained on the very next trading session but it had a minimum effect on the rupee.

In the same trading session, the ECB vice president gave hawkish comments to increase the interest rates by almost 70bps towards the end in December 2023.The effect of this comment was very rapid as it led to EUR gaining and dollar Index weakening due to which US$/INR made a weekly low of 81.60. Currently, it is expected by the Fed that it will increase the interest rates by 25bps in the upcoming meeting on May 3rd and then after that most likely it will pause their interest rate cycle. FX Reserves data showed a decline by almost 2 billion dollars, falling at 584.25 billion dollars.

Few key events in the upcoming week are ISM Manufacturing PMI (Apr), JOLTs Job Openings (Mar), ISM Non-Manufacturing PMI (Apr), Nonfarm Payrolls (Apr) & Unemployment Rate (Apr).

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5%	1.1%	5%	3.5%	$-70.54B

Events to WATCH

May 1, 19:30
ISM Manufacturing PMI (Apr)

May 2 19:30
JOLTs Job Openings (Mar)

May 3, 19:15
Services PMI (Apr))

May 3, 23:30
Fed Interest Rate Decision

May 4, 18:00
Initial Jobless Claims

May 5, 18:00
Nonfarm Payrolls (Apr)

The Indian Rupee recovered this week after facing a bit of a pressure in the previous week. Opening at 82.11, it had gained to a weekly high of 81.61 before consistent dollar bids pushed it higher towards the 82 mark again. The Indian unit ultimately closed the week at 81.84.

A glance at the US$/INR daily candlestick chart clearly establishes an important fact - significance of the US$/INR support region at 81.55 – 81.65. Observe the blue horizontal lines – it has been the fourth attempt this week and the region supported every time, leading to dollar rallies. Rupee continues to trade within the two converging trend lines (yellow colour), identified last week – connecting the dollar peaks and bottoms. Range trading has been the flavour in US$/INR since mid-Mar'23 with weekly amplitude (high low range) lower than 1%. The pair is clearly unable to trend. MACD, RSI and Slow Stochastics, the momentum indicators, are primarily neutral and fails to provide any meaningful indication.

Risk managers become lethargic during periods of range trading. Do remember that low volatility now does assure low volatility in the future too. In fact, history proves that periods of low volatility is usually followed by phases of high volatility, so beware of the lethargy. Dollar importers should hedge at spot around 81.55 – 81.65. Hedge for short/immediate term and use more of forwards. Diversify risk using some vanilla options. Forward premiums as well as vanilla option premiums are low. Exporters can resume hedging when spot inches above 82.15 – 82.25.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.5%	0.1%	6.9%	6.6%	€ 04.608B

Events to WATCH

May 2, 13:25
German Manufacturing PMI (Apr)

May 2, 14:30
CPI (YoY) (Apr)

May 3, 14:30
Unemployment Rate (Mar)

May 4, 17:45
ECB Interest Rate Decision (May)

Before heading into a long weekend, the EUR/US$ rose above 1.1000 and reversed its daily declines. After hitting new 13-month highs, the EURUS$ pair fell down to its previous week's levels. The pair failed to hold above 1.1050 once more, and the ascent towards 1.1100 was aborted. Data from the US and Europe revealed that while high inflation is still there, both economies are slowing down. Even though the Eurozone resumed growth in the first quarter, it only increased by 0.1%. The Eurozone's economic data released on Friday showed uneven growth and inflation, which might make the ECB's decision to raise interest rates next week even more challenging. By October, the ECB is expected to raise rates by an additional 70 basis points, with rate reduction perhaps following as early as next year. The ECB is being urged by the International Monetary Fund (IMF) to maintain rising interest rates until the middle of 2024 in order to defy these market predictions. Key events in the upcoming week include Manufacturing PMI (Apr), CPI (YoY) (Apr), ECB interest rate decision (May), and Retail Sales (MoM) (Mar).

The EUR/US$ pair started the week at 1.0990 and traded higher this week touching the levels of 1.1050 thrice this week due to which 1.1050 – 1.1080 seems to be a good resistance region. After the announcement of interest rate hike of 70bps by the Vice President of the European Central Bank(ECB), the EUR/US$ strengthened to make a weekly high 1.1090. The 21 & 200 days Simple Moving Average tends to be 1.0957 & 1.0412, respectively. Over the coming week, the EUR/US$ pair will remain in a consolidation trend, hovering around 1.1000/50.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.25%	0.1%	10.1%	3.8%	£-04.805B

Events to WATCH

May 2, 14:00
Manufacturing PMI (Apr)

May 4, 14:00
Services PMI (Apr)

May 4, 14:00
Composite PMI (Apr)

May 5, 14:00
Construction PMI (Apr)

The pair started the week on a positive note by opening at the 1.2442 level. During the week the pair gained and made a weekly high of 1.2584. The drop in first republic bank's shares by 50% due to a $102 billion outflow of customer deposits in the first half of the week revived concerns about the US banking crisis. Due to the rise in risk aversion, the dollar demand increased as people move towards safe heaven. Positive US Durable Goods Order data was ignored by the markets. US orders for durable goods increased by 3.2% in March, exceeding expectations for a 0.8% rise. As a result of risk aversion and continued Dollar strength, GBP/US$ tested below 1.2400 levels. The trend quickly shifted in favour of Dollar bears as confidence reappeared and strong tech earnings allowed the pair to return to the 1.2500 level. Following choppy trading within a 150 pip range earlier in the week, sterling buyers were able to maintain control as the pair rose on Friday. The dollar started to decline again as investors considered US earnings, the state of the economy, and the expectation for Fed interest rates. The focus now shifts to the Fed's policy outcome during this week and the crucial Nonfarm Payrolls report.

Again, bulls remained heavy on the bears and this is the straight ninth week where Pound shown strength against the US dollar and ended the week on a positive side. Pair needs to comfortably break the 1.2580 resistance to reach at 1.2615 high made during the month of May in 2022 afterwards pair could target 1.2700 next psychological level while on the downside sellers could target the 21 days moving average near 1.2450 region, failure to defend those levels could push the pair towards low made in the beginning of this month 1.2275. On the daily time frame momentum indicator MACD giving bullish signal while RSI comfortably trading above 50 which is considered to be an overbought zone.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	0.0%	3.2%	2.8%	-¥-755B

Events to WATCH

May 1, 06:00
Manufacturing PMI (Apr)

May 2, 05:20
Monetary Base (YoY) (Apr)

US$/JPY began the week at 133.930 and reached a high of 134.730 as concerns about a banking crisis in the United States were revived after the $102 billion loss of customer deposits in the first half of the week caused a 50% drop in the shares of First Republic Bank. As people move toward safe haven, demand for the dollar increased as a result of an increase in risk aversion, that supported the pair to make a high of 134.734 intraday. BOJ Governor said in a speech to the Japanese parliament that trend inflation remains below 2% but gradually accelerating, which might be a result of monetary policy easing. Following the BOJ's monetary policy meeting on Friday, the value of the Japanese Yen dropped. The central bank discontinued its interest rate forward guidance and began a review of its policies that will last more than a year. The pair closed the week at 136.279, making a high of 136.560. BOJ governor , Ueda at his first press conference stated, "We're not starting the review to normalize. The dovish BOJ helped the US dollar index to reach a one-week high in the European session.

US$/JPY started the week by opening at 133.93. During the week, the pair gained by 2% and made a 7-week high of 136.56. The major movement in the pair was seen in the last trading session of the week after the BOJ decided to keep the interest rate unchanged at -0.1% and no changes to the Yield curve control policy. As per the daily chart frame of the pair, it can be seen that the pair crossed its resistance level (black line) of 135.14. If the pair continues its uptrend, the next resistance level (brown line) can be seen at 137.90. As per the RSI indicator, the RSI (Purple) line is above the signal (yellow) line, indicating the bullishness of the pair. This is further confirmed by the action of the MACD (blue) line moving above the signal (orange) line. The RSI 14 line is at 66.52 level, which is considered to be a slightly overbought zone. It may move higher and cross the level of 70, to provide a selling signal to the market participants.

BLOG

Brexit Issue A Woe For India's Forex Market & Indian Exporters

Britain's exit from EU has badly affected India as it shuts India's direct access to the EU markets. Overall, this global event has resulted to several financial and economic implications on the world's economy and not just Indian economy. It had created a panic among the traders leading into financial market volatility across the world. Consequently, for over a month the alarm bell of risks related to trade, finance and confidence channels rang loud in the forex market.

Why is Brexit Important for India?

There is a significant impact of the Brexit seen on most of the sectors of the Indian Economy. UK contributes about 3% of India's exports and the EU about 17%. An economic slowdown in the UK or EU as a result of Brexit could impact India's already faltering exports. However, some believe that India may also end up getting new trade opportunities with UK after Brexit.

India's machinery and transport equipment constitute 40% of India's exports and accounts for nearly 20% of total UK's trade with India. The UK's exports of alcoholic beverages also registered a significant increase from pound 14m to 162m from 2002-18.

Impact of No Deal Brexit's on Forex Market

Surrounded by extreme concerns over fair trade, immigration and national security, UK's exit from the EU led to GBP reacting negatively. Pricing volatility was high with GBP levels dipping to a record low in the last two years. The value as reported fell more than 10% in the hours after the vote was made final. This huge fall out in the currency market knocked down the profit scale of exporters across the world and India being no exception. Now even though the GBP levels are recovering slightly level by level, yet the entire Brexit process had posed tumultuous effect on GBP.

Adverse Effect on Indian Economy

Indian companies with Europe exposure like TCS, HCL, Maruti Suzuki face downgrade risks post Brexit. Amid uncertainty looming over the impact of Brexit, analysts have started downgrading the revenue estimates for some of the export oriented companies from Indian IT, automobiles, metal and pharmaceutical sectors which are likely to be hit the most. The EPS estimates of stocks like TCS, HCL Technologies, Maruti Suzuki, Tata Motors, Tata Steel, Balkrishna Industries have been cut as India's UK and Europe bound exports may come under pressure. Coming down to export of agricultural produce Indian mangoes, pomegranates, vegetables like lady's finger, corn and chillies are exported to the UK.

The exchange rate vis-a-vis the pound is likely to have long term implications. Food prices in UK are soaring high and this eventually leads to a drop in demand for exotic vegetables and fruits. Higher selling prices would also lead to a fall in sales.

Bottom line

Thus with so much uncertainties looming around, it's high time that MSMEs who have most of their Forex exposure in making payments for imports and exports from UK and other European Countries, should now think of taking up measured forex management steps. For such, getting in touch with experienced firms offering Forex risk advisory and forex transaction process outsourcing services can turn out to be real boon. The amount of pressure global events have shown in the past 1-2 years has led to a situation where betting on instincts can really damage the financial health of businesses. This therefore makes it pertinent for Corporate to think about outsourcing advisory solutions offered by experienced forex services companies.

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