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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 65 → May 14th to May 20th 2023

CONTENTS

Welcome

Dear Stakeholders,

The economic calendar for the week was generally somewhat light, although it did contain some much awaited US inflation statistics. As the flood of first-quarter earnings reports came to a close, the major indices ended the week with a mixed performance. US inflation slowed modestly in April. On an annualized basis, the US CPI increased 4.9% in April. The number was projected to remain at the March-registered 5% level.

The Indian Rupee started the trading week at 81.67 but was pressurized by consistent dollar bids throughout the week and declined to its weekly low of 82.24 (also the weakest rupee since 20 Apr'23). A strong dollar against international majors as well as against Asian currencies also weighed on rupee.

Policymakers at the BoE increased borrowing costs to their highest level since 2008. The BoE did this by raising its benchmark interest rate by a quarter point to 4.25%. In the first quarter, the UK economy expanded by 0.1%, avoiding a predicted recession. However, despite widespread declines in the services sector, the gross domestic product unexpectedly decreased by 0.3% sequentially in March.

The week saw signs of improvement in corporate results in strengthening Japan's stock markets. The BoJ's dovish position was supported by data released this week showing that wage growth remained subdued in March. After increasing by 0.7% in March, China's CPI grew by 0.1% year over year in April.

Thank You

Vijay Kumar Gauba
Additional Director General
Trade Promotion Council of India

Key Takeaway Summaries

₹ INR

latest FX reserves data released on Friday shows an increase of 7 billion dollars to reach 595.98 billion dollars as of now.

€ EUR

Banking crisis that started in Mar & the US Fed dovish posture damaged market sentiment & increased demand for safe-haven assets

£ GBP

The pair gained massively on Wednesday, after the release of U.S. CPI data (YoY) which came lower to 4.9% against the expectation of 5.0%.

¥ JPY

The safe-haven JPY is undermined by an overall upbeat atmosphere in the equities markets and the BoJ's dovish stance.

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.50%	0.69%	4.70%	7.8%	$-19.7B

Events to WATCH

May 15, 12:00
WPI Inflation (YoY) (Apr)

May 15 17:30
Trade Balance

The US$/INR pair reversed its trend and went on to breach the 82-level this week again, which was last breached almost 2 weeks ago. The Indian Rupee started the week down at 81.75, it mostly traded from 82 to 82.15 also making a weekly high of 82.22 and ending the week at 82.16. On Tuesday, (9th May 2023), it breached the 82 level quickly pointing towards RBI intervention. Inflation numbers were also released this week from both the economies, Indian CPI came in to be lower at 4.70 which was pretty much expected whereas US CPI also came in red at 4.9% just below the expectation of 5% indicating that inflation is declining but not at an expected pace and still way above the Fed's target of 2%.

Fed's future outlook regarding the interest rate cycle will most likely to be paused and no change is expected as of now in the next meeting and chances are also for rate cuts in the later part of this year. Apart from what the Fed or the market participants believe, still the interest rate decision highly depends on the incoming data from the US economy. RBI seems to continuously intervene in the market to buy dollars as the latest FX reserves data released on Friday shows an increase of 7 billion dollars to reach 595.98 billion dollars as of now. Key events for the upcoming week are Building Permits (Apr), Philadelphia Fed Manufacturing Index (May), Existing Home Sales (Apr) & Core Retail Sales (MoM) (Apr).

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.25%	1.1%	5%	3.4%	$-64.23B

Events to WATCH

<u>May 16, 18:00</u>
Retail Sales (MoM) (Apr)

<u>May 16 18:00</u>
Core Retail Sales (MoM) (Apr)

<u>May 17, 18:00</u>
Building Permits (Apr)

<u>May 18, 18:00</u>
Philadelphia Fed Manufacturing Index (May)

<u>May 18, 19:30</u>
Existing Home Sales (Apr)

Volatility in the US$/INR pair is finally back after an extended period of sideways trading. The INR started the trading week at 81.67 but was pressurized by consistent dollar bids throughout the week and declined to its weekly low of 82.24 (also the weakest rupee since 20 Apr’23). A strong dollar against international majors as well as against Asian currencies also weighed on rupee.

A first glance at the daily candlestick chart shows the US$/INR spike towards 82.20 region. Blue horizontal line highlights the all-important US$/INR support region of 81.55 – 81.65. The pink horizontal trendline underscores an interim resistance of 82.35 (previous dollar high). The orange trendlines connecting dollar peaks and dollar bottoms continue to converge. After witnessing narrowing of Bollinger Bands (seen in the last 2 weeks), the upper and lower bands have diverged this week, suggesting increasing volatility. MACD has just crossed over to the positive territory while its Signal line is yet to do it. Stochastics and RSI is gradually moving from the neutral zone to the overbought region.

Our sense is, Rupee could remain above 82 figure for a few weeks. With a stronger and recovering dollar, quite difficult to envisage a stronger rupee. Dollar exporters have been on the side-lines for a while – they can resume their hedging – target spot around 82.25 – 82.35. Low forward premiums are a deterrent – wiser to do more of forwards and some vanilla options to diversify risk. Dollar importers have had multiple opportunities in the past to hedge – they can hold on for a while. Target spot around 81.70 to resume hedging. If mandatorily required to hedge, use more of vanilla options than simple forwards.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.75%	0.1%	7.0%	6.5%	€ 04.608B

Events to WATCH

May 16, 14:30
GDP (QoQ) (Q1)

May 16, 14:30
GDP (YoY) (Q1)

May 16, 14:30
German ZEW Economic Sentiment (May)

May 17, 14:30
CPI (YoY) (Apr)

At the close of the week, the EUR/US$ pair was trading below the 1.0900 price region after losing its positive momentum. The US dollar increased as worries about the country's economic future increased. The banking crisis that started in March and the US Federal Reserve's (Fed) dovish posture damaged market sentiment and increased demand for safe-haven assets. Macroeconomic data for the Eurozone (EU) fell short of supporting the currency. Despite a 3.4% MoM decline in industrial production in March, Germany reported a 7.6% YoY increase in the Harmonized Index of Consumer Prices in April. Officials from the European Central Bank (ECB) mostly kept up their hawkish attitude, but they did make it clear that decisions would be made meeting by meeting to quell speculative talk about what would occur in September. Currently, speculative interest is confident that the ECB will act in June and July. The US debt ceiling and the state of the banking system will continue to receive attention this coming week. More key events to follow this week include German ZEW Economic Sentiment (May), CPI (YoY) (Apr), and Industrial Production (MoM) (Mar).

The EUR/US$ seen wiping out all of the gains from the previous weeks. The static level, psychological level, and Thursday low of 1.0900 for the EUR/US$ remains perilously close. On the four-hour chart, the Relative Strength Index (RSI) indicator, however, aligns close to 30, indicating that the pair may stage a correction before the subsequent move lower. During the trading week, the euro first made an attempt to rise, but it failed. The euro has now made a sharp turn for the worst, breaking through the 1.09 barrier. A four-hour closing below 1.0900 ought to encourage more sales and pave the way for a prolonged decline towards 1.0870. If the EUR/US$ falls below that level and starts using it as support, sellers may leave the market. In that case, the psychological level at 1.1000 and the static level at 1.1050 can be considered the next positive targets. Relative Strength Index oscillators at 30 indicate a neutral bias favoring upside for EUR/US$, but MACD is displaying a selling signal.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.50%	0.1%	10.1%	3.8%	£-02.864B

Events to WATCH

May 16, 11:30
Average Earnings Index +Bonus (Mar)

May 16, 11:30
Claimant Count Change (Apr)

The pair started the week by opening at the 1.2629 level. During the trading week, the British pound attempted to rise initially but gave back a significant portion of the gain. The pair gained massively on Wednesday, after the release of U.S. CPI data (YoY) which came lower to 4.9% against the expectation of 5.0%. After the release, the pair reached its one-year high level of 1.2679 against the dollar. The Bank of England increased its benchmark interest rate by 25 basis points (bps) to 4.5% on Thursday as predicted. The lack of a 50-bps vote and Bailey's neutral tone led to the downside of GBP. After PacWest, one of the regional US banks affected by the banking crisis, revealed in a security filing on Thursday that their deposits fell by about 10% last week, safe-haven flows dominated the markets in the American session on Thursday. As risk sentiment deteriorated, the US Dollar benefitted and GBP/US$ continued to decline. On Friday, the UK's GDP(MoM) for April came bearish for the currency at -0.3% against the expectation of 0.1%. The dollar index reached 102.74 level, which is a one-month high and the pound fell to its one-week low of 1.2444 respectively.

The bull run for the cable pair seems unstoppable now as GBP/US$ registered its 11th straight weekly gain and also made a new resistance level of 1.2660, a level which was last seen almost a year back. In the second half of the week the Dollar started to gain pushing the cable pair to end the week blow 1.24 levels. Looking at the daily charts it seems that still it can bounce back to trade close to 1.2600 levels as currently, it is trading close to the 21 days moving average i.e. 1.2500 which could play as a support foe the cable pair. RSI trading close to 60 which is considered to be an overbought zone which is giving an indication of slight pullback.

¥ JPY

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

Events to WATCH

May 15, 05:20
PPI (YoY) (Apr)

May17, 05:20
GDP (QoQ) (Q1)

May17, 05:20
GDP (YoY) (Q1)

May 17, 10:00
Industrial Production (MoM) (Mar)

May 18, 05:20
Trade Balance (Apr)

US$/JPY started the week on a positive note by opening at the 134.82 level. The pair continued its uptrend this week. The safe-haven JPY is undermined by an overall upbeat atmosphere in the equities markets and the BoJ's dovish stance, which together serve as a tailwind for the pair. It is important to remember that BoJ Governor Kazuo Ueda stated on Tuesday during a speech in parliament that it was too early to talk about specific departure strategies for the extensive stimulus program. The US CPI report, released on Wednesday, highlighted indications of subsiding inflationary pressure and confirmed market views of a soon-to-come break in the Fed's year-long cycle of rate hikes. The CPI came lower to 4.9% against the market expectation of 5.0%. This resulted in a slight recovery in Yen. On Thursday PacWest, a U.S. bank announced that its deposit fell by 10% last week which led to an increase in the safe-haven demand for yen and it reached 133.74 level. But the pair was quick to reverse its gains on the last trading session of the week as the dollar index reached its one-month high level of 102.74 and the pair closed higher at 135.74.

The US$/JPY opened at 134.82; traded higher compared to the previous week's close and marked the high at 135.75 level during the week. During the week, the US dollar initially declined against the Japanese yen but quickly recovered and began to show signs of life. Given that the Federal Reserve is still being quite strict and the Bank of Japan is still doing everything it can to keep interest rates low, this makes perfect sense. It will be fascinating to watch whether or if the market views that resistance as a ceiling. The overnight goodish recovery from the 133.75 level, or a one-week low, is being built upon by the US$/JPY pair. It gains some further traction on Friday for the second straight day. Through the early portion of the European session, the pair continues its bid tone and is currently trading around the 134.70 area, up more than 0.20% on the day. It will be fascinating to watch whether or if the market views that resistance as a ceiling. Relative Strength Index oscillators at 69 indicate favoring upside for US$/JPY, MACD also displaying a buying signal.

BLOG

Impact Of Exchange Rate Movement On Export And Import

A country's exchange rate and its imports and exports hold a complicated relationship as there is a constant feedback circuit between the way a country's currency is valued and the international trade. The exchange rate has an effect on the trade surplus which in turn affects the exchange rate, and so on.

Currency: Appreciation and Depreciation

Appreciation: A currency is said to appreciate or strengthen, when its value increases in relation to another currency. For example, INR is said to appreciate when its value increases in relation to US$. Movement of INR from 72 to 70 is an appreciation for the Indian Rupee in terms of Dollars.

Depreciation: A currency is said to depreciate or weaken, when its value decreases in relation to another currency. For example, INR is said to depreciate when its value decreases in relation to US$. Movement of INR from 72 to 74 is depreciation for the Indian Rupee in terms of Dollars.

Factors that influence Exchange Rate Movements

Differentials in Inflation: Countries with consistently lower inflation rate typically see rising currency value, due to an increase in purchasing power relative to other currencies.

A country with higher inflation exhibits a fall in the value of their currency. This also usually goes hand in hand with rising interest rates.

Differentials in Interest Rates: Exchange rates, inflation and interest rates are highly correlated. Central banks exert influence over both exchange rates and inflation by influencing the interest rates. And a change in interest rates impacts currency values and inflation. Keeping other things constant, higher interest rates attract foreign capital as it offers lenders in an economy a higher return relative to other countries, thus leading to a rise in exchange rates. However, if the inflation in the country is much higher than other countries, the impact of higher interest rates is mitigated. Lower interest rates have the opposite impact on exchange rates- lower interest rates lead to depreciation of the currency.

Current Account Deficits: The current account includes the balance of trade between the country and its trading partners, and earnings on foreign investment. A deficit in the current account shows that the country's imports exceeds it imports- it is spending more on foreign trade than it is receiving. Also that, it is borrowing capital from foreign sources to fill the deficit.

In other words, the country supplies more of its own currency than foreigners demand for its products, and it requires more foreign currency than it receives through sales of exports. The excess demand for foreign currency lowers the country's exchange rate until foreign assets are too expensive to generate sales for domestic interests and domestic goods and services are cheap enough for foreigners.

Government Debt: When governments issue more debt may lead to rise in interest rates to attract bond buyers, further leading to an increase in demand for its currency. But if the government takes on too much of debt, investors may sell whatever government bonds they hold on fears of its defaulting on the debt taken. This is usually followed by a spike in inflation.

Political and Economic Stability: Foreign capital is attracted towards countries where investments are secure and the business landscape offers few shocks. Countries with stable and predictable business climate attract foreign capital and those that are roiled by uncertainty lose it.

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