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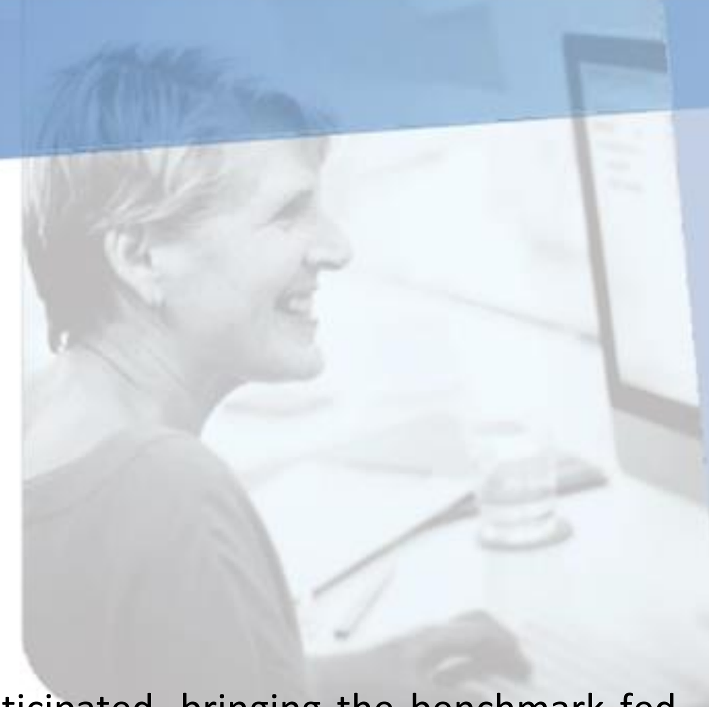
TPCI Trade Promotion Council of India
Notified in the Foreign Trade Policy by Department of Commerce, Government of India

# Forex Market Insights
## Newsletter

Volume 64 → May 7$^{th}$ to May 13$^{th}$ , 2023



# Welcome

Dear Stakeholders,

The Fed raised interest rates by 25 basis points on May 3, as anticipated, bringing the benchmark fed funds rate to its anticipated range of 5.00% to 5.25%. Fed Chair Powell made a strong suggestion at the press conference that the Fed funds rate may be close to its high for this cycle. After three rises of 0.5% this year, the ECB increased its benchmark deposit rate by a quarter of a percentage point to 3.25%, as anticipated.

The bank also announced that it would stop reinvesting funds from bond purchases by the end of July. As mortgage approvals for buying a house increased for a second consecutive month in March, the UK housing market displayed indications of stabilization.

INR barely moved in the three trading days when the markets were open, US$/INR's amplitude (high low range) was a meagre 29 paise. Tight and range bound trading has become the norm for US$/INR. Low volatility here despite reasonable volatility in international pairs.

The first two trading days of the week saw gains on the Japanese stock exchanges, which were closed for the remainder of the time owing to public holidays. Demand for safe-haven assets amid US recession fears and lingering worries over the stability of some US regional banks, as well as a delay in interest rate hikes by the US Fed, all underpinned the value of the yen.

After a week that was cut short by holidays, Chinese stocks ended neutral as unexpectedly poor manufacturing data dampened optimism. Over the course of the five-day break, domestic travel resumed to its pre-pandemic levels.

Thank You
Vijay Kumar Gauba
Additional Director General
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## Key Takeaway Summaries

### ₹ INR

The effect of Fed comments was clearly seen through the dollar index as it weakened to make the weekly low of 101.07.

### € EUR

ECB President Christine Lagarde did state that the tightening cycle was not being paused..

### £ GBP

The pair reached new yearly highs above 1.2600 during a week that was both holiday-thinned and action-packed.

### ¥ JPY

The pair's gains were supported by the dovish remarks of BOJ and their decision to keep the interest rates unchanged at -0.1%.

# ₹ INR

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

## Events to WATCH

May 12, 17:30
CPI (YoY) (Apr)

May 12, 17:30
Manufacturing Output (MoM) (Mar)

May 12, 17:30
Industrial Production (YoY) (Mar)

May 12, 17:00
FX Reserves (US$)

A holiday on Monday and Friday resulted in only a 3-day trading session where the market participants got quite less chance to have a hand. It mostly traded in a range from 81.68 on the lower side and 81.85 on the higher side. All eyes were on the Fed meeting where the fed increased the interest rate by 25bps as expected and also gave comments on the future outlook regarding the interest rate cycle, which seemed to be a neutral stance, as they said that most likely they will pause the interest rate hikes in the June meeting, but as inflation is still away from their target of 2% so next interest rate decision will be depended on the incoming data.



The effect of Fed comments was clearly seen through the dollar index as it weakened to the weekly low of 101.07. Just one day after the meeting, NFP data was released which showed that the labor market still tends to be strong as Nonfarm Payrolls and Average hourly earnings went higher than expected and the unemployment rate also decreased in April. The data showed that the FX Reserves of India increased by almost 2 billion dollars to reach 588 billion dollars. In the upcoming week we have CPI numbers to be released from both the economies. A few other important economic events in the upcoming week are Core CPI (MoM) (Apr), Initial Jobless Claims & PPI (MoM) (Apr).

# $ USD

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

## Events to WATCH

May 10, 18:00
CPI (YoY) (Apr)

May 10, 18:00
Core CPI (MoM) (Apr)

May 10, 20:00
Crude Oil Inventories

May 11, 18:00
PPI (MoM) (Apr)

May 11, 18:00
Initial Jobless Claims


In yet another truncated holiday week, INR barely moved in the three trading days when the markets were open. US$/INR's amplitude (high low range) was a meagre 29 paise. Tight and range bound trading has become the norm for US$/INR. Low volatility here despite reasonable volatility in international pairs.

Monotonous and sideways trading has ensured that the momentum indicators (MACD, RSI and Slow Stochastics) continue to remain neutral. The low for this week was 81.65 – this coincides with the important support region around 81.55 – 81.65 (notice the blue horizontal lines). During calm markets, it is worthwhile to evaluate the Bollinger Bands (green upper and lower bands along with a red median). Observe how the upper and lower bands have converged (reflecting range bound trading). History has often shown that periods of low volatility precede phases of high volatility. The upward moving trendline (yellow colour) connecting the dollar lows of Nov'22 and Jan'23 comes around 81.50. Technically, the region around 81.50 – 81.65 will be a critical dollar support area.

During such calm and quiet times, risk managers should continue with their hedging policies and practices. Dollar importers should hedge for short term using an optimum mix of forwards and vanilla options – target spot around 81.55 – 81.65. Low forward premiums are an additional incentive to hedge. Dollar exporters should target spot levels around 82.15 – 82.25 to resume their hedging. They should also use vanilla options in addition to simple forwards. Options volatility is quite low and hence vanilla option premiums are going to be cheap.

# EUR

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

## Events to WATCH

May 08, 11:30
German Industrial Production (MoM) (Mar)

May 10, 11:30
German CPI (MoM) (Apr)

May 10, 11:30
German CPI (YoY) (Apr)

The EUR/US$ pair connected with the 1.1100 level for another week before finishing the week with small losses near the 1.1000 mark. As expected, the European Central Bank raised its benchmark interest rates by 25 bps. Although the ECB did not clearly state that there would be future rate hikes in the policy statement, ECB President Christine Lagarde did state that the tightening cycle was not being paused. The EUR/US$ struggled to generate momentum for a recovery on Thursday despite Lagarde's hawkish comments as investors sought safety following yet another selloff in shares of US regional banks. In contrast, the US dollar was able to maintain its strength versus its competitors. The central bank noted that policymakers are ready to modify the stance of monetary policy as necessary if risks emerge and switched to a data-dependent strategy to decide future rate decisions. On Friday, bank stock prices gained some ground as worries momentarily subsided. Key events in the upcoming week include German Industrial Production (MoM) (Mar), German CPI (MoM) (Apr), and CFTC EUR speculative net positions.

The EUR/US$ is steadily moving upward, wiping out all of the losses from the previous months, and mostly traded above a strong support of 1.0970. Even though the stronger-than-expected NFP growth, the US dollar index has slipped to 101.27 and US 2 year treasury yields have inched lower to 3.91%. The charts show the asset has a resistance at 1.1070. The lower boundary of the long-term ascending regression channel, which is currently at 1.1030, is where the EUR/US$ is trading. It is supported by the 50-period Simple Moving Average (SMA). Given that all of these significant announcements have been made and the complexity of the next move has not changed, we believe it is more likely that the market will remain range-bound over the coming weeks. Selling pressure will increase if the pair is fails to effectively overcome the 1.1091 (weekly high) barrier. A greater rising trend will resume to 1.1209 if this level is breached. Relative Strength Index oscillators at 48 indicate a neutral bias favoring upside for EUR/US$, but MACD is displaying a selling signal.

# £ GBP

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

## Events to WATCH

May 12, 11:30
Monthly GDP 3M/3M Change (Mar)

May 12, 11:30
GDP (YoY) (Q1)

May 12, 11:30
GDP (MoM) (Mar)

May 12, 11:30
GDP (QoQ) (Q1)

May 12, 11:30
Manufacturing Production (MoM) (Mar)

GBP/US$ started the week on a negative note at 1.2555. For the first two trading days, the pair fell but since the mid of the week, it gained subsequently. The pair reached new yearly highs above 1.2600 during a week that was both holiday-thinned and action-packed. During the first half of the week, the pair struggled as the dollar got some support before the crucial fed event. However, the dollar's recovery was further boosted by the ISM Manufacturing PMI, which rose from 46.3 in March to 47.1 in April. On the other side, the dollar fell after the federal reserve came out dovish as they increased the interest rate by anticipated quarter bps and hinted that it might pause its tightening cycle as soon as the next meeting to assess the effects of the recent banking sector crisis and the lag time between rate hikes and inflation. On Friday, strong employment growth in the US helped the dollar recover as NFP jumped by 253k in April, compared with an expected value of 179K. Markets are now anticipating the upcoming week's CPI data from the US and the Bank of England policy announcements to determine the next price direction.


Again, in this week bulls remained heavy on the bears and GBPUS$ registered it's 10th straight weekly gain. Looking at the daily charts it seems still there is a scope for the upside and 1.27 could be the next near-term target for the buyers breaking of 1.27 region comfortably could open the doors for 1.30 levels in the long run while on the downside 1.2470 region could play the role of support as 21 days moving average is hovering there. If sellers could mange to break the moving average region comfortably it might test the support region of 1.2360. On the daily time frame momentum indicator MACD giving mixed signals while RSI trading above 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 08, 06:00
Services PMI (Apr)

May 09, 05:00
Household Spending (YoY) (Mar)

May 11, 05:20
Adjusted Current Account (Mar)

It was a roller-coaster ride for US$/JPY this week. The pair started the week on a positive note by opening at 136.30 levels. The pair traded in a range of 137.77-133.5, during the whole week. The pair reached the level of 137.77 which is a 2-month high. In the beginning, the pair's gains were supported by the dovish remarks of BOJ and their decision to keep the interest rates unchanged at -0.1% with no changes in YCC policy. But US$/JPY quickly reversed its gains as the dollar index fell due to the concerns of the U.S. debt ceiling and the revival of banking fears after the shares of PacWest BanCorp fell by 50% as it hinted sale of an asset. The risk-off mood led to an increase in demand for safe-haven JPY. As expected Fed increased the interest rates by 25 basis points. But the market participants reacted to the dovish remarks of Powell, which indicated that the Fed will pause in June. In the last trading session, the dollar revived a little after the upbeat NFP data release that came higher at 253000 against the market expectation of 180000. The pair closed at the 134.84 level.

The US$/JPY opened at 136.16; traded higher compared to the previous week's close and marked the high at 137.77 level during the week but plunged in the latter two trading sessions to a weekly low of 133.49 yen gaining by 3.10% and ended the week at the 134.80 level. As the jobs data on Friday was significantly greater than expected, there has been a lot of abnormal activity in the market. In light of this, there are many unanswered uncertainties regarding the actions that the Federal Reserve will need to take, and there has been a lot of panicking on numerous fronts. The 50-Week EMA is located around approximately 132.50, a region that has proved significant on daily charts numerous times. The 138 level represents a big amount of resistance on the upside, so it will be fascinating to see whether we can go above it. Relative Strength Index oscillators at 69 indicate favoring upside for US$/JPY, MACD also displaying a buying signal.

# Why Are Transfer Rates Important In Forex Hedging?

**What are transfer rates?**

Converting one exchange rate into another at a particular price makes transferring rates. Ideally all nations should be treated as equal and there shouldn't be any exchange rate applicable which would mean to have a universal currency. Amongst many others, the government policies and growth made by one nation constitutes its economic activity. A nation may grow at a different pace when compared to other nations due to many factors – some natural while some political. Natural resources like oil, gold mining, may act as an advantage for a nation, while rich fertile terrain may work in favor of the other. Optimum capitalization of these resources will work towards sustainability first and then growth of the country. The performance of the nation may attract foreign investors when the policies are suitable and implementable. Thus the exchange rate of nation varies with respect to another and further fluctuates due to daily economic, political, interest rates, recession or growth, etc.

**Flexible or fixed exchange rate**

Exchange rates are flexible or fixed or somewhere in between depending on the exchange rate policy being adopted by the country.

Majority of the economies follow a flexible exchange rate wherein the transfer rate derives its value, i.e. rises or declines based on the economic factors. Currency values change constantly (within seconds) purely due to demand and supply. Demand and supply depends on the changes within the country with respect to the economic, political, natural factors. A change in political party or a natural event like hurricane or tsunami or man-made pandemic like the Coronavirus has caused volatility in the markets. Flexible exchange rates are also called as "floating exchange rates."

**Exchange rate quotes**

When one needs to exchange a currency for another, they go to a bank, which in turn get the quotes from the forex markets. But is that what is quoted to the end user be it an individual or a corporate? Forex market comprises of brokers who act on behalf of banks and large corporate or institutions. They give their quote and then when currency is exchanged at that price that becomes the exchange rate deal. Often, large volume transactions are made of many low volumes transactions. Ideally irrespective of the volume, the bank should quote the real time exchange rates to the end user. A corporate due to sheer volume, tends to get a rate closer to or at the exchange rate price, but a retail price is often quoted a much higher rate when buying and lower rate while selling the currency in exchange of another.

Thus a forex advisor comes in handy while dealing with foreign exchange. They bring the market closer to the client without any delay than what is quoted at the exchanges.

Sourcing the real time rates is of importance as many financial institutions like banks mark up the buying quote or the 'ask' quote and over and above that a bank margin is added. This bank margin is mutually fixed between the bank and the client. The volatility in the spot price leaves room for wider quotation and many small and medium enterprises specially, are quoted a price which is far from the real time exchange or transfer price.

While transacting in the forex markets, the trader may have to incorporate some forex trading techniques to ensure the forex portfolio is hedged and has relevant stop losses in place to ensure some security to the portfolio. The chances of losing the initial trading amount are high when the trading is done without any analysis. Basic fundamental analysis, technical analysis – trend, momentum, range trading, etc. are utilized to ensure protection from high volatility specially during uncertain times.

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