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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

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Welcome

Dear Stakeholders,

The S&P 500 Index surpassed 4,200 for the first time since late August, driven by a positive shift in debt ceiling negotiations. Economic news generally met expectations, but a few surprises caught market attention. April's retail sales rose by 0.4%, slower than anticipated and reflecting the pandemic's impact with the slowest annual growth. The benchmark 10-year U.S. Treasury note's yield spiked during the course of the past week, reportedly driven higher by the manufacturing and jobs figures.

We saw an unbroken decline in the Rupee throughout the week. The continuous strength in the dollar index aided the US currency to gain against the local unit, which led to the worst week for the Rupee in nine months. Looking at the trends and momentum, the pair is reaching towards the level of 83. Afterwards, we could also see a movement towards the all time high of 83.29 seen in oct 22.

European stocks gained momentum amid hopes of interest rate stabilization and progress in US debt ceiling talks. Consequently, European government bond yields rose. The European Commission raised growth forecasts for the Eurozone, predicting GDP growth of 1.1% this year and 1.6% in 2024, up from prior estimates of 0.9% and 1.5%, respectively. Meanwhile, the UK's unemployment rate increased from 3.8% to 3.9% in the three months ending in March.

Japanese stock markets extended their six-week rally, supported by positive domestic results, a weaker yen, and significant foreign investment. The yen declined against the US dollar from JPY 135.75 to around JPY 138.17, partially cushioned by strong inflation data. China's yuan depreciated at its fastest rate in nearly three months following the People's Bank of China reduction in the central parity rate. Concerns over a potential slowdown in China's post-COVID recovery led to mixed performances in Chinese stocks.

Thank You

Vijay Kumar Gauba
Additional Director General
Trade Promotion Council of India

CONTENTS

Key Takeaway Summaries

₹ INR

The dollar index was seen to be gaining throughout the week & went to 8-week high to trade at 103.60.

€ EUR

Concerns surrounding the US debt-ceiling issues contributed to a negative start in financial markets this week.

£ GBP

Bailey stated that the UK's inflation is predicted to decline significantly over the upcoming months during a speech.

¥ JPY

The Bank of Japan (BoJ)'s dovish policy and a slowdown in Japan's export growth to its weakest rate at 2.6 %, in more than two years in April.

₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.50%	0.69%	4.70%	7.8%	$-15.24B

Events to WATCH

May 26, 17:00
FX Reserves, US$

The week resulted to be negative for the Rupee as it weakened to make a two-month high of 82.80, a level which was last seen in mid-march. US$/INR pair started the week at 82.22 and ended the week at 82.6025 which signifies around 0.38 paisa weakening of the Rupee. The meeting between President Joe Biden and top U.S. congressional Republican Kevin McCarthy regarding the debt ceiling issue ended on a positive note and also confirmed that they might get a deal by the end of this week, which boosted the market optimism regarding the agreement to raise the debt ceiling and prevent a default by the United States. The dollar strength was also supported by strong economic data from the US economy which came higher than the projected numbers and even if the data was lower than expectation then its underlying trend was strong, which means it was higher than the previously released numbers.

The strong and robust data indicated the Federal Reserve may delay its rate cut rather than implementing them immediately which simply means that the interest rates will be high for a longer time which can be clearly seen through the 2-year bond yields surging around 4.27%. The dollar index was seen to be gaining throughout the week & went to 8-week high to trade at 103.60. The dollar has gained substantially this week and from the past evidence it seems that the US$/INR spot won't come down very rapidly and will remain above the 82-levels for some time. Few key events for the upcoming week which will give us more clues regarding the fed interest rate cycle are as follows: Building Permits, Services PMI (May), New Home Sales (Apr), GDP (QoQ) (Q1), Core PCE Price Index (MoM) (Apr) & Core Durable Goods Orders (MoM) (Apr).

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.25%	1.1%	4.9%	3.4%	$-64.23B

Events to WATCH

May 23, 17:30
Building Permits

May 23 19:15
Services PMI (May)

May 23, 19:30
New Home Sales (Apr)

May 25, 18:00
GDP (QoQ) (Q1)

May 25, 19:30
Pending Home Sales (MoM) (Apr)

May 25, 18:00
Initial Jobless Claims

May 26, 18:00
Core PCE Price Index (MoM) (Apr)

May 26, 18:00
Core Durable Goods Orders (MoM) (Apr)

We saw an unbroken decline in the Rupee throughout the week. The continuous strength in the dollar index aided the US currency to gain against the local unit, which led to the worst week for the Rupee in nine months. Looking at the trends and momentum, the pair is reaching towards the level of 83. Afterwards, we could also see a movement towards the all time high of 83.29 seen in oct 22. But we have observed, a lot of times in the past, recovery in the local unit whenever this kind of a sudden spike in the pair. Pullback is expected as, in the daily time frame, Stochastics and RSI have reached the overbought region.

Our sense is, the Rupee won’t stay at these levels for a longer term as pair is reaching towards the critical resistance zone and we could also sense the disparity by looking at the dollar index levels, currently dollar index is just above 103 levels while rupee is reaching towards all time. Our sense is, the Rupee won’t stay at these levels for a longer term as the pair is reaching towards the critical resistance zone and we can also sense the disparity by looking at the dollar index levels. Currently, the dollar index is just above 103 levels while the rupee is reaching an all-time low. Earlier, when the Rupee was at these levels, the dollar index was hovering near 113 region.

Since US$/INR is hovering just below a critical resistance zone, dollar exporters should continue to increase their hedge ratios. As premiums are quite low exporters can use some forwards and vanilla to hedge their exposure while importers got chances below 82 levels to hedge, if missed they can target near 82 region if mandatory to hedge vanilla would be recommended.

EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.75%	0.1%	7.0%	6.5%	€25.55B

Events to WATCH

May 23, 13:00
German Manufacturing PMI (May)

May 24, 13:30
German Ifo Business Climate Index (May)

May 25, 11:30
German GDP (QoQ) (Q1)

,For the second consecutive week, the EUR/US$ pair experienced a slight decline and settled just above the 1.0800 level. Concerns surrounding the US debt-ceiling issues contributed to a negative start in financial markets this week. Luis de Guindos, the Vice President of the European Central Bank (ECB), expressed his concern about inflation in the services sector, emphasizing that there is still room for further interest rate increases. ECB President Christine Lagarde echoed these sentiments on Friday, stating that the ECB will take bold measures to bring inflation back to 2% and highlighting the necessity of sustainably higher interest rates to combat inflation. Local economic indicators remained lackluster, and the Euro remained subdued. European Union industrial production unexpectedly fell by 1.4% compared to the previous year and 4.1% for the month of March. Additionally, the preliminary estimate of Q1 Gross Domestic Product (GDP) showed a marginal gain of 0.1%. Some key events to follow this week include German Manufacturing PMI (May), German GDP (QoQ) (Q1), Manufacturing PMI (May), and Services PMI (May).

During the trading week, the euro attempted to rise early, but gave up gains close to the 1.0950 mark and began to decline and ended the week at 1.0804. The US dollar index has slipped to 103.19 and US 2 year treasury yields are at 4.27%. Any additional decrease is more likely to encounter resistance in the 1.0730–1.0725 area. The EUR/US$ pair will be dragged below the 1.0700 level, towards the next important support located close to the 1.0675–1.0670 horizontal zone, by some follow-through selling that will reaffirm the bearish bias. Spot prices may continue to decline into the 1.0635 area before eventually falling to test the round number at 1.0600. The US dollar is weaker overall on Friday, helping the EUR/US$ rise and undo most of Thursday's losses. The comments of Fed Chair Powell and worries about the US banking industry affect the value of the dollar. Relative Strength Index oscillators at 55 indicate buying favoring upside for EUR/US$, MACD also displaying a buying signal.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.50%	0.1%	10.1%	3.9%	£-02.864B

Events to WATCH

May 23 14:00
Manufacturing PMI

May 23, 14:00
Services PMI

May 23, 14:00
Composite PMI

May 24, 11:30
CPI (YoY) (Apr)

May 26, 11:30
Retail Sales (MoM) (Apr)

GBP/US$ started the week on a positive note by opening at 1.2450 levels. The US Dollar's rebound picked up speed over the previous week as bets on the US Federal Reserve (Fed) cutting rates eased, banking sector worries subsided, and renewed confidence about the US debt ceiling emerged. Bailey stated that the UK's inflation is predicted to decline significantly over the upcoming months during a speech at the annual British Chamber of Commerce Conference on Wednesday. The dollar index reached its 7-week high level at 103.62, on Thursday. The dollar rally was supported by the positive data release of Initial Jobless Claims and the Philadelphia Fed Manufacturing Index. As a result, the pound fell to its 2-week low at 1.2391. The ILO unemployment rate increased from 3.8% to 3.9% in the three months ending in March. This indicates that the UK labor market is steadily slowing down because it is the highest reading in more than a year. The change in claimant count also revealed an unexpected 46.7K increase in April. But the pair recovered after Powell's dovish comments stating that interest rate hikes would not be required as much as earlier. The pair ended the week at 1.2438.

The bull run for the cable pair seems stopped for now as GBP/US$ made a new resistance level of 1.2660 previous week, a level which was last seen almost a year back is Acting pretty well .On a very first day of this week it take some support from the demand zone of Range 1.2350-1.2440.then made new resistance at level 1.2546 that is also a April month resistance made touched and tested at 14 Apr. In the second half of the week the Dollar started to gain pushing the cable pair to end the week below 1.2450 levels. Looking at the daily charts it seems that there is the Bear comes and it is trading close to the Trend line i.e. 1.2440 which could play as a support for the cable pair. And the Next support is at the Range of 1.2340-1.2350. RSI trading close to 50 which is considered to be a Neutral which is giving an indication of slight bearish from the upper level. MACD also shows the sell signal.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	0.4%	3.5%	2.8%	-¥-432B

Events to WATCH

May 22, 06:00
Services PMI

May 26, 05:00
Tokyo Core CPI (YoY) (May)

May 26, 05:20
CPI Tokyo Ex Food and Energy (MoM) (May)

US$/JPY gained rapidly during the week, but fell a little on the last trading session of the week. The pair had a positive start of the week as it opened at 135.66 level. Following the release of better-than-expected US macroeconomic data, which showed that the Initial Jobless Claims declined to 242K last week and the Philly Fed Manufacturing Index improved to -10.4 in May from -31.3 the previous, the dollar index gained to a 7-week high level of 103.62. The Bank of Japan (BoJ)'s dovish policy and a slowdown in Japan's export growth to its weakest rate at 2.6 %, in more than two years in April, on the other hand, further weighed on the Yen. Yen fell by 2% in the week and reached 138.74 levels, which is a 5-month low. The National CPI of Japan rose to 3.5% against the expectation of 2.5%. The yen recovered a little on Friday, due to the dovish commentary from Fed President, Powell, stating that further rate hikes will not be required as earlier, in order to tame the inflation. The pair ended the week by closing at 137.91. Core PCE Prices Index of U.S. and Japan's Services PMI will be eyed for further cues

The US$/JPY opened at 135.65; Continue their Bull run and Traded higher compared to the previous week's close and marked the high at 138.75 level during the week. During the week, the US dollar is strong against the Japanese yen. After taking the support of trend line As well as 200 EMA last week at 133.80 There is no way to come back .It will be fascinating to watch Ho market act that resistance at 137.85 that has been tested Two time at 08 Mar and 02 May. As we can see the CUP & Handle is formed on chart it stay at that level this will be make or break. At the end day for week it take slight pull back from level of 138.75. It will be fascinating to watch whether this is the new resistance or not. Relative Strength Index oscillators above 60 indicate favoring upside for US$/JPY, MACD also displaying a buying signal.

Rethinking Trade & Finance - Digital Disruptions In India

The financial sector in India is undergoing rapid expansion both in terms of strong growth of the existing financial services firms and the new entities entering the market. Trends such as digital payment, Robo Trading, AI are few of the developments in the financial sector that is helping financial institutions offer innovative solutions to the businesses. Banks in India are trying to automate financial and transactional information exchange through various kinds of pilot projects. Financial institutions are moving from the traditional brick and mortars method to **immediate payment services (IMPS**) transactions.

Growth of FinTech Revolution in India

Contributive Growth Environment

The stakeholders are interested in driving cashless/ digital transactions for financial inclusion as well as control. The speed of broadband/telecom provides a platform for financial services delivery with low delivery costs and higher outreach.

Rising Investments

There has been a significant increase in FinTech start-ups in India over the last few years, primarily in the payments space. Besides, there is an increased willingness by domestic as well as international VCs/PEs and incubators to heavily invest in this sector in India.

Responsive Marketplace

Globally, the FinTech start-ups are disrupting the business models of existing financial service players. In India, the stakeholders are adopting a range of strategies to deal with the risks and opportunities afforded by FinTech revolution. These include strategic partnerships that provide the FinTech firm with access to bank clients and infrastructure to acquire clients.

Development of FinTech Companies in India

India is considered as a hotbed for FinTech innovations. These companies are creating tech-enabled platforms that make delivery of information swift and record-keeping of valuable data in a systematic format. The basic principle of almost all the emerging Fintech companies is to offer faster and transparent dealings, which perhaps was, one of the missing blocks in the financial world.

With FinTech companies mushrooming in India, they have soon become a competition to the banks. This competition was a much needed step as it leads to a healthy state of growth. A large slice of the financial services that banks had a monopoly over is now being offered by FinTech firms. Corporate and retail clients are increasingly prefer the solutions offered by FinTech firms as they find these emerging smart and innovative companies are able to deliver quicker and offer higher quality service which they failed to receive from banks.

FinTech companies are able to move faster and develop solutions that compete directly with traditional methods of delivering financial services. Financial service firms are now faced with a choice whether to build their capabilities or seek out FinTech partners to help drive innovative initiatives as the cost of customer acquisition and overcoming regulatory hurdles have become an expensive area.

Bottom Line

With advancements in technologies and as we move towards open-account trade, e-filling of exports and imports – digitization is fast changing the operational structure of trade finance in India. Among uncertainties, we are optimistic that technological innovations can indeed offer an exciting future for international trade landscape. However, change in the right direction is only possible with the right governing approach which helps the innovations to tap inclusive and efficient trade growth in the years to come.

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