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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 75 → July 23rd to July 29th 2023

CONTENTS



# Welcome

Dear Stakeholders,

The majority of prominent U.S. equity indexes surged with optimism, driven by the belief that the tight labor market and easing inflation would safeguard the economy from a severe downturn. In June, retail sales showed a substantial increase of 0.2%, which was lower than the anticipated 0.5%. However, there were upward revisions to the May data, leading to a growth rate of 0.5% for that month, up from the initial reading of 0.3%.

The Indian currency has experienced a rise for the second consecutive week, mainly due to foreign investments in the country's stock market. However, the currency's appreciation has been limited as the central bank has intervened frequently. Throughout the week, the exchange rate between the Indian currency and the US Dollar remained stable around 82, with very little price movement.

The pan-European STOXX 600 index ended higher on hopes of slowing inflation. European government bond yields declined due to cooling inflation in the U.S. and the UK, leading to expectations of central banks nearing the end of tightening monetary policies. In June, UK annual consumer price growth decreased to 7.9% from 8.7% in May, driven by lower gasoline prices, surpassing consensus estimates and matching with the Bank of England's (BoE) forecast. The Eurozone economy, as predicted, was on the verge of a recession but remained stagnant.

Japan's stock markets experienced a mixed week, with the Nikkei 225 Index dropping 0.3% ahead of the Bank of Japan's (BoJ) monetary policy meeting on July 27-28. Chinese equities, on the other hand, fell as recent economic data showed a slowdown in growth, with the Shanghai Stock Exchange Composite Index falling 2.16% and the blue-chip CSI 300 falling 1.98%.

Thank You

Vijay Kumar Gauba

Additional Director General

Trade Promotion Council of India

## Key Takeaway Summaries

### ₹ INR

After 2 continuous weeks of high volatility again the US$INR pair stabilized to trade in a range.

### € EUR

The Eurozone's Consumer Price Index (CPI) registered a YoY growth rate of 5.5%, which was as expected

### £ GBP

The pound fell sharply from 1.3041 to 1.2867 level after the softer U.K. inflation data dashed the hopes of another 50-bps hike by BoE.

### ¥ JPY

On Friday, the pair made a 1.5-week high at 141.95, after the release of the CPI data of Japan which came lower at 3.3%.


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# ₹ INR

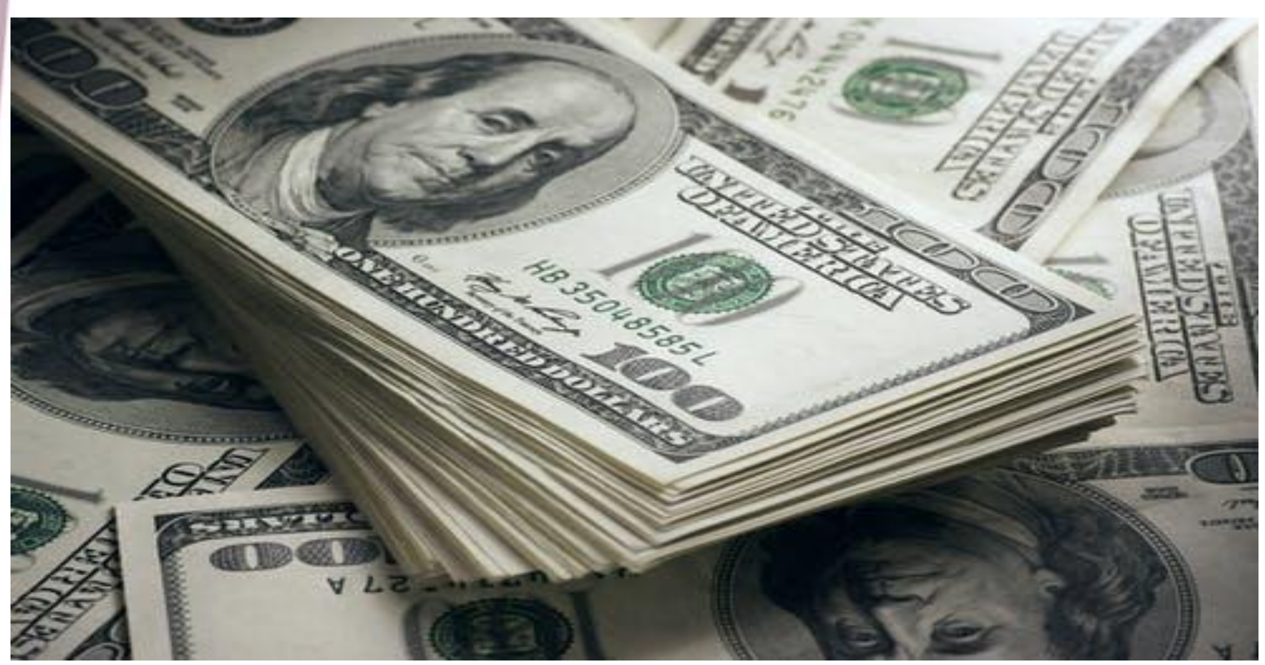
| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 6.50% | 1.9% | 4.81% | 7.7% | $-20.13B |

## Events to WATCH

Jul 28, 17:00
Bank Loan Growth

Jul 28, 17:00
FX Reserves, US$

The US$/INR pair had a week-open price of 82.13 and a week-end price of 81.96. After 2 continuous weeks of high volatility again the US$/INR pair stabilized to trade in a range. This week also the pair was mostly trading between 82.00-82.15. The dollar index recorded a significant gain this week as it entered the week trading just below 100-levels around 99.95, made a high of 101.18 on Friday and ended the week at 101.04. The dollar index started gaining on Wednesday when the UK CPI numbers were out and showed a decent fall in inflation to 7.9% which somewhat dampened the expectation of aggressive rate hikes by the BoE. As soon as the data was out the dollar index started gaining and these gains were also supported by the Initial Jobless claims again falling and coming below the expectation to 228k.


It was quite surprising that even after dollar index falling below 100-levels around 99.60 which is almost a 15-month low the US$/INR pair was still stable & unaffected and continued to trade around 82-levels. The rupee was not appreciating because RBI continued to intervene in the market in order to buy dollars, this reason was clearer after the FX Reserves data was out on Friday where we saw an increase 12 billion dollars and now our reserves are around 609.02 billion dollars. Key events for the upcoming week are Services PMI (Jul), CB Consumer Confidence (Jul), Fed Interest Rate Decision, FOMC Statement, GDP (QoQ) (Q2) & Core PCE Price Index (MoM) (Jun).

# $ USD

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 5.25% | 2 % | 3% | 3.6% | $-68.98B |

## Events to WATCH

Jul 24, 19:15
Services PMI (Jul)

Jul 25, 19:30
CB Consumer Confidence (Jul)

Jul 26, 17:30
Building Permits

Jul 26, 23:30
Fed Interest Rate Decision

Jul 27, 18:00
GDP (QoQ) (Q2)

Jul 27, 18:00
Core Durable Goods Orders (MoM) (Jun)

Jul 28, 18:00
Core PCE Price Index (MoM) (Jun)


The Indian currency has experienced a rise for the second consecutive week, mainly due to foreign investments in the country's stock market. However, the currency's appreciation has been limited as the central bank has intervened frequently. Throughout the week, the exchange rate between the Indian currency and the US Dollar remained stable around 82, with very little price movement.

There are some unfilled gaps in the chart, which occurred due to a sharp increase in the exchange rate two weeks ago. Specifically, there is a gap between the exchange rates on 10th July and 11th July 2023, ranging from 82.45 to 82.55, and another gap from 12th July to 13th July 2023, ranging from 82.14 to 82.2350 (partially filled). These gaps are usually fills in the US$/INR.

The immediate support level for the exchange rate is around 81.85 to 81.90. If this level is broken, the exchange rate could decline further towards 81.50. On the upside, the exchange rate could move towards the unfilled gaps as it is common in the pair for gaps to be filled.

As we observe, the Reserve Bank of India (RBI) is preventing significant appreciation of the Indian Rupee. Importers can hedge their exposure around 81.90 using forward contracts or options. On the other hand, exporters can wait for the exchange rate to reach around 82.30 levels if mandatory they can go for vanilla the premiums are likely to be cheaper due to lower market volatility. On the daily time frame momentum indicators RSI and stochastics trading in a neutral zone.

# € EUR

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 4.00% | 0% | 5.5 % | 6.5% | €-2.95B |

## Events to WATCH

Jul 24, 13:00
German Manufacturing PMI (Jul)

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

Jul 27, 17:45
Deposit Facility Rate (Jul)

Jul 27, 17:45
ECB Interest Rate Decision (Jul)

Jul 27, 17:45
ECB Marginal Lending Facility

Jul 28, 17:30
German CPI (MoM) (Jul)

The EUR/US$ pair experienced a decline after reaching its peak at 1.1275, dropping towards 1.1100, and closing the week slightly above it. Attempts to push the US Dollar lower during the first half of the week were unsuccessful, and despite lacking substantial support, the US Dollar managed to make a recovery. In June, the Eurozone's Consumer Price Index (CPI) registered a YoY growth rate of 5.5%, which was as expected. Concurrently, the Annual Core CPI for the same period increased to 5.5%.Additionally, the German Producer Price Index (PPI) for June increased by 0.1% year on year, surpassing expectations. Next week, the Federal Reserve (Fed) and the European Central Bank (ECB) are scheduled to hold monetary policy meetings and announce their decisions. The Fed is widely expected to raise rates by 25 basis points (bps), while market players will be watching for hints on the possibility of another rate hike. The ECB is also anticipated to follow suit, with investors expecting at least one more rate increase in September. More key events to follow in the upcoming week include German Manufacturing PMI, Manufacturing PMI, and German CPI.


The EUR/US$ opened at 1.1231, and the Euro began to decline as the dollar recovered from its 15-month low of 99.57, which was sparked by initial jobless claims in the second half of the week. After the breakout, 1.1094 is a crucial level, which had previously served as resistance and now acts as support. The four-hour chart's Relative Strength Index (RSI) indicator continues to trade over 30 while being well below 50, indicating that the EUR/US$ has more room to fall before becoming technically oversold. On the downside, 1.1050 (100-period SMA), 1.1000 (psychological level), and 1.1094 all line up as first supports. Additional advances towards 1.1180 (50-period SMA) and 1.1200 (psychological level, static level, 50-period SMA) could be seen if the pair moves above 1.1160. Investors might hold off on making significant positions before next week's important macroeconomic events.

# £ GBP

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 5.00% | 0.1% | 7.9% | 4 % | £ -06.578B |

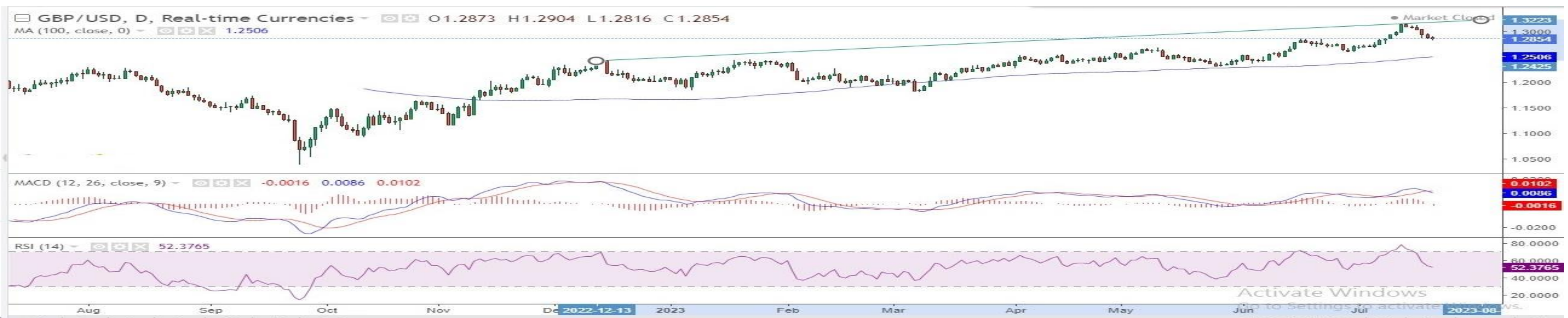
## Events to WATCH

Jul 24, 14:00
Manufacturing PMI

Jul 24, 14:00
Composite PMI

Jul 24, 14:00
Services PMI

It was a negative week for the sterling as it continued to fall against the dollar correcting from its 15-month high. The disappointing GDP data of China at the start of the week led to a risk-on mood in the market, resulting in a flight to safe-haven assets and a decline in the pound. On Wednesday, U.K. CPI data was released which showed that the inflation cooled off in the economy to 7.9%, while the expectation was 8.2%. Similarly, the Core CPI also came lower at 6.9% against the market expectation of 7.1%. The pound fell sharply from 1.3041 to 1.2867 level after the softer U.K. inflation data dashed the hopes of another 50-bps hike by BoE in August. Sterling continued its downward momentum, as the dollar index recovered after the U.S.'s disappointing tech earnings and the hawkish Fed expectations revival. As the initial jobless claims fell this week to 228000, a two-month low-level indicating the U.S. Labor market is resilient. On Friday, GBP/US$ fell initially and made a weekly low of 1.2815, but recovered a little after the release of the Retail sales, which rose by 0.7%, a 14-month high level. The pair ended the week at 1.2815.




The British pound has experienced a significant decline this week, erasing all the gains it made last week. The price candles were consistently red throughout the week. We believe that the potential for further upward movement is currently limited, and the bears are likely to maintain control over the market in the coming days. Currently, the pound is sitting around 1.2850. If it manages to break below the 1.2650 level convincingly, we could see a substantial downward move towards the 1.2500 level, where the 100-day moving average is situated. On the other hand, for the bulls to regain momentum and push the price higher, they would need to make a significant move towards the psychological level of 1.30.Traders will also closely focus on the upcoming Federal Reserve meeting this week, as it could have a decisive impact on the direction of the pound. On the daily timeframe, two momentum indicators, the RSI and MACD, are providing conflicting signals, making it challenging to predict the market's immediate movement.

# ¥ JPY

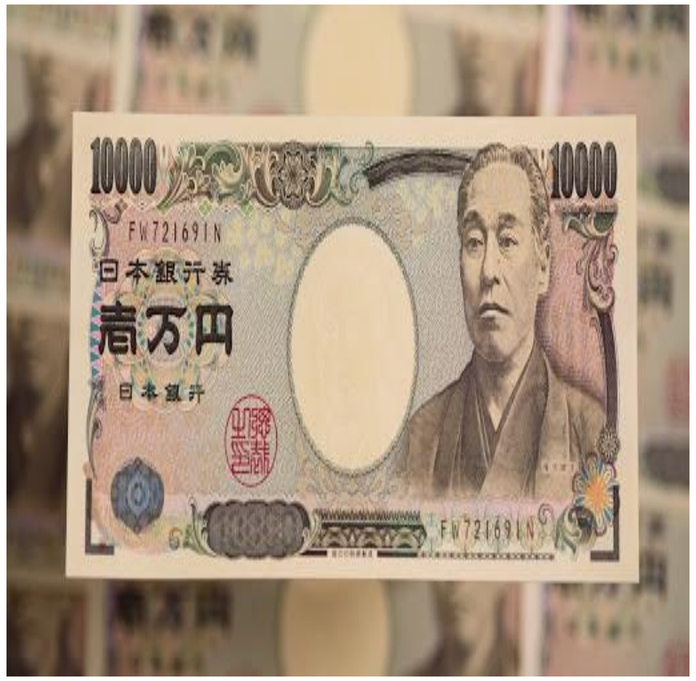
| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| -0.10% | 0.7% | 3.3% | 2.6% | -¥-43B |

## Events to WATCH

Jul 24, 06:00
Services PMI

Jul 28, 05:00
Tokyo Core CPI (YoY) (Jul)

Jul 28, 08:30
BoJ Interest Rate Decision



A positive week for the US$/JPY pair as it reversed its previous week's journey and moved higher this week. The major move was because of the strength of the dollar index on Monday as it moved above 100.50 levels. The two-year and 10-year bond yield was also higher at 4.77% and 3.83% respectively. On Wednesday, the dollar index gained after the sharp fall in the pound after the U.K. CPI came lower at 7.9%, which also benefitted the US$/JPY pair. The dollar index was further supported by the release of the U.S. Initial Jobless Claims, which declined to a two-month low level at 228K, against the expectation of 242 K. The data shows the resilience of the U.S. Labor market and revived the hawkish Fed expectation. On Friday, the pair made a 1.5-week high at 141.95, after the release of the CPI data of Japan which came lower at 3.3%, against the market consensus of 3.5%. Further, the expectation is that BOJ will still stick with the ultra-loose monetary policy stance while the Fed will increase the interest rates by 25-bps. The huge divergence between the Central banks benefitted the pair.

The US$/JPY opened at 138.68, and the yen began to decline after a strong reversal from 145 to 137 the previous week as the dollar recovered from its 15-month low of 99.57, which was sparked by initial jobless claims in the second half of the week. After the breakout, 138 was a crucial level, which had previously served as resistance and now acts as support. In this case, if everything else is equal, we believe the pair will attempt to reach the 142.50 level, which has previously proven to be crucial. A slight retracement offers value, thus we believe that if we can break over the 142.50 level, it will allow further weakening of the yen to 145. The strength of the US Dollar Index (DXY) and the likelihood that the Bank of Japan (BoJ), which will publish its interest rate decision on July 28, will leave it unchanged, have caused the pair to move into a bullish trend. The relative Strength Index showing a buying signal at the 68 value and the momentum indicator MACD comes close showing a buying signal.

BLOG

# Forex Service In India

**Forex services available in the market**

The foreign exchange market primarily refers to a market where various currencies are traded and investments and dis-investments are made all day long. The market presently is very well developed and well equipped. It is also regarded as the most dynamic and actively traded market in today's world. Over the decades with the rapidly growing foreign exchange market has come up with a variety of services to enable smooth foreign exchange transactions. These variety of services are provided by various banks, financial institutions and traders in the foreign exchange market worldwide.

**Transaction Process Outsourcing**

TPO or transaction process outsourcing basically refers to outsourcing the foreign exchange related transactions to financial firms to make rate bookings. It is helpful to both small and large business firms who can be free from the job of dealing with banks to book their transactions and can get the best rates at zero pilferage with the help of experts. The negotiation is done by professionals on the basis of the company.

The clients can ensure complete transparency by availing the voice recordings of phone calls with the banks, they can know the exact time of the transaction to know that the rates are right.

**Rate Audit**

Rate Audit is a service provided by limited financial firms where in the customer firm deals with the banks on their own and get rates fixed. However, once they have booked transactions they can check if the rates were right or the bank charged higher rates from the customers. This service is basically for past transactions. Users can check cash rates, spot rates, cancellations or forwards with the help of rate audit.

**Rate Check**

Rate check might seem to be similar to rate audit but the two are not the same. Rate check is a service for the current transactions that the businesses enter into. It refers to the real time dealing of the firm with the bank wherein the firms can check the current existing rates for various type of foreign exchange transactions and can negotiate on that basis with the banks to get the best available deal.

**Money Changing**

Another big and widely available service is that of money exchanging. This service today has a wide base due to the existence of tours and travels. People today travel around the world for a number of reasons and hence they require foreign currencies for the same. Thus, they have to exchange their domestic currencies for the foreign currencies.

There are full-fledged money exchangers that are licensed by the reserve bank of India to exchange currencies. Multi-currency forex cards are also widely used for foreign travel these days.

**Trade Finance**

Trade finance basically is a phenomenon widely used in international trade markets today. The exporters and importers use various financing techniques to finance their shipments. The services available are letter of credit, drafts, bill discounting etc.

## Contact Details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