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TPC Trade Promotion Council of India

Forex Market Insights

Newsletter

Volume 121 → Jun 22-28, 2024

Welcome

Dear Stakeholders,

We have been closely monitoring our currency markets. Recently, we've seen the US dollar gain strength, with the US$ Index approaching 106.00. This comes despite the Fed's forecast of only one small rate cut this year. The market seems skeptical about the Fed's plans, especially after the recent soft inflation data.

Looking ahead, we're expecting key economic indicators this week, including consumer confidence, housing data, and GDP figures. The PCE report on Friday will be crucial. The euro has weakened against the dollar for three straight weeks. We'll be watching German business climate and consumer confidence data closely. The pound has hit four-week lows, affected by a dovish Bank of England stance. The UK's Q1 GDP report on Friday will be important. The yen continues to struggle against the dollar, reaching seven-week highs above 159. We're keeping an eye on various Japanese economic indicators throughout the week.

Lastly, the Australian dollar has shown some resilience, supported by the RBA's hawkish stance. Several Australian economic reports are due this week. Looking ahead, I expect the US Dollar to maintain its strength, especially if upcoming economic data supports further tightening by the Fed. However, global economic uncertainties and geopolitical risks could create volatility.

Thank you

Vijay Gauba
Additional Director General
Trade Promotion Council of India

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Key Takeaway Summaries

₹ INR

The US$/INR pair reached a new all-time high of 83.67 on June 20, 2024, surpassing the previous high of 83.575 set on April 19, 2024.

€ EUR

The EUR/US$ pair closed the week below the 1.0700 level, ending on a negative note.

£ GBP

Despite stronger-than-expected UK Retail Sales and Manufacturing PMI, the sterling remained under pressure as the strong US data suggested that the economy is still resilient.

¥ JPY

Closing at 159.76, the US$JPY showed resilience supported by interest rate differentials and market confidence in the US economy's resilience.

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.50%	2.1%	4.75%	7.64%	$-23.8B

Events to WATCH

Jun 26, 17:00
M3 Money Supply

Jun 28, 15:30
Federal Fiscal Deficit (May)

Jun 28 , 17:30
Foreign Debt (US$) (Q1)

Jun 28 , 17:30
Infrastructure Output (YoY) (May)

During a holiday-shortened week with only four trading sessions, the US$/INR pair reached a new all-time high of 83.67 on June 20, 2024, surpassing the previous high of 83.575 set on April 19, 2024. This increase was driven by a weakening Chinese Yuan, strong dollar demand from local importers, and likely dollar outflows. The offshore Chinese Yuan fell to 7.29 on Friday, its lowest in seven months, following a lower central bank guidance on Thursday, sparking speculation that authorities might allow further weakening.

The dollar index remained strong around 105.50 throughout the week. U.S. economic data released this week indicated cooling inflation, increasing the probability of a rate cut to 65% in the September meeting. However, U.S. Federal Reserve officials are not yet convinced of a sustained decline in inflation and require more weak data to confirm the need for rate cuts. On Friday, U.S. PMI numbers exceeded expectations, suggesting persistent inflation, which aligns with the Fed officials' previous statements.

The data showed that in June, business activity in India accelerated for both manufacturing firms and service providers. India's foreign exchange reserves declined for the first time in three weeks, falling by $2.9 billion to $652.90 billion as of June 14, from a record high of $655.8 billion the previous week, according to data from the Reserve Bank of India (RBI) released on Friday. The RBI has been using its reserves to manage currency volatility. Despite hitting an all-time low on Thursday, the rupee remains one of the best-performing Asian currencies this year. Additionally, JPMorgan Chase & Co. will include Indian government debt in its emerging market index starting June 28. Goldman Sachs Group Inc. anticipates monthly inflows of US$ 3 billion over the next 10 months as India's weight in the index increases to 10%, which is expected to mitigate losses of the Indian rupee.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.5%	1.3%	3.3%	4.0%	$-74.56B

Events to WATCH

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

Jun 26, 18:00
Building Permits

Jun 26, 19:30
New Home Sales (May)

Jun 27, 18:00
GDP (QoQ) (Q1)

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

Jun 27, 18:00
Initial Jobless Claims

Jun 27, 18:00
Pending Home Sales (MoM) (May)

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

The US$/INR pair set a new all-time high at 83.67 on Thursday, surpassing the previous peak of 83.575 from April 19, 2023. The dollar opened strong at 83.5125, dipped to a weekly low of 83.33 in the initial trading sessions, but ultimately rebounded to close at a new record high.

On the daily chart, the US$/INR pair maintains a positive outlook, staying above the key 100-day EMA (yellow line). The bullish momentum is reinforced by the 14-day Relative Strength Index (RSI), which remains above the 50-midline, favoring buyers. The resistance previously noted at 83.55 remains significant, as the pair ended the week below this level at 83.5325. The next resistance is at the new all-time high of 83.67. Short-term support is around 83.40, aligning with the 21-day EMA (blue line), while a second support level is identified at 83.28, coinciding with the 100-day EMA.

US$/INR has shown relative stability, providing limited hedging opportunities for importers. Therefore, importers should take advantage of even minor drops of 10-15 paisa around the first support for near-term payables. Exporters, on the other hand, have had ample opportunities to hedge and should maintain a hedge ratio of around 50-60%. A combination of forwards and options is recommended for hedging exposures.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.25%	0.3%	2.6%	6.4%	€15.04B

Events to WATCH

Jun 24, 13:30
German Business Climate Index (Jun)

Jun 24, 13:30
German Business Expectations (Jun)

Jun 26, 11:30
GfK German Consumer Climate (Jul)

Jun 28, 11:30
German Retail Sales (MoM) (May)

Jun 28, 13:25
German Unemployment Change (Jun)

Jun 28, 13:25
German Unemployment Rate (Jun)

The EUR/US$ pair closed the week below the 1.0700 level, ending on a negative note. The Euro struggled to maintain momentum amid uncertainties surrounding the country's elections. Concerns grew over a potential increase in the debt risk premium across the euro area, fueled by expectations of looser budget controls under a new French government. Moreover, the euro faced pressure from other central banks, including the Bank of England and the Swiss National Bank, where the SNB unexpectedly cut the rate for the second time in a row. However, during mid-week, the release of CPI numbers as expected provided some relief, but later in the week, disappointing data from major European economies such as Germany's PPI and France, Germany, and Europe's manufacturing and service PMIs all were released lower than expected and as well as from previous numbers led to losses for the pair. The EURUS$ pair is expected to remain under pressure further ahead of US core PCE data and the French election later in June.

The EUR/US$ pair started the week at the crucial 1.0700 level but struggled to maintain it for long. Initially, the pair encountered resistance at 1.0750 before dropping towards 1.0700 in the last two trading sessions. It ultimately broke this support on the final trading day due to a rising dollar index hitting a seven-week high. Throughout the week, the pair traded within a range of 1.0750 to 1.0650. Currently, it is expected to find significant support in the 1.0690-1.0700 range, where it closed the week.

A break below this level could lead to further declines towards 1.0650 and 1.0600. Conversely, if the pair manages to surpass the 1.0750 mark, it could advance towards the 50-week EMA at 1.0800, with the next crucial resistance at 1.0900.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.25%	0.6%	2%	4.4%	£ -6.75B

Events to WATCH

Jun 24, 15:30
CBI Industrial Trends Orders

Jun 25, 01:00
CFTC GBP speculative net positions

Jun 28, 11:30
Current Account (Q1)

Jun 28, 11:30
GDP (QoQ)

Jun 28, 11:30
GDP (YoY)

Jun 28, 11:30
Business Investment (QoQ)

The GBPUS$ pair recovered in the first half of the week but gave up its gain towards the end succumbing to the dollar strength, after the data suggested that the US business activity reached a 26-month high in June. The pair benefitted from the weak dollar during the start of the week as the bearish data in the earlier part of the week suggested that the US inflation was easing a bit. Early week optimism was dampened as UK CPI data showed inflation hitting the BoE's 2% target, reinforcing dovish rate cut bets. The BoE's decision to hold the policy rate at 5.25%, with two members voting for a cut, highlighted concerns over inflationary pressures. Though the markets are now pricing a 50% chance of an August rate-cut. Subsequently, the pair fell to a one-month low of 1.2621, driven by a US Dollar rebound driven by bullish US economic data. Despite stronger-than-expected UK Retail Sales and Manufacturing PMI, the sterling remained under pressure as the strong US data suggested that the economy is still resilient. The pair is expected to remain under pressure with high probability of an August rate-cut and renewed dollar strength.

Sterling continued its downtrend for the third week in a row. The bearish pressure on the pair can be clearly seen as the pair has broken the upward trend channel, confirmed by this week's red candle formation below the support line of the channel, suggesting a possible downtrend in the near future. The pair fell succumbing to the bearish pressure and made a 1-month low of 1.2621.The seller's interest in the pair is clearly visible as the pair ended the week below the support level of 1.2650. If the pair continues its downward momentum the support can be seen at the 1.2590 level. If the pair breaches this support, the pair may draw some support at 1.2505 level, preventing further downside.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.1%	-0.5%	2.8%	2.6%	¥ -1221B

Events to WATCH

Jun 27, 17:20
Retail Sales (YoY)

Jun 28, 05:00
CPI Tokyo Ex Food and Energy (MoM) (Jun)

Jun 28, 05:00
Jobs/applications ratio (May)

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

Jun 28, 05:20
Industrial Production (MoM) (May)

The US$/JPY started the week at 157.335 and continued to gain, buoyed by the higher US treasury yields and hawkish Fed commentary. This was in contrast to the Bank of Japan's persistent ultra-loose monetary policy, including ongoing bond purchases and negative interest rates, which weakened the JPY. Despite weaker-than-expected US retail sales data, the pair continued to rise, driven by expectations of further Fed tightening against the BoJ's dovish stance. Midweek, volatility arose from Japan's better-than-expected export data, briefly strengthening the JPY. However, the overall US PMI data on Friday favored the dollar, which helped the pair reach a weekly high of 159.82 on the back of increased US Treasury yields. Closing at 159.760, the US$JPY pair showed resilience supported by interest rate differentials and market confidence in the US economy's resilience. Going forward, the pair is expected to maintain its upward trajectory, underpinned by favorable interest rate differentials and strong US economic fundamentals.

The US$/JPY pair opened the week at 157, experiencing continuous upward pressure and reaching a high of 159.82 towards the end of the week. Buyer activity was significant, aiming for potential sell-offs at 158, where an initial reaction favored the yen, but it quickly weakened with no major intervention from the Bank of Japan (BoJ). However, upside potential remains constrained by BoJ policies, with market uncertainty about future actions. The yen has struggled recently due to widening interest rate differentials, and the latest BoJ meeting provided no clear direction. Technically, short-term pullbacks are expected to attract buyers, particularly near the ¥155 level. On the upside, bullish momentum suggests the pair might reach 160 (R1) and potentially extend further.

BLOG

AI In FX, The Role Of Artificial Intelligence In Forex Trading

Artificial Intelligence (AI) is continuously pushing the boundaries of discovery on a daily basis. One such area greatly influenced by AI is the foreign exchange (forex) market. Being the largest and most liquid market in the world, forex operates on a foundation of data, strategies, and swirled emotions. However, like any technology, AI also comes with its own set of advantages and disadvantages. Here are some advantages of AI in forex:

Risk Management: AI helps improve risk management skills in human traders. It can easily evaluate risk factors and carry out complex calculations to assist traders in streamlining their portfolios and reducing potential losses. These systems can create forecasts regarding market downturns or surges, in accordance with current market conditions and by examining historical trading patterns.

Automated Trading: Automated trading systems, often known as expert advisors or trading robots, are one of the main uses of AI in the forex market. Based on predetermined trading strategies, these systems automatically execute transactions using AI algorithms. Automated trading systems can regularly execute deals with speed and accuracy because they remove human emotions and biases.

Enhanced Data Analysis: AI algorithms have the capacity to sift through enormous volumes of data and find patterns that human traders would miss

AI algorithms can produce trading signals and spot potential trades by examining historical data, market movements, news events, and several other aspects. With this skill, AI systems can foresee events more accurately and make informed trading judgments.

High Frequency Trading: In high-frequency trading, where deals are made in a matter of milliseconds to profit from minute price differences, AI-based trading systems flourish. In comparison to human traders, AI systems can analyze enormous volumes of market data and execute transactions at breakneck speeds. AI-powered HFT systems can take advantage of ephemeral market opportunities that human traders might otherwise miss thanks to their speed and accuracy.

Although AI has multiple benefits and potential applications in forex trading, it is equally necessary to understand the dangers and risks associated with this advancement. Traders should be aware of the possible pitfalls in order to make informed decisions. Some disadvantages of AI in forex are:

Black Box Nature: This refers to providing outputs without any explanation or reasoning. In forex trading, this lack of transparency might be problematic because traders could not completely comprehend the reasoning behind signals or judgments made by AI. The ability to evaluate and understand AI's results must be balanced with the predictive potential of the technology.

Sensitivity to Data Accuracy: The accuracy of the data produced by AI, highly depends on the quality and integrity of the information it has access to. The AI algorithms may produce inaccurate results if the supplied data has biases, errors, or inadequate information. It is essential to guarantee that the data utilized for training and analysis is of the highest caliber and provides a thorough and objective view of the market.

Technical Errors and Glitches: AI systems are prone to technical errors and problems just like any other technological tool. Unexpected behavior or system failures may result from network disruptions, power outages, flaws, or faults in the algorithms themselves. In order to make sure that AI systems are operating as intended, traders should carefully monitor them and have backup plans in place.

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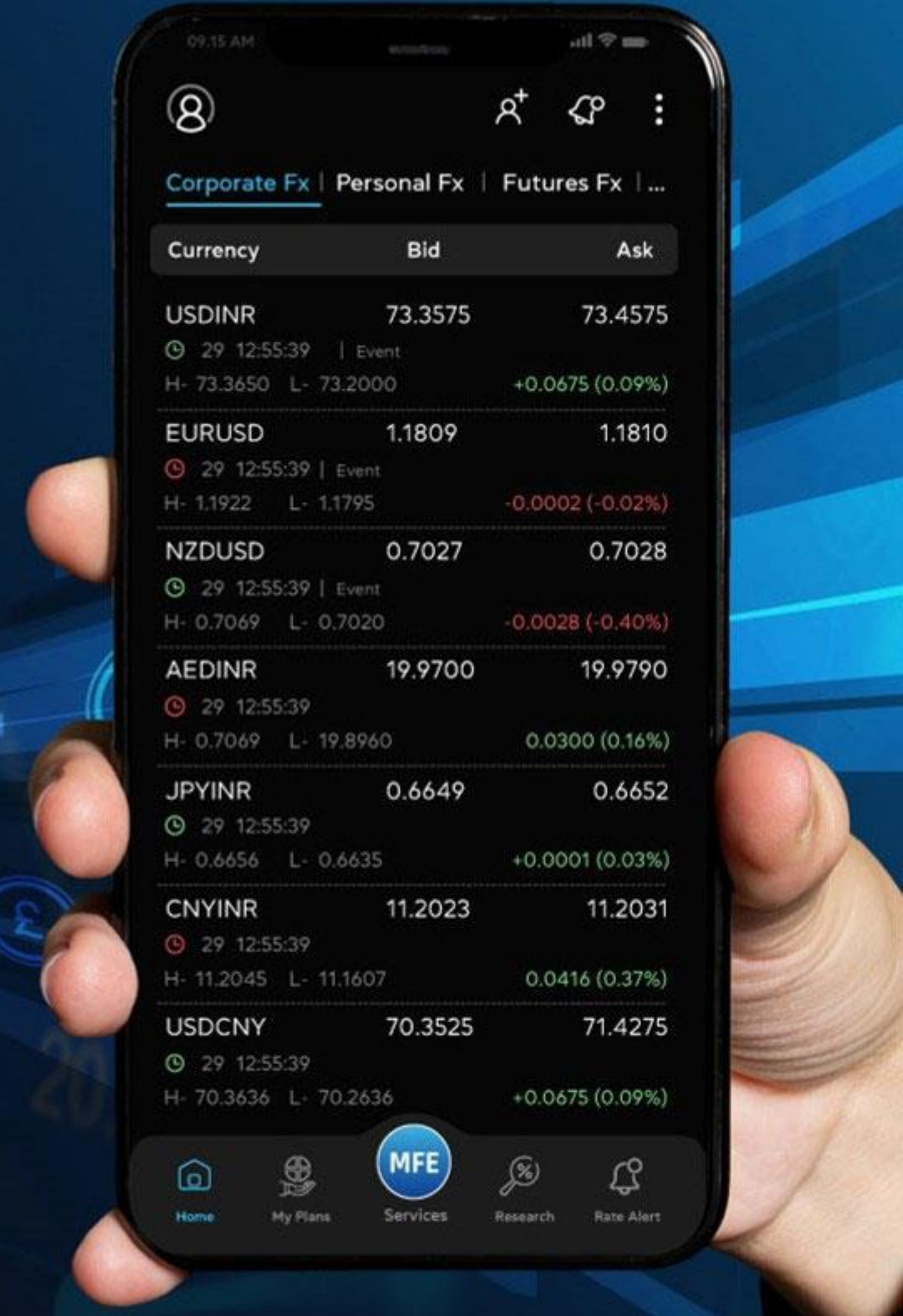

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THANK YOU

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