



Forex Market **Insights**
Newsletter

Volume 122 → Jun 28 to July 5, 2024

Welcome

Dear Stakeholders,

As we have been closely monitoring our currency markets, we would like to share that the US dollar saw mixed performance last week, settling mid-range after an initial push above 106.00. We're anticipating key data releases, including PMIs, employment figures, and the FOMC Minutes, which could influence market sentiment.

July 3 brings a packed schedule, including MBA's Mortgage Applications, ADP Employment Change, Initial Jobless Claims, and Factory Orders. US markets will pause on July 4 for Independence Day, with Nonfarm Payrolls and the Unemployment Rate wrapping up the week on July 5. The euro made gains, breaking above 1.0700. We'll be watching the ECB Forum and Eurozone inflation data closely. The pound sterling showed signs of recovery, ending a negative streak. UK housing data and PMIs will be in focus.

The yen continued to weaken against the dollar, reaching multi-decade highs. Japan's Consumer Confidence and Tankan survey will be important to monitor. Meanwhile, the Australian dollar made modest gains but struggled to breach 0.6700. The RBA Minutes and trade balance data could provide direction. Looking ahead, I anticipate ongoing volatility in currency markets. Factors such as central bank policies, inflation trends, and global economic recovery will likely drive movements. We'll remain vigilant and adapt our strategies accordingly.

Thank You

Vijay Gauba
Additional Director General
Trade Promotion Council of India

Key Takeaway Summaries

₹ INR

The US\$INR pair exhibited slight volatile movements throughout the week, marking a weekly range of 25.50 paise.

€ EUR

The EURUS\$ pair ended the week with a gain of about 0.19% at 1.0712, marked by volatility centered on US PCE data.

£ GBP

The Pound Sterling extended its decline against the US Dollar for the fourth consecutive week, pushing the GBPUS\$ pair to a six-week low.

¥ JPY

The US\$JPY pair strengthened throughout the week, starting from around 159.754 and ending at 160.861.

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Events to WATCH

July 01, 10:30

Nikkei S&P Global Manufacturing PMI (Jun)

July 03, 10:30

Nikkei Services PMI (Jun)

July 05, 17:00

FX Reserves, US\$

The US\$INR pair exhibited slight volatile movements throughout the week, marking a weekly range of 25.50 paise. The Pair started the week at 83.475, made a weekly high of 83.61 but ultimately dropped to end the week lower at 83.3825. The rupee remained under pressure as the dollar index strengthened, reaching an eight-week high of 106.13 following hawkish remarks from Fed member Michelle Bowman. In her comments, she stated that keeping the policy rate unchanged 'for some time' could effectively control inflation and also highlighted her readiness to increase borrowing costs if necessary. Later the week, the rupee gained strength, supported by inflows resulting from the inclusion of the nation's bonds in JPMorgan's emerging market bond index. Additionally, positive sentiment in the domestic equity markets, where benchmark indices reached record highs driven by significant buying from Foreign Institutional Investors (FIIs), contributed to the rupee's resilience.



On an economic front, during the January-March period, India's current account swung to a surplus for the first time in 10 quarters, supported by increased released earnings from service exports and private transfers. According to data by the central bank on Friday, India's foreign exchange reserves grew by \$810 million, reaching \$653.71 billion as of June 21. This surge in reserves provides the RBI with ample resources to defend the domestic currency in times of uncertainty and geopolitical instability. The rupee has performed notably better than many other Asian currencies in the first half of calendar year 2024, supported by portfolio inflows, and a robust macroeconomic environment. High forex reserves, comfortable current account numbers and RBI's continuous measures to curb volatility provide support to the Indian rupee from any steep declines and remain stable as compared to the US dollar.

\$ USD

REPO RATE

5.5%

GDP

1.4%

INFLATION

3.3%

UNEMPLOYMENT

4.0%

TRADE BALANCE

-\$74.56B

Events to WATCH

July 01, 19:30

ISM Manufacturing PMI (Jun)

July 02, 19:30

JOLTs Job Openings (May)

July 03, 17:45

ADP Nonfarm Employment Change (Jun)

July 03, 19:15

Services PMI (Jun)

July 05, 18:00

Average Hourly Earnings (MoM) (Jun)

July 05, 18:00

Nonfarm Payrolls (Jun)

July 05, 18:00

Unemployment Rate (Jun)



The US\$INR pair recovered slightly from its all-time high of 83.67 touched last week. The pair showed significant movement of 25 paise in this week by starting at 83.475, inching higher to make a weekly high of 83.61 but ultimately dropped to close at 83.3825.

On the daily frame chart, the pair shows signs of potential correction as now it trades just above the key 100-day EMA (Yellow line). Supporting the argument, the 14-day Relative Strength Index (RSI) is also below the 50 level, indicating a bearish bias. The initial short-term support of the pair at 83.43 aligning with the 21-day EMA (Blue line) is broken whereas the next level of support stands strong at 83.29 aligning with the 100-day EMA (Yellow line). Resistance has climbed, with the current level at 83.60, as the pair continues to make new highs at frequent intervals.

The pair has been trading in a narrow range of 10-12 paise, showing stability and offering limited hedging opportunities for importers. Importers should capitalize on minor drops of 15-20 paise around support levels for near-term payables. Exporters have had ample opportunities to hedge and should maintain a hedge ratio of around 50-60%. A mix of forwards and options is recommended for hedging exposures.

Events to WATCH

July 01, 13:25

German Manufacturing PMI (Jun)

July 01, 17:30

German CPI (MoM) (Jun)

July 02, 14:30

CPI (YoY) (Jun)

July 03, 13:25

German Services PMI (Jun)

July 03, 13:30

Services PMI (Jun)

July 03, 13:30

S&P Global Composite PMI (Jun)

July 05, 14:30

Retail Sales (MoM) (May)

The EURUS\$ pair ended the week with a gain of about 0.19% at 1.0712, marked by volatility centered on US PCE data, which initially pushed the pair to a high of 1.0720 before settling around 1.0710. The decline in core PCE numbers suggested a cautious Fed stance, potentially delaying a September rate cut, but hawkish comments from Fed officials like Bostic and Daly later in the week tempered rate cut expectations, supporting the US Dollar. Investor caution ahead of the French election restrained Euro strength, despite minor gains earlier in the week. Quarter-end flows added to market volatility, influencing irregular movements in major currency pairs including EURUS\$. Looking ahead, market focus remains on geopolitical developments, upcoming economic indicators, and Federal Reserve policy signals, which will likely continue shaping EURUS\$ dynamics in the near term. Meanwhile, ECB's Sintra Forum will provide insights into future monetary policy, amid global economic uncertainties.



The EURUS\$ pair commenced the week at the pivotal 1.0680 level, a proven support. On Monday, the pair briefly reached resistance at 1.0750 before quickly retreating to support, marking a weekly low of 1.0666. Throughout the week, it traded within a narrow range of 1.0750 to 1.0680. By week's end, the pair found significant support around 1.0690-1.0700, closing in this zone. Looking ahead, a break below the lows of the past three weeks could push the pair down to 1.0600. Conversely, if the EURUS\$ surpasses the 1.0750 resistance, it may climb towards the 50-week EMA at 1.0800, with the next key resistance at 1.0900. This week's movements highlight the critical levels to watch for potential breakouts or breakdowns in the coming sessions.

Events to WATCH

July 01, 11:30
Nationwide HPI (MoM) (Jun)

July 01, 14:00
Manufacturing PMI (Jun)

July 03, 14:00
Composite PMI (Jun)

July 03, 14:00
Services PMI (Jun)

July 04, 14:00
Construction PMI (Jun)

July 05, 11:30
Halifax House Price Index (MoM) (Jun)

The Pound Sterling extended its decline against the US Dollar for the fourth consecutive week, pushing the GBPUS\$ pair to a six-week low slightly above 1.2600. The US Dollar continued to gain strength from the previous week, placing additional pressure on GBPUS\$. This dollar resilience was driven by hawkish statements from Federal Reserve officials, emphasizing the prospect of sustained higher interest rates in the US economy. Fed member Michelle Bowman also signaled a willingness to raise borrowing costs if deemed essential. The Pound Sterling struggled to regain ground amidst market uncertainty, exacerbated by a quiet period for significant UK economic events. Data released on Friday indicated that the UK economy expanded by 0.7% quarter-on-quarter in the first quarter of 2024, marking an upward revision from the initial estimate of 0.6%. Market attention now shifts to the upcoming UK general elections scheduled for July 4 and the release of US Nonfarm Payrolls data on July 5, which are expected to provide new momentum and direction for GBPUS\$.



After three weeks of decline, the GBPUS\$ pair stabilized this week. The pair opened the week at 1.2633, hitting a new six-week low at 1.2612 before strengthening to close the week at 1.2640. Despite this stabilization, bearish momentum persists as the pair trades below the 100-day EMA (blue line). Additionally, the 14-day Relative Strength Index (RSI) remains below the 50-mark, indicating that sellers are still in control and further losses are likely. The initial support level is at 1.2600 (yellow line). If this level is breached, a further decline towards 1.2550 is expected. Conversely, the first resistance level is at 1.2700, and a move above this level could pave the way for the next resistance at the key psychological level of 1.2800.



REPO RATE

0.1%

GDP

-0.5%

INFLATION

2.8%

UNEMPLOYMENT

2.6%

TRADE BALANCE

¥ -1221B

Events to WATCH

July 03, 05:20

Tankan Large Manufacturers Index

July 03, 05:20

Tankan Large Non-Manufacturers Index

July 03, 06:00

Services PMI (Jun)

July 05, 05:00

Household Spending (YoY) (May)

July 05, 05:00

Household Spending (MoM) (May)

The US\$JPY pair strengthened throughout the week, starting from around 159.754 and ending at 160.861, culminating in more than a 0.60% gain by the week's end. This upward movement was primarily driven by hawkish comments from fed officials indicating elevated interest rates for a long duration, which bolstered US Treasury yields. However, there is a notable downside risk if US inflationary economic activity shows signs of weakening, potentially triggering increased bets on future rate cuts. The Bank of Japan, diverging from other major central banks, has pursued a tightening monetary policy stance this year, while more cautiously compared to the easing measures adopted by other counterparts. The market attention remains devoted to the JPY as it continues to test new historic lows, briefly touching 161.28 before retreating below the 161.00 mark on Friday. Despite repeated warnings from Japanese Finance Minister Shun 'chi Suzuki and the cabinet's expressed vigilance over FX movements, market sentiment appears similar.



The US\$JPY pair began the week at 159.75, hitting a low of 158.74 on the first trading day. It experienced continuous upward momentum, reaching a new 38-year high at 161.28 by week's end. Significant buying activity targeted potential sell-offs at 160, initially favoring the yen, but it weakened to 161 without major intervention from the Bank of Japan (BoJ). The upside potential remains constrained by BoJ policies and market uncertainty regarding future actions. The yen has struggled due to widening interest rate differentials, with the latest BoJ meeting offering no clear direction. Technically, short-term pullbacks are likely to attract buyers, particularly around ¥158, followed by 155. On the upside, current levels will be closely watched for potential new highs, which could turn into historical resistance for future predictions.



Understanding Foreign Exchange Risk Exposure

In today's globalized economy, businesses engage in international trade and investment activities to expand their markets and increase profitability. However, operating in different countries comes with its own set of challenges, one of which is the foreign exchange risk exposure.

What is Foreign Exchange Risk Exposure?

Foreign exchange risk exposure, commonly known as currency risk, refers to the potential financial loss that businesses may incur due to fluctuations in exchange rates.

When a company conducts international transactions, the value of currencies can change, impacting the final amount received or paid. This risk arises from various factors, including geopolitical events, economic indicators, and market speculation.

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What are the types of foreign exchange risk exposure?

To grasp the nuances of foreign exchange risk exposure, it is crucial to understand its diverse forms:

Transaction Exposure: Transaction exposure arises when a company has unfulfilled foreign currency transactions. The disparity in exchange rates between the transaction date and the settlement date can lead to financial gains or losses. For instance, if a U.S.-based company agrees to sell goods to a European buyer in euros, the final payment in U.S. dollars might differ due to currency fluctuations.

Translation Exposure: Also referred to as accounting exposure, translation exposure impacts a company's consolidated financial statements. This effect becomes apparent when a multinational corporation consolidates financial data from its subsidiaries operating in different countries. Variations in exchange rates can significantly influence the company's overall financial health.

Economic Exposure: Economic exposure pertains to the impact of currency exchange rate changes on a company's future cash flows, market value, and competitive standing. This exposure is more complex, as it results from changes in demand and supply dynamics in international markets. Economic exposure is particularly relevant for businesses engaged in long-term contracts spanning multiple currencies.

What are the strategies used to manage foreign exchange risk exposure?

Here are several methods companies employ to mitigate potential losses:

Forward Contracts: Forward contracts enable businesses to lock in a specific exchange rate for a future transaction, eliminating uncertainty about fluctuating rates. By entering into a forward contract, a company secures a predetermined rate, shielding itself from adverse currency movements.

Options: Currency options provide businesses with the right, but not the obligation, to exchange currencies at a predefined rate within a specified timeframe. This flexibility empowers companies to capitalize on favorable exchange rate movements while limiting potential losses if rates move unfavorably.

Diversification: Diversifying business operations across different countries and currencies can act as a natural hedge. When a company earns revenue in multiple currencies and incurs expenses in those same currencies, it reduces the impact of adverse exchange rate fluctuations on its finances.

Natural Hedging: Aligning the currency denomination of revenues and expenses serves as a natural hedge against currency risks. For instance, if a company generates revenue in euros and incurs expenses in euros, it is less vulnerable to fluctuations in the EURUS\$ exchange rate.

Hedging through Derivatives: Companies can employ currency derivatives such as futures contracts to hedge against foreign exchange risk. Futures contracts allow businesses to buy or sell currencies at predetermined prices on specified future dates, mitigating the impact of currency volatility.



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Currency	Bid	Ask
USDINR	73.3575	73.4575
29 12:55:39 Event		
H- 73.3650 L- 73.2000		+0.0675 (0.09%)
EURUSD	1.1809	1.1810
29 12:55:39 Event		
H- 1.1922 L- 1.1795		-0.0002 (-0.02%)
NZDUSD	0.7027	0.7028
29 12:55:39 Event		
H- 0.7069 L- 0.7020		-0.0028 (-0.40%)
AEDINR	19.9700	19.9790
29 12:55:39		
H- 0.7069 L- 19.8960		0.0300 (0.16%)
JPYINR	0.6649	0.6652
29 12:55:39		
H- 0.6656 L- 0.6635		+0.0001 (0.03%)
CNYINR	11.2023	11.2031
29 12:55:39		
H- 11.2045 L- 11.1607		0.0416 (0.37%)
USDCNY	70.3525	71.4275
29 12:55:39		
H- 70.3636 L- 70.2636		+0.0675 (0.09%)

THANK YOU



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