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Simplifying Forex

TPC Trade Promotion Council of India

Forex Market Insights

Newsletter

Volume 127 → Aug 10 to Aug 16, 2024

Welcome

Dear Stakeholders,

We have been closely watching the markets this week. It's been quite a ride, with the US Dollar showing some weakness after a volatile period. Things seem to be settling down now, though, and we're seeing market volatility return to more normal levels. Looking ahead, I think we'll see a lot of focus on recession concerns and potential Fed rate cuts. The upcoming US CPI and Retail Sales reports will be crucial in shaping this conversation.

EURUS$ continues to struggle with the psychological 1.1000 barrier, with key data from Germany and the Eurozone scheduled for next week. We'll be watching German and Eurozone economic sentiment closely. Meanwhile, the British pound faces ongoing pressure, and the Japanese yen has seen a slight rebound. Interestingly, US$JPY broke its five-week losing streak, showing some upward momentum after hitting multi-month lows around 141.70 earlier in the week.

As we move forward, I will be closely monitoring these developments. The upcoming data releases will likely provide clearer insights into the future direction of the US Dollar, especially against major currencies like the Euro and Yen.

Thank You
Vijay Gauba
Additional Director General
Trade Promotion Council of India

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Key Takeaway Summaries

₹ INR

US$INR reached a new high at 83.9725, ending the week at 83.95 as the Fed's 50bps cut probability fell to 55% from 73% due to improved jobless claims.

€ EUR

The pair surged to 1.1009 amid a weak US dollar and recession fears but fell back to 1.0915 following a drop in jobless claims.

£ GBP

Sterling declined for the fourth week in a row, hitting a 5-week low of 1.2664 due to US recession fears. However, it edged up to 1.2757, buoyed by positive UK PMI data.

¥ JPY

US$JPY dropped to 141.68 due to yen strength from US recession fears and Fed cut expectations but rebounded to 146.60 after BoJ Governor's comments.

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.50%	1.9%	5.08%	9.2%	$-21B

Events to WATCH

Aug 12, 17:30
CPI (YoY) (Jul)

Aug 12, 17:30
Industrial Production (YoY) (Jun)

Aug 14, 12:00
WPI Inflation (YoY) (Jul)

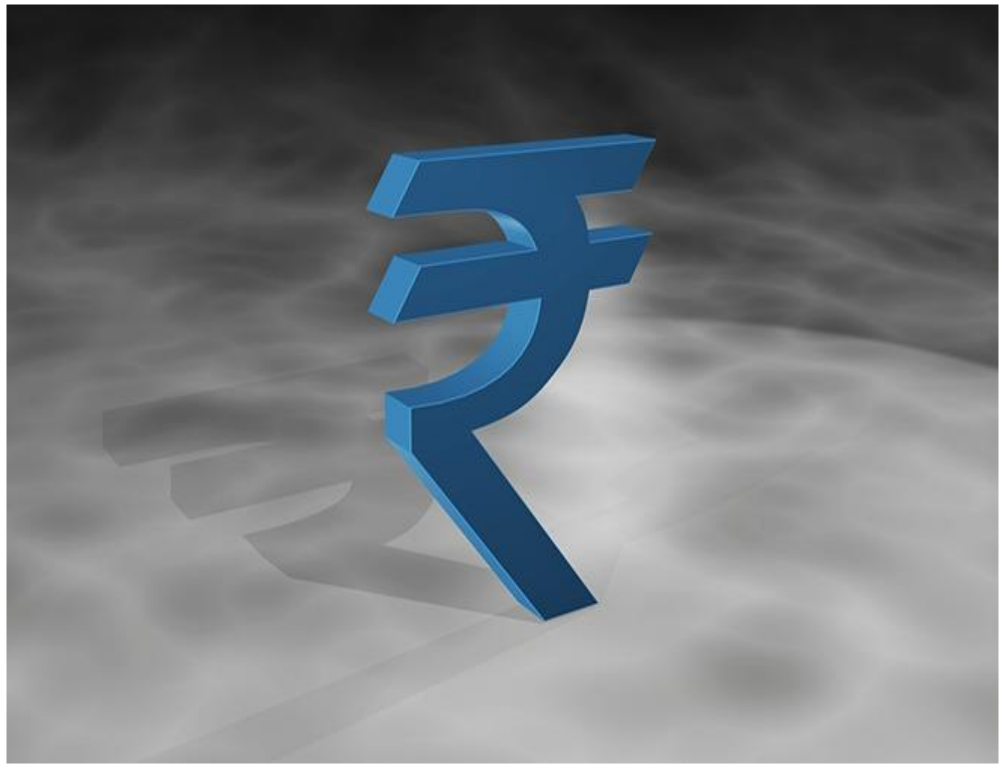
Aug 15, 15:30
Trade Balance (Jul)

Aug 15, 15:30
Exports (US$) (Jul)

Aug 15, 15:30
Imports (US$) (Jul)

Aug 16, 17:00
Imports (US$) (Jul)

AGAIN A NEW HIGH – for the 3rd consecutive week the US$INR pair has been continuously making new all-time highs, currently at 83.9725. The trajectory of the pair remains the same i.e. making a small range and slowly inching higher. This week also the pair started lower at 83.78 but finally ended higher at 83.95 making a significant 22 paisa range. The week had very less important data releases which led to stable movements in the currency as well as in the interest rate outlook of the US Fed. Last week's release of labor market data flagged towards rising chfrom ances of recession in the US due to which the market predicted 50bps cut the Fed in its upcoming September meeting. But this week we saw the situation calming a little and 50bps cut probability has also come down to 55% which was 73% a week ago. The recession fears came down supported b initial jobless claims data which showed that the unemployment claims have down from the 2.5 year high level.



On Thursday, RBI's monetary policy meeting was scheduled where they left the policy rates unchanged by a 4-2 voting majority and continue to opt for its 'Withdrawal of Accommodation" stance. Retaining the real GDP growth projection of 7.2% for FY25, with "risks evenly balanced," the Indian central bank also keeps the 4.5% inflation forecast for the Consumer Price Index (CPI) for the same year. According to RBI Governor Das, it is too soon to talk about the US recession, but the central bank would keep an eye on all incoming data, both internal and external. The Indian FX reserves again continued its gaining path, increasing by $7.5 billion making a new high of $674.92 billion. The Indian FX reserves and the US$INR pair both are continuously making new highs, a sign which clearly indicates about the central bank intervening into the markets. The next target seems to be 84 round figure which I feel will take some time to cross.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.5%	2.8%	3%	4.3%	$-73.1B

Events to WATCH

Aug 13, 18:00
PPI (MoM) (Jul)

Aug 14, 18:00
CPI (MoM) (Jul)

Aug 14, 18:00
Core CPI (MoM) (Jul)

Aug 14, 18:00
CPI (YoY) (Jul)

Aug 15, 18:00
Retail Sales (MoM) (Jul)

Aug 15, 18:00
Core Retail Sales (MoM) (Jul)

Aug 15, 18:00
Philadelphia Fed Manufacturing Index (Aug)

Aug 16, 18:00
Building Permits (Jul)

The week turns out to be the 3rd consecutive time where the pair has been making new life-time highs. A new high has been made by the pair at 83.9725 on Wednesday. The pair did start the week down at 83.78 but as seen in the recent weeks it slowly inched up to close high at 83.955.

On the dailyfame chart, the ascending trend channel (marked by parallel yellow lines) still remains intact although on Monday the pair attempted to break it but the levels came down after that. The pair continuous to show bullishness as the RSI remains high above the 50-midline at 63 level. Also, the pair is above the 100-day SMA(white line) which signals toward more upside potential. The first support aligns with lower band of the ascending channel and 21-day EMA at 83.72 whereas the resistance lies at the 84-round figure.

As the pair continues to trade at all-time high levels, exporters have a good opportunity as the business benchmarks will be lower but it is advised to maintain only 50-60% hedge position. On the other hand, a very difficult time for the importers with lack of opportunity and pair continuously inching higher. Importers are suggested to hedge at even a small dip of 5-8 paisa for near term payments as it is better to be hedged then to keep positions open. At this time it is also advisable to hedge using plain vanilla options.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.25%	0.3%	2.6%	6.5%	€13.888B

Events to WATCH

Aug 13, 14:30
ZEW Economic Sentiment (Aug)

Aug 13, 14:30
German ZEW Current Conditions (Aug)

Aug 13, 14:30
German ZEW Economic Sentiment (Aug)

Aug 14, 14:30
GDP (YoY) (Q2)

Aug 14, 14:30
Industrial Production (MoM) (Jun)

Aug 14, 14:30
GDP (QoQ) (Q2)

Aug 16, 14:30
Trade Balance (Jun)

The EURUS$ pair initially surged to 1.1009, driven by a decline in the US dollar index to 102.20 mark a seven-month low, following disappointing US Nonfarm Payroll data that heightened recession fears. However, the pair retreated to approximately 1.0920 as the US dollar recovered to 102.98 despite this, the US$ remained near seven-month lows, with a 70% probability of a 50 basis point rate cut priced in for September. Meanwhile, positive US trade data and a 1.4% MoM increase in German industrial production provided some support, pushing EURUS$ up to near 1.0950. Nevertheless, comments from the ECB suggesting a possible 0.25 basis point rate cut in its September meeting capped further gains. On Friday, EURUS$ stabilized around 1.0915, buoyed by a strong US dollar following better-than-expected Initial Jobless Claims, the lowest in 11 months. The pair briefly dipped to 1.0885 before recovering as recession fears eased and Germany's Consumer Price Index showed a 0.3% increase, aligning with forecasts. The EURUS$ pair is likely to remain volatile, with upcoming data and central bank decisions expected to drive further fluctuations.

The EURUS$ pair started the week on a strong note, reaching a high of 1.1008, a level not seen since the beginning of this year. The bullish movement on the first trading day highlights the significant resistance in the 1.0900-1.1000 range, a key area for the pair historically. The drop in Non-Farm Payroll (NFP) numbers to a three-year low served as a catalyst, resulting in a substantial green candle on the chart. However, the latter part of the week saw the formation of four consecutive red candles. A break below the 1.0900 level could push the pair down to the 1.0800-1.0850 range. On the other hand, if EURUS$ surpasses the 1.0900 resistance, it could once again aim for 1.1000, with the 50-Week EMA at 1.0800 acting as support. The pair's trajectory will be largely influenced by ongoing economic data and market sentiment, making it crucial to monitor these levels closely. Traders should stay vigilant to changes in economic indicators and broader market conditions, as they will be key in determining the pair's future movements.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5%	0.7%	2%	4.4%	£ -4.894B

Events to WATCH

Aug 13, 11:30
Claimant Count Change (Jul)

Aug 14, 11:30
CPI (YoY) (Jul)

Aug 15, 11:30
GDP (YoY) (Q2)

Aug 15, 11:30
GDP (MoM) (Jun)

Aug 15, 11:30
GDP (YoY) (Jun)

Aug 15, 11:30
GDP (QoQ) (Q2)

Aug 15, 11:30
Manufacturing Production (Jun)

Aug 15, 11:30
Retail Sales (Jul)

Sterling continued to decline for the fourth week in a row. The pair was heavily affected due to risk aversion as the US NFP data and unemployment rate increased the fears of the US recession. After the NFP release last week, the huge outflows from the equities market and flight to safety led to a decline in the pound. The pair fell despite positive economic data release and made a fresh 5-week low of 1.2664. The UK PMI data was better than the market expectation and all the sector Manufacturing, Service and Construction were in expansionary zone, suggesting the economy is still performing well. Earlier the markets were expecting 75% chance of a 50 bps rate-cut from Fed, but the chances reduced after the Initial Jobless claims data release and comments from Fed members, Barkin and Goolsbee easing concerns over a hard landing of US economy. Markets are currently pricing in a 33% chance of a BoE rate cut in its upcoming meeting. The pair recovered slightly in the end due to policy divergence between BoE and Fed and dovish comments from Fed's Schmid, as the pair ended the week at 1.2757. UK and US CPI and PPI data will be eyed for further cues on the future trajectory of the pair.

The GBPUS$ pair continued its downtrend for the 4th consecutive week as it fell by 0.3% this week. The pair. On the daily chart frame of the pair, it can be seen that the pair has broken below the support line of the upward channel (yellow lines), suggesting the downward pressure on the pressure. The pair fell continuously in the first three sessions and hit a 5-week low of 1.2664. The pair retraced in the last two trading sessions to recover its losses and ended the week at 1.2757. The MACD Indicator shows that the MACD line has entered the negative territory suggesting the bearishness in the pair. The first support can be seen at the 100-Days SMA at 1.2684 levels protecting the downside. If the pair breaches this level the next support lies at the significant 1.2518 level (purple line) preventing further declines in the pair.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.25%	-0.5%	2.8%	2.5%	¥ 224B

Events to WATCH

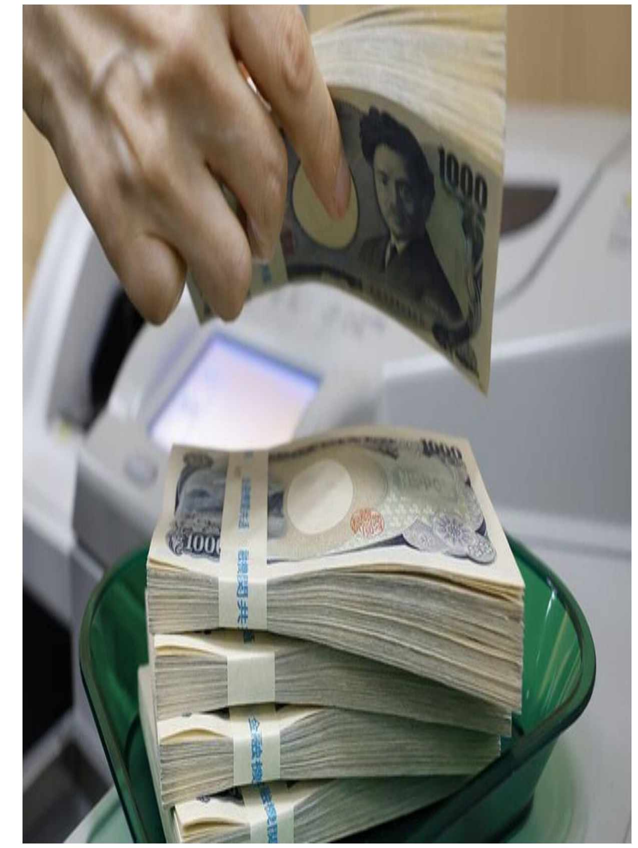
Aug 15, 05:20
GDP (QoQ) (Q2)

Aug 15, 05:20
GDP (YoY) (Q2)

Aug 15, 10:00
Industrial Production (MoM) (Jun)

Aug 16, 10:00
Tertiary Industry Activity Index (MoM)

This week, the US$JPY pair initially fell by 2% to 141.68, its lowest level since January 3, 2024. The Japanese yen strengthened amid heightened market uncertainty following disappointing US Non-Farm Payroll data, which fueled concerns about a recession and raised expectations for a Federal Reserve rate cut with markets see an 85% chance of a 50-basis-point cut in September. The yen's strength was further supported by the anticipation of additional tightening by the Bank of Japan and a reduction in carry trades. Geopolitical tensions, including an Israeli airstrike and threats from Iran and Hezbollah, also contributed to the Yen's initial gains. However, by midweek, the yen had dropped sharply to 147.90 against the dollar, marking the steepest decline since March 2020. This drop followed by comments from BoJ Deputy Governor Shinichi Uchida, which diminished the likelihood of a short-term rate hike by the BoJ, and a slowdown in the unwinding of carry trades. By week's end, the US$JPY settled slightly higher at 146.60 mark as the BoJ's July meeting summary suggested a target neutral rate of around 1% by March 2025, while the CME Fed Watch Tool indicated a 72% probability of a 50-basis-point cut by the Fed. However, the market continues to evaluate Japan’s monetary policy and the Fed’s potential rate cut, with evolving risk factors and economic data likely to influence the pair's direction moving forward.



The US$JPY pair started the week lower at 141.68, a level not seen since the beginning of the year. The U.S. dollar has sharply strengthened against the Japanese yen, driven by the Bank of Japan's dovish stance. Last week, the pair broke through a long-term support region around 147-149, a crucial area to watch. Currently, the 146-148 range appears to be a strong resistance zone, while the 152-yen level, previously a support and aligned with the 200-week EMA, is now viewed as R2. Technically, short-term pullbacks are expected to attract buyers, with the 145 (S1) level being closely monitored for potential support. This week's movements underscore a weak trend for the yen, possibly leading to indecision among market participants. Monitoring these key levels will be essential for traders as they navigate potential shifts in market dynamics.

BLOG

Effective Corporate Forex Strategies: How Companies Can Optimize Currency Management

In today's globalized economy, multinational companies face a variety of challenges, with currency fluctuations being a significant concern. The unpredictability of foreign exchange rates can seriously affect a company's financial health, making effective currency management essential.

Understanding Currency Management and Its Importance

Currency management, also called foreign exchange (forex) management, is a strategic approach businesses use to manage their exposure to different currencies. This involves identifying, measuring, and reducing the risks related to currency fluctuations that come with international operations.

For companies that engage in international trade or operate across multiple countries, currency management is crucial for several reasons:

1. **Profit Protection**: Exchange rate changes can either wipe out profits from international sales or increase costs for operations abroad.
2. **Financial Stability**: Proper currency management helps maintain stable financial performance by minimizing the effects of forex volatility.
3. **Competitive Advantage:** Companies that effectively manage currency risks can offer more competitive pricing and make better investment decisions.
4. **Investor Confidence:** A solid currency management strategy can reassure investors by demonstrating a proactive approach to managing financial risks.

Key Strategies for Managing Forex Risks

Developing a Forex Policy

A clear forex policy is the foundation of effective currency management. It should outline the company's approach to managing currency risk, including risk tolerance, hedging strategies, and the roles of different departments. It should also specify how current exchange rates are used in decision-making.

Accurate Forecasting and Identifying Exposure

Companies need to accurately forecast their foreign currency cash flows and identify where they are exposed to currency risks. This involves analyzing historical data, collaborating with different departments for future transaction insights, and using advanced tools to predict currency movements.

Implementing Hedging Strategies: Hedging is a key element of currency management. Common strategies include:

1. **Forward Contracts:** Agreements to buy or sell a specific amount of foreign currency at a set rate on a future date.
2. **Currency Options:** Giving the right, but not the obligation, to exchange currencies at a specific rate within a set period.
3. **Currency Swaps:** Exchanging principal and interest payments in different currencies over a set period.

The choice of strategy should match the company's risk tolerance and financial goals.

Challenges in Currency Management: Despite its benefits, currency management presents challenges:

1. **Complexity:** Managing multiple currency exposures can be complex and requires sophisticated systems.
2. **Costs:** Implementing comprehensive strategies, including hedging, can be expensive.
3. **Market Uncertainty:** Currency markets can be unpredictable, driven by a wide range of factors.
4. **Regulatory Compliance:** Companies must navigate various regulations in different regions.

Balancing Risk and Reward: Over-hedging can limit potential gains, while under-hedging increases risk.

Conclusion

By creating comprehensive forex policies, using advanced technologies, and implementing tailored hedging strategies, companies can confidently manage the challenges of the global currency market. However, currency management is not a one-time task; it requires ongoing attention and adaptability. As the global economic landscape changes, so too must corporate forex strategies. Companies that excel in currency management will not only mitigate risks but also turn them into strategic advantages, leading to sustainable growth in the global marketplace.

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